

1980

Taxation. Real Property Valuation. Solar Energy Systems

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Taxation. Real Property Valuation. Solar Energy Systems California Proposition 7 (1980).
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Official Title and Summary Prepared by the Attorney General

TAXATION. REAL PROPERTY VALUATION. SOLAR ENERGY SYSTEMS. LEGISLATIVE CONSTITUTIONAL AMENDMENT. Amends Article XIII A, Section 2, to authorize Legislature to provide that, in valuing real property, the term "newly constructed" shall not include the construction or addition of any active solar energy system. Fiscal impact on state and local governments: Depending upon legislation enacted, local property tax revenues could be reduced and state school district aid increased.

FINAL VOTE CAST BY THE LEGISLATURE ON SCA 28 (PROPOSITION 7)

Assembly—Ayes, 59	Senate—Ayes, 34
Noes, 9	Noes, 0

Analysis by the Legislative Analyst

Background:

Article XIII A was added to the California Constitution by Proposition 13 which was approved by the voters on June 6, 1978. That article provides that real property (that is, land and buildings) shall be reappraised, for purposes of property taxation, when it is purchased, newly constructed, or a change in ownership has occurred. Otherwise, the full cash value of the property may be increased by not more than 2 percent per year.

Solar energy systems utilize energy from the sun for purposes of heating or cooling. These systems may be either "active" or "passive." Active systems are generally those with moving parts, such as water pumps, designed for the collection, storage, and distribution of solar energy for heating or cooling. A number of local jurisdictions currently require the installation of solar energy systems, such as water heaters, on new construction.

Proposal:

This amendment authorizes the Legislature to exclude the construction or addition of any *active* solar energy system from the term "newly constructed" for purposes of reappraisal under Article XIII A. Thus, if the Legislature acts to implement this measure, the construction or addition of an active solar energy system to an existing property, by itself, would not lead to a revaluation of the property for purposes of property taxation. The amendment would not affect the valua-

tion of solar energy systems for property taxation purposes when a change in property ownership occurs. In other words, the value of a solar energy system would be reflected in the property appraisal made following the sale of the property to a new owner.

Fiscal Effect:

This measure would have no *direct* fiscal effect on state or local governments because it simply *authorizes* the Legislature to alter the definition of new construction with respect to active solar energy systems. Any fiscal effect resulting from this measure would depend on whether and how the Legislature implements its provisions.

If the Legislature acts to exclude the construction or addition of active solar energy systems from the term "newly constructed," local property tax revenues would be reduced by an unknown amount. The magnitude of the revenue loss would depend on how the Legislature implements the measure.

County assessors would probably experience nominal savings in administrative costs because they would no longer revalue properties to which active solar energy systems have been added. These savings would, again, depend on the specific actions taken by the Legislature.

Finally, under existing law state costs for aid to local school districts could be increased by an unknown amount to replace any local property tax revenues lost as a result of this measure.

Text of Proposed Law

This amendment proposed by Senate Constitutional Amendment 28 (Statutes of 1980, Resolution Chapter 48) expressly amends an existing section of the Constitution by adding a subdivision thereto; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XIII A, SECTION 2

(c) For purposes of subdivision (a), the Legislature may provide that the term "newly constructed" shall not include the construction or addition of any active solar energy system.

**Apply early for an absentee ballot:
Contact your County Clerk or
Registrar of Voters**

Argument in Favor of Proposition 7

The possibility of a crippling energy shortage is perhaps the most serious threat facing California in the 1980's. An energy shortage could bring commerce and transportation to a standstill, throw thousands of Californians out of work, and imperil the health, safety, and livelihood of all citizens in our state. To reduce this dangerous dependence upon expensive and unreliable foreign sources of oil and gas, we must do all we can to develop domestic energy sources as well as promote the commercialization of new and promising alternative technologies.

Proposition 7 will encourage the expansion of an energy technology vital to us all by providing a tax incentive to homeowners and businesses for the installation of solar energy systems. Present law allows the value of a building to be increased anytime someone makes an addition or performs any new construction. Under Proposition 7 the Legislature can exempt solar energy systems from being considered "new construction" for the purposes of increased property taxes.

Everyone benefits from the increased use of solar energy. When a business or individual employs solar technology, energy from conventional sources is freed for consumption by others and our vulnerability to foreign energy supply interruptions is decreased.

Unfortunately, the expansion of solar technology in California has been impeded by the high initial capital costs. In addition, the installation of a solar energy system has often meant an increase in the assessed property value and thus an increase in property taxes. Throughout this state, many homeowners are interested in, or have installed, complete solar space and water heating systems, only to find out that the property tax

collector has taken a large bite out of the expected savings which would be derived by using solar.

In effect, the consumer is getting mixed signals from government. On the one hand the state and federal governments allow an income tax break for installing solar, while on the other hand local government is taxing consumers specifically for adding a solar device. In some cases the added property tax burden can become a significant deterrent to the purchase decision.

We need to take short-term steps to reduce the cost and create a demand for solar energy equipment. Eventually the demand on its own will cut the cost, and tax incentives will no longer be needed. Until then, this property tax exemption coupled with the existing solar income tax credit will provide a small but important encouragement to potential investors in solar energy.

The State Public Utilities Commission has developed a program to retrofit 80 percent of all residential water heaters with solar energy systems. The realization of this goal would save over 21 million barrels of oil per year. That's 20 percent of the current utility consumption rate! However, this goal will never be achieved as long as solar energy is beyond the financial reach of the average taxpayer. Proposition 7 will help reduce that cost and will provide *all* taxpayers with an incentive to invest in solar energy.

ALFRED E. ALQUIST
State Senator, 11th District

PHIL WYMAN
Member of the Assembly, 34th District

TOM BRADLEY
Mayor, City of Los Angeles

No rebuttal to argument in favor of Proposition 7 was submitted

**Remember to vote on Election Day
Tuesday, November 4, 1980**

Argument Against Proposition 7

This amendment makes a change in Proposition 13. When Proposition 13 was up for a vote, the legislators and the bureaucrats were crying about the 1975-76 tax year cutoff date for appraising real property full cash value. It would cut down the tax take.

Now, they want to grandfather any newly constructed active solar energy system under the 1975-76 full cash value.

While this amendment proposal may seem innocuous, it does set a precedent for attempting further ex-

emptions. And the more exemptions there are, the more the property tax load is going to be shifted to existing homeowners.

As an incentive to construction of active solar energy systems, the effect of this amendment would be minimal. If active solar energy systems aren't cost effective standing on their own merits—forget it.

Lets's not tolerate any tampering with Proposition 13 PERIOD!

FRED E. HUNTLEY

Rebuttal to Argument Against Proposition 7

The opposition argument implies that Proposition 7 will interfere with the intent of Proposition 13. In fact, Proposition 7 will have exactly the opposite effect! When California's voters approved Proposition 13 in 1978, they hoped to halt unfair and unjustified hikes in property assessments. Many backers of Proposition 13 now support Proposition 7 because it pursues this same goal. By exempting investments in active solar energy systems from consideration as new construction, Proposition 7 assures that businesses or individuals will not pay higher property taxes simply because they seek to improve energy efficiency by employing solar technology.

The opposition argument also claims that, if solar energy systems are not cost effective on their own, they should not be encouraged. THIS IS EXACTLY WHY

WE NEED TO APPROVE PROPOSITION 7! The threat of reassessment currently places a powerful disincentive against investment in solar systems. At present, businesses and homeowners who make solar investments may see their entire energy savings disappear through higher property taxes. By eliminating these disincentives, Proposition 7 will make the state's solar policy more consistent and encourage the increased development of an essential future energy source.

VOTE YES ON PROPOSITION 7.

ALFRED E. ALQUIST
State Senator, 11th District

PHIL WYMAN
Member of the Assembly, 34th District

Polls are open from 7 a.m. to 8 p.m.