



CITY OF MENIFEE

SUBJECT: Property Tax Exemption for Disabled Veterans

MEETING DATE: April 3, 2024

TO: Mayor and City Council

PREPARED BY: Lauri Lockwood, Financial Analyst

REVIEWED BY: Travis Hickey, Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Discuss and provide direction to staff on the City potentially augmenting parameters of the state's existing property tax exemption for disabled veterans.

DISCUSSION

At the July 19, 2023, City Council meeting, a request was made to explore the idea of the City creating its own property tax exemption program for disabled veterans. Although it was acknowledged that the state has its own program, the request was for the City to consider augmenting that program with additional benefits for qualifying Menifee homeowners.

The state program, known as the Disabled Veterans' Exemption, reduces the property tax liability on the primary home for veterans who, due to a service-connected injury or disease, have been rated 100% disabled or are being compensated at the 100% rate due to unemployability, as determined by the Veterans Administration (VA). The unmarried surviving spouse of a qualified veteran may also claim the exemption. The state also offers a Veteran's Exemption program which provides exemption of property not to exceed \$4,000 for qualified veterans who own limited property. Qualified veterans can elect between one of the two state programs.

Menifee is home to a large veteran population. The U.S. Census Bureau's 2022 American Community Survey estimates that there are 8,153 veterans living in the City, although only a portion of them qualify for the Disabled Veterans' Exemption. Throughout Riverside County, 1.4% of property owners have qualified for the Disabled Veterans' Exemption program, according to the Riverside County Assessor-County Clerk-Recorder's Office. Menifee, in contrast, has 3.6% of homeowners who have qualified for the program, county records show. This is more than 2 ½ times the countywide participation rate and represents more than 1,400 households.

Property Tax Structure

A homeowner's property tax bill is composed of three types of property taxes: Ad valorem, voter-approved debt-related special assessments, and other special assessments.

1. **Ad Valorem:** The ad valorem portion of the tax is levied by the Riverside County Assessor-County Clerk-Recorder's office and it amounts to a 1% tax on the assessed valuation of properties. By state statute, assessed values increase each year by the lesser of 2% or the inflation factor noted in the California Consumer Price Index (CCPI). The City receives roughly 12.9% of the ad valorem tax the county collects on City properties.
2. **Debt-Related Assessments:** The voter-approved debt-related assessments, which are typically school district or water district general obligation bonds, are also determined based on a percentage of the assessed value of a home. The City does not receive any portion of these assessments.
3. **Special Assessments:** Special assessments are specific tax charges, not based on the assessed value of a property, placed on a homeowner's tax bill at the direction and by the authority of other taxing agencies, such as cities, school districts, water districts and parks districts. The City receives 100% of the special assessments it puts on the property tax roll, such as the assessments for bonded and services community facilities districts (CFDs), landscape and lighting maintenance districts (LLMDs), and county services areas (CSAs). These monies are deposited into restricted Special Revenue Funds to pay for services/improvements provided in their respective areas.

Existing Program

The state program exempts qualified veterans from paying a certain amount of ad valorem taxes, which is the first type of tax. The veterans' exemption does not apply to the other two types of property tax.

There are two levels to the state's Disabled Veterans' Exemption program:

- The basic exemption, which in 2024 provides an exemption from paying taxes on the first \$169,769 of a home's assessed value, and;
- The low-income exemption, which in 2024 provides an exemption from paying taxes on the first \$254,656 of a home's assessed value, for veterans whose annual household income does not exceed a specified limit, which is \$76,235 for 2024.

Veterans can claim the exemption that is most beneficial to them, but only one exemption can be claimed. The exemption amounts increase each year, based on the inflation factor denoted in the CCPI.

In practice and implementation, an expansion of the veterans' property tax exemption would not directly result in the veteran being billed less for property taxes, as the City does not have direct control to reduce the Ad Valorem, Debt-Related Assessment, or non-city Special Assessments of the property tax bill. In the case of city special assessments, as restricted revenues established under respective regulations, the City does not have much flexibility to alter and/or modify assessments, including exemptions, without requiring a Prop. 218 election. Elements to consider for a city sponsored program would include, but are not limited to, program eligibility requirements, administrative requirements, funding source and financial feasibility and sustainability of such program.

If the City Council provides direction to further explore the augmentation of the state's existing property tax exemption for disabled veterans, a cost impact analysis including administrative oversight would be developed based upon City Council input and presented for review at a future meeting.

STRATEGIC PLAN OBJECTIVE

Regular City Business

FISCAL IMPACT

There is no fiscal impact associated with the recommended action. Any future action on this item could result in additional fiscal impact, based upon the parameters of any program that is developed.

ATTACHMENTS

1. Disabled Veterans' Exemption Form
2. Disabled Veterans' Exemption Table