

Date of Hearing: April 28, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 1253 (Schultz) – As Amended April 21, 2025

Majority vote. Fiscal committee.

SUBJECT: Property taxation: newly constructed property: reconstruction of damaged or destroyed property

SUMMARY: Authorizes an assessor to align the assessment of "substantial equivalence" with suspensions or modifications of rebuild development standards, if the modifications or suspensions are designed to expedite the rebuilding of property damaged by the 2025 fire disasters in Palisades, Eaton, Hurst, Lidia, Sunset, or Woodley, as proclaimed by the Governor.

EXISTING LAW:

- 1) Provides that all property is taxable unless otherwise provided by the California Constitution or the laws of the United States. (California Constitution, Article XIII, Section 1.)
- 2) Limits the maximum amount of *ad valorem* property taxation to 1% of the full cash value of the property. Generally, the Constitution restricts the full cash value of a property to the assessed value upon a change of ownership in, or new construction on, the property. This is referred to as the base year value, which may be adjusted upwards for inflation at no more than 2% annually. (California Constitution, Article XIII, Sections 1 and 2.)
- 3) Excludes from the definition of "newly constructed" real property that is reconstructed after a disaster declared by the Governor, where the fair market value of the reconstructed real property is comparable to its fair market value prior to the disaster. (California Constitution, Article XIII, Section 2.) Property owners have a five-year period during which they may reconstruct a damaged or destroyed property on the same site and retain the base year value of their property, subject to valuation limitations. (Revenue & Taxation Code Section (R&TC) Section 70.5.) Statutory provisions authorize an exclusion from the definition of "new construction" for property that is damaged or destroyed by misfortune or calamity, if the property is rebuilt in a substantially equivalent manner. (R&TC Section 70.)

FISCAL EFFECT: Pending an estimate by the State Board of Equalization.

COMMENTS:

- 1) The author has submitted the following statement in support of this bill:

In the aftermath of the unprecedented wildfires that have ravaged our state, state and local governments have taken commendable steps to support disaster recovery. Many city, county, and state planning agencies have authorized expedited reconstruction permits, allowing property owners to rebuild up to 110% of their prior structure. These

efforts are aimed at accelerating recovery and providing flexibility to homeowners in crisis.

However, while these policies are well-intentioned, they are not aligned with existing property tax assessment practices as established by the California Constitution and the Revenue and Taxation Code. Under current law, for property tax purposes, any reconstruction that exceeds “substantial equivalence” to the original structure is considered new construction and is subject to reassessment.

Unfortunately, many local agencies and officials – often unknowingly – have misinformed homeowners, suggesting that rebuilding up to 110% or more would not affect their property tax base. As a result, numerous homeowners, acting in good faith, may rebuild beyond allowable limits and face unexpected reassessments and supplemental tax bills. These financial shocks add to the emotional and economic hardship already experienced by those recovering from disaster.

AB 1253 addresses this gap by clarifying the distinction between local planning approvals and property tax assessment rules. It seeks to ensure consistent communication to property owners and prevent the unintended consequences of reassessment for those who are simply trying to rebuild their homes and their lives. By aligning recovery policy with assessment law, AB 1253 protects homeowners from further financial harm during one of the most vulnerable times in their lives.

2) The California Assessors' Association, writing in support of this bill, states, in part:

For assessment purposes, reconstruction beyond a standard of "substantial equivalence" is considered new construction and subject to reassessment – even if local building codes permit greater allowances. Unfortunately, numerous local agencies and officials have inadvertently misinformed property owners, suggesting that rebuilding up to 110% or more would not affect their property tax base. As a result, many homeowners – acting in good faith – are likely to rebuild beyond allowable assessment thresholds and face unexpected reassessments and supplemental tax bills. Further compounding the financial and emotional toll of disaster recovery.

AB 1253 will resolve this disconnect by temporarily aligning property tax assessment standards with the emergency building allowances granted under state and local government mandate. It will allow Assessors, under clearly defined and limited conditions, to accept rebuilding up to 110% of the original structure without triggering reassessment – bringing much-needed clarity and fairness to impacted property owners.

3) Committee Staff Comments:

- a) *2025 Los Angeles (LA) Fires*: Beginning in early January 2025, a series of fires began raging in LA County. Exacerbated by hurricane force gusts and drought conditions, these fires rapidly grew, expanding into outlying residential areas of the LA metropolitan area. As the month progressed, the conditions exacerbating these fires led to serious complications for first responders, and the conflagrations grew without containment. After containment of these fires, however, the true depth of destruction began to become clear. According to the University of California, LA, Anderson Forecast, total property

and capital losses could range from \$76 billion to \$131 billion, with a potential decline in county-level gross domestic product of \$4.6 billion. This loss from fire is unprecedented in the state. By comparison, the Camp Fire that destroyed the town of Paradise and was the most destructive fire in the state is estimated to have an associated loss of around \$17 billion, an order of magnitude less than the 2025 LA Fires.

- b) *Governor Executive Order (EO) N-4-25*: In response to the 2025 LA Fires, the Governor issued a series of EOs to provide relief to victims. Among these orders, the Governor ordered the suspension of certain laws, including the California Environmental Quality Act (Public Resources Code Section 21000 *et seq.*) and permitting requirements under the California Coastal Act (Public Resources Code Section 30000 *et seq.*), when rebuilding on the same site property damaged or destroyed by the 2025 LA Fires. To qualify for this suspension, however, the property must not be reconstructed beyond 110% of the footprint and height of the damaged or destroyed property.
- c) *Existing property tax relief when rebuilding damaged or destroyed property*: Existing law authorizes two types of relief when property is suddenly damaged or destroyed, without fault by the property owner, and is subsequently rebuilt on the same site. The first type excludes from the definition of "new construction" a property damaged or destroyed by a misfortune or calamity that is timely rebuilt in a substantially equivalent manner as the property prior to the misfortune or calamity. In other words, statutory provisions allow an assessor to not reassess the value of a rebuilt property if it is substantially equivalent to the property before it was damaged or destroyed. Existing law does not define "substantially equivalent", nor does existing law provide a time frame in which the property owner must rebuild their property. Assessors' Handbook (AH) Section 410 emphasizes the statutory requirement that any portion of reconstructed real property that exceeds substantial equivalency to the damaged or destroyed property must be reassessed to its fair market value. The AH, however, does not expand on the scope of substantial equivalence, nor an eligible time frame in which to rebuild. Thus, an assessor has wide authority in applying this provision of property tax relief.

The second type authorizes a base year value transfer for property damaged or destroyed by a Governor-proclaimed disaster. This authorization is narrower than the previous. Here, the property must be damaged by a Governor-proclaimed disaster, rather than a general misfortune or calamity. Reconstruction must occur within five years and at no more than 120% of the full cash value of the property before its damage or destruction. The reconstructed value of the property exceeding 120% is subject to taxation. While the size and value of a property are inexorably linked, assessors are tasked with assessing the fair market value of a property, as specified. Thus, the final metric by which property tax law generally evaluates changes to property is its value.

- d) *The problem*: EO N-4-25 has caused confusion as to what extent the order authorized flexibility in rebuilding. Some local agencies responsible for the myriad efforts of recovery misconstrued the order, and advised property owners that they may reconstruct their property pursuant to the order without causing a property tax increase. The LA County Assessor is circulating information to taxpayers to clarify this confusion; however, this information may be difficult for some property owners to receive as they may not be residing, or have access to, the address on file with the Assessor post-disaster. Thus, to address this concern, the LA County Assessor seeks flexibility in aligning

assessment practices with building standards and permitting requirements after the 2025 LA Fires.

- e) *Value consideration:* As noted previously, property tax law generally relies on the fair market value of a property to derive its base year value. Size is a crucial factor in determining fair market value, but size alone very rarely determines fair market value in its entirety. The damage caused by the 2025 LA Fires was unprecedented in this state, and the goal of providing relief and flexibility to property owners after this catastrophe is laudable. As currently drafted, however, this bill could be overly broad in the flexibility it provides. To ensure savvy and resourced property owners do not leverage this authorization to rebuild within the bounds of EO N-4-25, but well beyond the bounds of the existing value test, the Committee may wish to consider tying relief under this bill to the existing base year value transfer test after a Governor-proclaimed disaster.

REGISTERED SUPPORT / OPPOSITION:

Support

California Assessors' Association

Opposition

None on file

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