**To:** Members of the RCRC Board of Directors

**From:** Paul A. Smith, Senior Vice President Governmental Affairs
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**Date:** August 4, 2020

**Re:** Proposition 15 – The California Schools and Local Communities Funding Act (Split Roll) – **ACTION**

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## Summary

This memo provides an analysis of Proposition 15 – The California Schools and Local Communities Funding Act of 2020, which would reassess commercial and industrial real property once-every-three years (commonly referred to as the "split roll"). RCRC staff recommends adopting a "Oppose" position on this measure.

## Background

California cities, counties, schools, and special districts collect property taxes from property owners based on their property value - real property and buildings, while business personal property includes things like equipment, machinery, computers and furniture. In 1978, the voters approved Proposition 13 which capped assessments of all real property at 1 percent of assessed valuation at the time of sale/resale, which is typically the property's purchase price. In addition, the measure limited an annual increase in assessed valuation to 2 percent. Upon voter approval, additional property taxes can be levied upon real property in jurisdictions (counties, cities, school districts, fire protection districts, etc.) if the proposal receives a super-majority – 55 percent for most school construction bonds and 2/3rds for most other property-based levies.

Over the last four decades, there have been numerous legislative proposals to present a split roll property tax to the voters, but none have reached the ballot. The idea of split roll would apply a different tax basis (value) or tax rate to commercial and industrial properties than what applies to residential properties.

## Issue

Proposition 15 would establish a split-roll property tax that would reassess commercial and industrial property more frequently and at fair market value. Highlights of this aspect of a split roll include:

- Require all commercial and industrial property to be reassessed to fair market value, beginning on the 2022–2023 lien date.

- Require reassessment of commercial and industrial property to fair market value every three years.
- Include all commercial and industrial property, except for property used for residential (including rental) or agricultural production purposes. Mixed-use property is reassessed proportional to its commercial use.
- Exempt from full reassessment business property with an on-site business, and which is under a single ownership with no more than $3 million worth of property statewide.
- Exempt from taxation up to $500,000 of business personal property and exempts from taxation all tangible personal property of certain small businesses (50 employees or less).
- Provides that county administrative costs are paid for before any revenue is allocated to local agencies.

If enacted, the Legislative Analyst's Office estimates there would be an increase in local property taxes by $7.5 billion to $12 billion a year statewide. And, overall, $6.5 billion - $11.5 billion per year in new property taxes would be dedicated to schools, community colleges and local governments, allocated generally in proportion to what those entities currently receive in general property tax allocations.

The California Assessors Association conducted an in-depth analysis of the California Schools and Local Communities Funding Act and ultimately issued an "oppose" position. The major points are:

- Implementation costs projected to be $1 billion during the three-year phase-in period.
- Implementation would require a significantly larger, trained workforce that is not available today and would not be available for several more years.
- Complicated rules to review and approve requiring coordination with all counties.
- Disparate impacts on counties with the likelihood of negative roll growth in small and rural counties due to exemptions and exclusions.

As mentioned, the measure reduces the taxable value of each businesses' personal property and fully exempts business personal property from taxation for many small businesses that qualify (be independent and have 50 or fewer employees). Furthermore, the measure exempts business properties under $3 million in value from reassessment at fair market value. As noted by the Assessors Association, these exemptions could negatively impact the tax rolls in small, rural counties where there are no corresponding increases in property tax receipts simply because these counties lack business entities with high-value properties.

In addition, the California Farm Bureau Federation has formally opposed the California Schools and Local Communities Funding Act citing "although its backers claim agricultural land would not be affected, the initiative would trigger annual tax reassessments at market value for agricultural improvements such as barns, dairies, wineries, processing plants, vineyards and orchards," said President Jamie Johansson.

**Staff Recommendation**

RCRC staff recommends the RCRC Board of Directors adopt an "Oppose" position for the California Schools and Local Communities Funding Act. Staff notes two primary factors for an "oppose" recommendation:

- A significant number of RCRC-member counties could see a dramatic reduction in property tax receipts due to the exemptions placed into the measure. These counties would have no corresponding increase of property tax receipts simply because these counties lack enough business properties that would be subject to the reassessment as outlined in Proposition 15. It should be noted that the measure would raise a large amount of property tax revenue in counties with a large concentration of 'wealthy' businesses. Initial estimates would suggest Los Angeles, Orange, San Francisco, San Mateo and Santa Clara Counties will receive nearly all of the property tax gains from Proposition 15. One RCRC-member county – Napa – is expected to gain from Proposition 15 (it is unclear whether a handful of other RCRC-member counties would gain marginally or break-even).
- Complicating the fact that many RCRC counties would be substantial net-losers are the significant, new administrative burdens associated with conducting appraisals, new assessment appeals, and factoring-in a new, complex set of exemptions.

**Attachment**

- Copy of the California Schools and Local Communities Funding Act of 2020