

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: March 20, 2015

TO: Honorable Members of the Rules, Elections and Intergovernmental Relations
Committee

FROM: Sharon M. Tsou *Sharon M. Tsou* Council File No: 15-0002-S17
Chief Legislative Analyst Assignment No: 15-03-0181

SUBJECT: Resolution (Cedillo - Englander - Blumenfield) to support AB 428 (Nazarian)

CLA RECOMMENDATION: Adopt Resolution (Cedillo - Englander - Blumenfield) to include in the City's 2015 – 2016 State Legislative Program SUPPORT for AB 428 (Nazarian), which would establish a tax credit for individuals who make seismic retrofits to their buildings.

SUMMARY

On March 3, 2015, a Resolution (Cedillo - Englander - Blumenfield) was introduced in support of AB 428 (Nazarian), which would establish a tax credit for individuals who make seismic retrofits to their buildings. The resolution states that there are thousands of buildings throughout the City of Los Angeles and across California that must be retrofitted to make them safer in case of a large earthquake. The resolution further states that this bill will enable property owners to offset the costs associated with these retrofits.

The Resolution states that the tax credit established by AB 428 would help taxpayers who want to make seismic retrofits pay for them, and would especially be valuable to those property owners who are unable to afford the costs of these retrofits on their own. The Resolution, therefore, seeks an official position of the City of Los Angeles to support AB 428 (Nazarian), which would establish a tax credit for individuals who make seismic retrofits to their buildings.

BACKGROUND

Earthquakes are the most dangerous natural disasters in California, and the risk of a major one happening in the near future is increasing. While nothing can be done to prevent an earthquake, the state can take precautions that will mitigate the destruction and loss of life that could happen in a major event.

Recently, the City of Los Angeles began discussing ways to require earthquake retrofits for older buildings, in particular to "soft-story" wood-framed apartment buildings built before 1978 and non-ductile concrete buildings built before 1976 (CF 13-1537 & S1,S2, S3). These types of buildings pose the greatest threat of collapse in a large earthquake, but can be retrofitted in ways to ensure that they are safe. While these retrofits would significantly improve the chances of residents surviving a major earthquake and the building not collapsing, they can be expensive.

AB 428 seeks to assist property owners in offsetting the costs for seismic retrofits, by offering a tax credit of thirty percent of the qualified costs. An individual seeking a tax credit for seismic retrofits would have to obtain a certificate from their local jurisdiction verifying the types of

seismic retrofits made and their cost, and provide that to the Franchise Tax Board. This tax credit would only be available to tax payers who make retrofits to buildings that are defined as an at-risk property, such as soft-story apartment buildings and older, unreinforced concrete buildings.

AB 428 would complement the City's efforts to require mandatory seismic retrofits, and ensure that building owners are able to make the required retrofits without an undue financial strain.

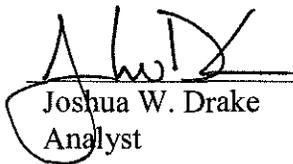
BILL STATUS

02/19/2015

Bill introduced

03/02/2015

Referred to the Assembly Committee on Revenue and Taxation



Joshua W. Drake
Analyst

SMT:MF:jwd

Attachment: Resolution (Cedillo - Englander - Blumenfield)
AB 428 (Nazarian)

RESOLUTION

RULES, ELECTIONS & INTERGOVERNMENTAL RELATIONS

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, there are thousands of buildings throughout the City of Los Angeles that need seismic retrofits to make them safer in case of a large earthquake; and

WHEREAS, if these buildings are not retrofitted, they could collapse in the next earthquake, resulting in deaths and injuries to those inside of the buildings; and

WHEREAS, seismic retrofits can be expensive, and many property owners who own buildings that need retrofits could have problems paying for them; and

WHEREAS, the City of Los Angeles has embarked on a program to require seismic retrofits for the most vulnerable of buildings; and

WHEREAS, the State of California should encourage and assist property owners to make these retrofits; and

WHEREAS, AB 428 (Nazarian) would give taxpayers a tax credit equal to 30 percent of the cost for seismic retrofits done to qualified buildings; and

WHEREAS, a tax credit like this would be helpful for taxpayers who want to have their properties retrofitted but cannot afford to shoulder the cost alone; and

WHEREAS, AB 428 would offset some of the costs associated with seismic retrofits, encouraging property owners to undertake these vital upgrades;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2015 - 2016 State Legislative Program SUPPORT for AB 428 (Nazarian), which would establish a tax credit for individuals who make seismic retrofits to their buildings.

PRESENTED BY Gilbert Cedillo
GILBERT A. CEDILLO.
Councilmember, 1st District

[Signature]
MAR 2 2015

SECONDED BY [Signature]
[Signature]

ORIGINAL

ASSEMBLY BILL

No. 428

Introduced by Assembly Member Nazarian

February 19, 2015

An act to add and repeal Sections 17053.50 and 23650 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 428, as introduced, Nazarian. Income taxes credit: seismic retrofits.

The Personal Income Tax Law and the Corporation Tax Law allow various credits against the taxes imposed by those laws.

This bill would allow, for taxable years beginning on or after January 1, 2016, and before January 1, 2021, a tax credit under both laws in an amount equal to 30% of the qualified costs paid or incurred by a qualified taxpayer for any seismic retrofit construction on a qualified building, as defined. This bill would require a taxpayer to obtain a certification from the appropriate jurisdiction with authority for building code enforcement of the area in which the building is located that the building is an at-risk property, as defined, and to provide that certification to the Franchise Tax Board upon the request of the Franchise Tax Board.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

1 (iii) Bracing hot water heaters.

2 (iv) Installing automatic gas shutoff valves.

3 (v) Repairing or reinforcing the foundation to improve the
4 integrity of the foundation against seismic damage.

5 (vi) Anchoring fuel storage.

6 (vii) Installing an earthquake-resistant bracing system for
7 mobilehomes that is certified by the California Department of
8 Housing and Community Development.

9 (B) "Seismic retrofit construction" does not include construction
10 activities performed to bring a qualified building into compliance
11 with standard local building codes.

12 (c) To be eligible for the credit under this section, the following
13 must apply:

14 (1) The qualified taxpayer shall do both of the following:

15 (A) Obtain certification from the appropriate jurisdiction with
16 authority for building code enforcement, upon a review of the
17 building, that the building is an at-risk property. Upon the request
18 of the Franchise Tax Board, the qualified taxpayer shall provide
19 a copy of the certification to the Franchise Tax Board.

20 (B) Retain for his or her records a copy of the certification
21 specified in subparagraph (A).

22 (2) The jurisdiction with authority for building code enforcement
23 in which a qualified building is located has entered into an
24 agreement with the state to provide certifications pursuant to this
25 section and to not seek reimbursement pursuant to Section 6 of
26 Article XIII B of the California Constitution for any costs incurred
27 in providing those certifications.

28 (d) (1) The credit amount allowed in subdivision (a) shall be
29 claimed by a qualified taxpayer at the rate of one-fifth of the credit
30 amount for the taxable year in which the credit is allowed, and
31 one-fifth of the credit amount for each of the subsequent four
32 taxable years.

33 (2) In the case where the credit allowed under this section
34 exceeds the "net tax," as defined in Section 17039, for a taxable
35 year, the excess credit may be carried over to reduce the "net tax"
36 in the following taxable year, and succeeding four taxable years,
37 if necessary, until the credit has been exhausted.

38 (e) For purposes of computing the credit provided by this
39 section, the qualified costs shall be reduced by any grant provided
40 by a public entity for the seismic retrofit construction.

1 (5) (A) "Seismic retrofit construction" means changes or
2 additions to the structure of a qualified building to mitigate seismic
3 damage, including:

- 4 (i) Anchoring the structure to the foundation.
- 5 (ii) Bracing cripple walls.
- 6 (iii) Bracing hot water heaters.
- 7 (iv) Installing automatic gas shutoff valves.
- 8 (v) Repairing or reinforcing the foundation to improve the
9 integrity of the foundation against seismic damage.
- 10 (vi) Anchoring fuel storage.
- 11 (vii) Installing an earthquake-resistant bracing system for
12 mobilehomes that is certified by the California Department of
13 Housing and Community Development.

14 (B) "Seismic retrofit construction" does not include construction
15 activities performed to bring a qualified building into compliance
16 with standard local building codes.

17 (c) To be eligible for the credit under this section, the following
18 must apply:

19 (1) The qualified taxpayer shall do both of the following:

20 (A) Obtain certification from the appropriate jurisdiction with
21 authority for building code enforcement, upon a review of the
22 building, that the building is an at-risk property. Upon the request
23 of the Franchise Tax Board, the qualified taxpayer shall provide
24 a copy of the certification to the Franchise Tax Board.

25 (B) Retain for his or her records a copy of the certification
26 specified in subparagraph (A).

27 (2) The jurisdiction with authority for building code enforcement
28 in which a qualified building is located has entered into an
29 agreement with the state to provide certifications pursuant to this
30 section and to not seek reimbursement pursuant to Section 6 of
31 Article XIII B of the California Constitution for any costs incurred
32 in providing those certifications.

33 (d) (1) The credit amount allowed in subdivision (a) shall be
34 claimed by a qualified taxpayer at the rate of one-fifth of the credit
35 amount for the taxable year in which the credit is allowed, and
36 one-fifth of the credit amount for each of the subsequent four
37 taxable years.

38 (2) In the case where the credit allowed under this section
39 exceeds the "tax," as defined in Section 23036, for a taxable year,
40 the excess credit may be carried over to reduce the "tax" in the