

## **PROPOSITION 15:**

### **INCREASES FUNDING FOR PUBLIC SCHOOLS, COMMUNITY COLLEGES, AND LOCAL GOVERNMENT SERVICES BY CHANGING TAX ASSESSMENT OF COMMERCIAL AND INDUSTRIAL PROPERTY. Initiative Constitutional Amendment.**

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#### **Secretary of State Ballot Summary:**

- Increases funding for K-12 public schools, community colleges, and local governments by requiring that commercial and industrial real property be taxed based on current market value.
- Exempts from this change: residential properties; agricultural properties; and owners of commercial and industrial properties with combined value of \$3 million or less.
- Increased education funding will supplement existing school funding guarantees.
- Exempts small businesses from personal property tax; for other businesses, exempts \$500,000 worth of personal property.

#### **Background:**

Property taxes raise around \$65 billion annually for local governments with 60% allocated to cities, counties, and special districts and the remaining 40% allocated to schools and community colleges. Property taxes are calculated on the value of real property, which is land and buildings, and on business personal property which includes machinery, computers, and office equipment. County assessors determine the taxable value of property, county tax collectors bill property owners, and county auditors distribute the revenue among local governments.

Property tax revenue remains within the county in which it is collected and is used exclusively by local governments. The distribution of property tax revenues varies by county. Although the property tax is a local revenue source, it affects the state budget. Additional property tax revenue from the 1 percent rate for K–14 districts generally decreases the state’s spending obligation for education. Over the years, the state has changed property tax allocation to reduce its costs for education programs or address other policy interests.

Each property owner's annual property tax bill is equal to the taxable value of their property multiplied by their property tax rate. Proposition 13, adopted by California voters in 1978, mandates a property tax rate capped at one percent, requires that properties be assessed at market value at the time of sale, and allows assessments to rise by no more than 2 percent per year until the next sale. When a property is purchased, the county assessor assigns a value to the property. Each year, the property's taxable value increases by 2 percent or the rate of inflation, whichever is lower. In most years, the market value of most properties grows faster than 2 percent per year. As a result, the taxable value of most properties is less than market value.

Proposition 13 treats commercial property in the same way as residential property so the taxable value of properties like large office buildings, amusement parks and ski resorts are kept well below market value. Researchers at the University of Southern California have estimated that if commercial properties were taxed at their market value, it would result in \$11.4 billion in additional revenue per year for local government and schools. Almost 80% of the \$11.4 billion in lost revenue comes from only 8% of properties, which are valued at more than \$5 million each.

#### **Legislative Analyst and Director of Finance estimate of fiscal impact:**

Net increase in annual property tax revenues of \$7.5 billion to \$12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for

county administrative costs, the remaining \$6.5 billion to \$11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).

### **Support and Opposition:**

A broad coalition, including Labor, Faith, Community, elected officials, educators and many others, support the measure and argue that California's schools and local community services are woefully underfunded abandoning students in underfunded, understaffed, overcrowded schools that are not funded at a level appropriate to educate our children. They argue that the measure will not impact homeowners but simply asks global corporations that make huge amounts of money to pay property taxes based on the fair market value of their property. They say that this change will restore more than \$11 billion a year to schools and vital community services without raising taxes on homeowners, renters and small businesses. Supporters argue that the economic crisis makes this more important than ever because local government and schools are looking at dire budget deficits over the next couple of years and this Proposition is a way to protect and improve education and public services without raising taxes on the middle class.

Opposition includes a coalition of business, taxpayer advocate and property groups that argue that this is an attack on Prop. 13 that opens the door to new taxes on homeowners. They contend that this initiative will be the largest tax increase on businesses in California's history at a time when the economy is already struggling. They also say that the state already has the worst climate for business and job creation in the country and this measure will only make it worse, driving out businesses and making it harder to attract entrepreneurs from other parts of the country.

### **Prior Positions:**

The Federation took a support position on Proposition 30 (2012), a temporary tax to fund education, and on Proposition 55 (2016) to extend the Prop. 30 tax to fund education and health care. The Federation took an oppose position on Proposition 13 (1978).

### **A YES vote on this measure means:**

Voters approve a constitutional amendment to require commercial and industrial properties, except those zoned as commercial agriculture, to be taxed based on their market value, rather than their purchase price.

### **A NO vote on this measure means:**

Voters do not approve this constitutional amendment and commercial and industrial properties would continue to be taxed based on a property's purchase price, with annual increases capped at the rate of inflation or 2 percent, whichever is lower.