



Proposition 72: Property Tax Relief For Rain-Capture Systems

June 5, 2018 ballot

The California Taxpayers Association supports Proposition 72 because the measure promotes water conservation by removing a property tax disincentive for taxpayers who seek to lower their water consumption. In a state prone to extended periods of drought, Proposition 72 will complement water-conservation policies by making it more cost-effective for taxpayers to invest in systems that capture and store rainwater for later use.

Digest

Proposition 72, sponsored by state Senator Steve Glazer, exempts the construction of rainwater capture systems built on or after January 1, 2019, from the definition of “new construction” for purposes of property assessment, thereby ensuring that installing such a system will not trigger a property tax increase. Proposition 72 was placed on the ballot by the Legislature. The Legislature also approved a companion measure, SB 558, which defines a rainwater capture system and includes other legislative definitions.

Major Provisions

Provisions in Proposition 72

- **Exempts Rainwater Capture Systems From New Construction.** Exempts rainwater capture systems from the definition of “new construction” for purposes of property tax reassessment.
- **Relies on Legislative Definition of a Rainwater Capture System.** The measure states that it applies to rainwater capture systems “as defined by the Legislature.” The companion measure (see below) defines such a system.

Provisions in Legislative Implementation Bill (SB 558)

- **Defines Rainwater Capture System.** Rainwater capture system means a “facility designed to capture, retain and store rain water flowing off a building rooftop or other manmade aboveground hard surface for subsequent onsite use.”
- **Application to New Homes.** The initial purchaser of a home with a rainwater capture system can claim the exclusion when the owner-builder incorporates the system, as long as the owner-builder does not intend to occupy or use the

building and did not claim the exclusion, and the purchaser buys the building before it is assessed to the owner-builder.

- **Assessor Determines Value of Rainwater Capture System.** The initial purchaser of the building must file a claim with the county assessor and provide any documents necessary to identify the value attributable to the rainwater capture system included in the purchase price of the new building. The assessor then will reduce the taxable value to adjust for the value of the rainwater capture system.
- **Exclusion Applies Until Property Is Sold.** The property tax exclusion applies only until the building equipped with the rain-capture system changes ownership.
- **Exclusion Expires After 10 Years.** SB 558 sunsets the new construction exemption on January 1, 2029.

Fiscal Impact

This measure provides a property tax incentive to promote water conservation and reuse. While the exemption would mean that local jurisdictions would not experience property tax revenue increases from the new construction, there could be revenue increases in other taxes (i.e., sales tax, income tax) from the sales and installation of rainwater capture systems. There is the potential for a state general fund backfill to local school districts under the Proposition 98 education minimum funding guarantee to the extent local governments experience slower revenue growth.

Background

California's constitution provides that specified improvements are not considered new construction for purposes of property taxation.

Generally, when an owner adds improvements to a property, the property's value will be reassessed to account for the new construction, resulting in higher property taxes. For improvements to become exempt from the definition of new construction, the constitution must be amended by the voters. Voters have approved several exemptions from new construction: installation of fire sprinklers and fire-detection systems, installation of solar energy systems, seismic retrofits, and modifications that create access for a severely disabled person.

The author argues that property owners should not be punished with a tax increase for taking action to retain rainwater and reduce their reliance on public water systems. Rainwater capture systems would ease pressure on public water systems, freeing up water for others.

Other states, including Texas, New Jersey, Washington and Virginia, offer tax incentives, rebates or reduced rates to encourage the construction of rainwater capture systems on residential and commercial properties.

Past ballot measures exempting certain improvements from reassessment as new construction include Proposition 7 of 1980 (approved by voters to exempt installation of solar energy systems) and Proposition 13 of 2010 (approved by voters to exempt seismic retrofitting).