Task Force Report Date
Feb. 21, 2018

**"The California Schools and Local Communities Funding Act of 2018"**

**Initiative Constitutional Amendment**

**The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:**

"REQUIRES CERTAIN COMMERCIAL AND INDUSTRIAL REAL PROPERTY TO BE TAXED BASED ON FAIR-MARKET VALUE. DEDICATES PORTION OF ANY INCREASED REVENUE TO EDUCATION AND LOCAL SERVICES.

"Taxes certain commercial and industrial real property based on fair-market value—rather than, under current law, the purchase price with limited inflation. Exempts agricultural property and certain small businesses. Dedicates portion of any increased revenue to local services and to supplement, not replace, state's minimum-funding guarantee to schools. Provides tax exemption for $500,000 worth of tangible personal property used for business and all personal property used for certain small businesses.

**Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local government:**

Net increase in annual property tax revenues of $6.5 billion to $10.5 billion in most years, depending on the strength of real estate markets. After paying for county administrative costs and backfilling state income tax losses related to the measure, the remaining $6 billion to $10 billion would be allocated to schools (40 percent) and other local governments (60 percent). (17-0055.) "

Link to text:
https://www.oag.ca.gov/system/files/initiatives/pdfs/17-0055%20%28Funding%20for%20Schools%20and%20Communities%29_2.pdf

**Background from Legislative Analyst Office**
http://www.lao.ca.gov/ballot/2017/170715.pdf

"**Local Governments Levy Taxes on Property Owners.** California local governments—cities, counties, schools, and special districts—levy property taxes on property owners based on the value of their property. Taxed properties include real property—land and buildings—and business personal property—machinery, computers, and office equipment. Property taxes raise nearly $60 billion annually for local governments, about

$2 billion of which is attributable to business personal property. Statewide, about 60 percent of property tax revenues is allocated to cities, counties, and special districts, while the remaining 40 percent is allocated to schools and community colleges.

**Property Taxes Are Based on a Property's Purchase Price**. Each property owner's annual property tax bill is equal to the taxable value of their property—or assessed value—multiplied by their property tax rate. Property tax rates are capped at 1 percent plus smaller voter-approved rates to finance local infrastructure. A property's assessed value is based on its purchase price. In the year a property is purchased, it is taxed at its purchase price. Each year thereafter, the property's taxable value increases by 2 percent or the rate of inflation, whichever is lower. This process continues until the property is sold and again is taxed at its purchase price. In most years, the market value of most properties grows faster than 2 percent per year. As a result, under this system the taxable value of most properties is less than their market value.

**Counties Administer the Property Tax**. County assessors determine the taxable value of property, county tax collectors bill property owners, and county auditors distribute the revenue among local governments. Statewide, county spending for assessors' offices totals around $550 million each year. County costs for property tax collectors and auditors are unknown but much smaller.

**California Taxes Individual Income and Corporate Profits**. California levies a tax, known as the personal income tax (PIT), on the income of state residents, as well as the income of nonresidents derived from California sources. The PIT is the state's largest revenue source, raising around $83 billion in 2016-17. California also levies a tax, known as the corporation tax, on the profits of corporations. The corporation tax is the third largest state General Fund revenue source, raising around $10 billion in 2016-17.

**Property Owners Can Deduct Property Tax Payments From Taxable Income.** State law allows property owners to deduct property tax payments from their taxable income for the purposes of calculating PIT and corporation tax payments, effectively reducing their tax liability.

**Proposition 98 Governs State Spending on Schools and Community Colleges.** Earlier propositions passed by voters generally require the state to provide a minimum amount of annual funding for schools and community colleges, known as the "minimum guarantee." The minimum guarantee tends to grow with the economy and number of students. "

### This Proposal

This initiative would require reassessment of commercial and industrial property at fair market value; would eliminate the tax on fixtures and equipment for small businesses, and preserve property tax protections that currently exist for homeowners, residential renters, and farms.

Real property owned by a taxpayer that operates a business or businesses on that real property shall not be subject to reassessment if both of the following conditions are met:

- The owner-operator operates the business on a majority of the real property.
- The total fair market value of all property owned by the taxpayer in the state on which the business operates is less than two million dollars ($2,000,000). This amount shall be adjusted for inflation every two years, commencing January 1, 2023, as determined by the Board of Equalization.

Properties zoned for agricultural purposes are protected by the Williamson Act and will not be reassessed. Residential properties will **not** be reassessed including apartments and rental homes. Mixed-use properties will be reassessed based on the proportion of residential to commercial square footage.

The assessments in this initiative would be phased in over the next two to three years through a process to be developed by the legislature.

**The local property tax will be allocated as follows:**

1. **Local Government**—The initiative calls for revenue in each county to be reallocated based on the current proportions of the property tax which go to cities, counties, schools and special districts. Except for schools, the local jurisdictions in each county will receive any new revenue based on the share of the local property tax they currently receive.

2. **Education:** The additional revenue for schools generated in each county from the share of the property tax in each school district will be pooled across the state and put into the Local School and Community College Property Tax Fund to be used only for K-14 education. Revenue will be distributed based on the current LCFF or any successor formula provided by statute. Moneys allocated to school districts, county offices of education, and community college districts from the Local School and Community College Property Tax Fund shall supplement, and shall not replace, other funding for education and shall not be deemed to be General Fund proceeds of taxes. This new revenue is in addition to Prop. 98 funding. Basic aid districts, necessary small schools, and necessary small high schools shall receive funding for each high needs student.

**Financial Impact:**

**The Legislative Analyst Summary of Fiscal Effects**

- “Net increase in annual property tax revenues of $6.5 billion to $10.5 billion in most years, depending on the strength of real estate markets. After paying for county administrative costs and backfilling state income tax losses related to the measure, the remaining $6 billion to $10 billion would be allocated to schools (40 percent) and other local governments (60 percent). "

School districts will receive increased revenue in addition to the current Prop 98 guarantee. Additional local government revenues will be spent at the discretion of the local government e.g. parks, libraries, public safety, capital outlay, health and human services.

**What do Proponents and Opponents Say?**

The California State PTA is providing information about published statements from both the proponents and opponents of this initiative. We have not verified the factual basis for the statements made.

**What do proponents say?**

Reassessing commercial and industrial real property will have a net positive effect on California's economy, improving competition and helping new business, new investment and job creation. The initiative backers state that failure to reassess commercial property has encouraged owners to keep land parcels vacant, exacerbating the housing crisis and promoting sprawl. Proponents say this measure would provide increased and stable revenue for schools, cities and counties. Proponents say:

- Make big corporations pay their fair share. Millionaires, billionaires, and corporations reap billions of dollars per year through Prop 13's commercial property tax loophole. Billionaire investors and big corporations that own more than $1 million in real estate currently pocket 90% of the money from this loophole.
    - (Source: Make It Fair Campaign www.makeitfair.com

- Fund local schools and vital services. Closing California's commercial property tax loophole restores $9 billion annually for K-12 schools, community colleges, health clinics, emergency rooms, parks, libraries, first responders, and other vital community services.
    - (Source: Make It Fair Campaign www.makeitfair.com

- Maintain protection for homeowners. This is only about closing the commercial property tax loophole. Proponents state that initiative guarantees Prop 13 remains in effect with NO CHANGES for homeowners, residential renters and farmers. (Source: Make It Fair Campaign www.makeitfair.com

- Support small business.  Most new companies and small businesses already pay their fair share.  The current loophole makes small businesses major losers by undermining their ability to compete.  Initiative levels the playing field by creating new opportunities for the next generation of entrepreneurs.
    - (Source: Make It Fair Campaign www.makeitfair.com

- Split-Roll proposal would allow counties to reassess commercial and industrial property annually based on current market value. According to the measure, Proposition 13's tax protections would continue to apply to residential property, including rental housing.
    - https://caanet.org/proposed-ballot-initiative-target-prop-13-seek-split-roll/

- This measure would help small businesses by eliminating taxes on their fixtures and equipment.
    - http://www.dailynews.com/2017/12/19/prop-13-is-targeted-by-proposed-california-ballot-initiative/

Proponents include *League of Women Voters of California* and *California Calls*. According to *the Make It Fair Campaign*, the coalition of community, faith and labor organizations include the Advancement Project, California Professional Firefighters, California Federation of Teachers, UTLA, SEIU, ACLU, California Nurses Association. Additional list of endorsements: http://makeitfairca.com/endorsements/

**What do opponents say?**

The California Business Roundtable is against this initiative, as well as the California Apartment Association, Orange County Taxpayers Association, and Howard Jarvis Taxpayers Association.   Opponents say:

- Initiative will change a fundamental feature of Prop. 13 which limited property taxes to 1% of a property's cash value and capped increases at 2% per year, allowing reassessment of a property's value and a larger increase in its owner's tax bill only after it changes hands or new construction is completed.  Measure would change that for commercial property.
    - http://www.dailynews.com/2017/12/19/prop-13-is-targeted-by-proposed-california-ballot-initiative/

- "*Money earmarked for education could end up going to bail out teachers' pensions*".  - Jon Coupal, President of the Howard Jarvis Taxpayers Association. http://www.dailynews.com/2017/12/19/prop-13-is-targeted-by-proposed-california-ballot-initiative/

- Any threat to Proposition 13 should be viewed as an attack on homeowners across California - because once businesses are "out of the way", it is a straight clear shot to come after homeowners.
    - http://www.ocregister.com/2018/01/01/proposition-13-isnt-the-problem-pensions-and-spending-are/

- California's business climate is already abysmal by every measure. A massive and recurring tax increase on virtually all California businesses will only accelerate the exodus to other states with more reasonable taxation. http://www.ocregister.com/2018/01/01/proposition-13-isnt-the-problem-pensions-and-spending-are/

- According to the Orange County Taxpayers Association, creating a split-roll would:
    - Tax properties differently depending on their use.
    - Opponents of Prop 13 want to convince homeowners that they are being unfairly taxed and that commercial property owners are taking advantage of the system.
    - Studies show that the assessed value of business properties has actually grown at a higher rate than that of homeowners. Business properties pay the largest share of property tax under Prop. 13.
    - A split roll is also bad for California's economy. It would INCREASE the cost to do business in a state already ranked as one of the worst in the nation.
    - Most importantly, once business and commercial property owners are out of the way, coming after homeowners will be quick and easy for Sacramento.
        - http://www.octax.org/prop13

**Analysis of PTA authorities**
This initiative would amend provisions of the California Constitution that were originally put in place with voter passage of Proposition 13 in 1978. California State PTA has adopted a number of resolutions and position statements since the 1970s calling for greater financial support of public schools and weighing in on both the provisions and impact of Proposition 13.

In anticipation of the vote on Proposition 13 in 1978, California State PTA adopted a resolution that called for any property tax limitation to protect residential property owners and make sure that commercial property owners did not benefit disproportionately. The language from this resolution has been reviewed and re-confirmed by California State PTA leaders several times:

**Resolution: PROPERTY TAX LIMITATION**
Adopted by Convention Delegates May 4, 1978

Reviewed by Board of Managers March 2013

(Excerpt)

RESOLVED, That the California State PTA oppose property tax relief measures which would provide most of the benefits to owners of commercial and industrial property; and

RESOLVED, That the California State PTA support legislation which would provide property tax relief for the benefit of homeowners and renters, with assurance of adequate replacement revenues for the support of quality public education and essential local government services; and

RESOLVED, That the California State PTA support a constitutional amendment which would permit a lower property tax rate for owner-occupied dwellings than for other property.

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In 1979, California State PTA passed a resolution that, in part, called for a dependable revenue source:

**POST PROPOSITION 13 FUNDING OF PUBLIC EDUCATION**

Adopted by Convention Delegates May 11, 1979

Reviewed by Board of Managers April 2010

(Excerpt)

RESOLVED, That the California State PTA urge the Legislature and the Governor to enact an ongoing method of financing public schools such that the sources will be dependable, long-range, and adequate to provide optimum educational opportunity for all elementary and secondary students, with allowance for inflation and a mechanism for funding state, federal and court mandates; be it further

Our organization has placed the need for adequate and stable education funding at the top of our priority list for decades. That has included support for increasing taxes as expressed in 1970 and most recently reaffirmed in 2015:

**State Tax Reform – Position Statement**

*Adopted January 1970 –*

*Reaffirmed April 2015 – Legislation Committee*

(Excerpts)

The California State PTA believes that the total tax structure should be strong and broadly based; that generation of revenues and distribution of the tax burden should be fair and equitable; and that providing adequately for the needs of children and youth should be a funding priority.

The California State PTA believes that tax policies should include concepts that:

- Establish and maintain revenue sources carefully planned and developed to avoid undue burden on the people but that ensure fairness, including
  - Reduction of existing tax inequities and avoidance of new ones; and
  - New or increased taxes when necessary to meet the needs of the people.

California State PTA is on record supporting a funding structure for K-12 education that is equitable as well as adequate. The resolution passed in 1987 was most recently reaffirmed in 2009.

**ADEQUATE AND EQUITABLE STATE SCHOOL FINANCE SYSTEM**

Adopted by Convention Delegates April 29, 1987
Reviewed by Board of Managers March 2009
{Excerpt}

RESOLVED, That the California State PTA and its units, councils and districts actively seek a new method of public school finance which includes, but is not limited to, the following components:

a. A level of funding which provides adequate resources to give all students equal access to optimum educational opportunity.
b. Sufficient additional revenues to meet the unique educational needs of California's diverse student population: the economically disadvantaged, limited- and non-English-speaking students, gifted students, and students with mental or physical or learning handicaps.
c. Allocation of resources which addresses the differing needs and special problems of school districts.
d. Swift remedy of those lingering revenue disparities which deprive California students of equal educational opportunity.
e. Achieving equity by increasing revenue allocations to low wealth school districts rather than by reducing revenue allocations to high wealth districts.

**FINANCING CALIFORNIA'S PUBLIC SCHOOLS**

Adopted by Convention Delegates May 2007

RESOLVED, That the California State PTA and its units, councils and districts work to educate public policy makers, PTA members, community members, and the media about the shared responsibility in the continuing need for the necessary resources and funding for California's public school programs and facilities; and be it further
RESOLVED, That the California State PTA and its units, councils and districts advocate for adequate funding for every student; and be it further
RESOLVED, That the California State PTA and its units, councils and districts support the ongoing efforts to explore new models of public school funding to ensure a quality education for every student; and be it further
RESOLVED, That the California State PTA and its units, councils and districts continue to make financing our public schools, both programs and facilities, a top priority in order to ensure a quality education for every student.

**STATE TAX REFORM**

Adopted by Convention Delegates May 1991 Reviewed by Board of Managers March 2013

RESOLVED, That the California State PTA vigorously seek and support legislation and/or necessary ballot measures to fundamentally restructure the state tax system to ensure a broadly based, equitable system of taxation that generates adequate revenues to fund education and all other services needed by the children, youth and families of California.

**Analysis and Recommendation**

The central feature of the proposed initiative is to raise property tax revenue by assessing commercial properties more often—at least every three years instead of when properties change ownership. This would result in additional revenue because those properties would be taxed on higher valuations as property values appreciate. The initiative addresses a shift in the property tax burden that occurred in the decades since the passage of Proposition 13. A 2010 analysis of property tax collections in California found that "a consistent shift of the property tax burden away from commercial/industrial/other property and towards residential property has occurred in virtually every county in the state."
http://www.caltaxreform.org/pdf_ppt/SystemFailureFinalReportMay2010.pdf

**Many California State PTA authorities over more than forty years have called for additional funding for California schools, looking for "a level of funding which provides adequate resources to give all students equal access to optimum educational opportunity."** Our 2007 resolution calls on all levels of our organization to "continue to make financing our public schools, both programs and facilities, a top priority in order to ensure a quality education for every student."

**PTA authorities call for funding that is "dependable, long-range, and adequate."** By increasing the amount of education funding from property taxes, the measure could reduce the funding volatility that has resulted from our schools' dependence on state income taxes as a source of revenue. Several studies have documented the volatility of those sources and during the recession of 2009 in particular, the disruptive potential was abundantly clear.

**PTA authority calls for tax reform through "legislation and/or necessary ballot measures to fundamentally restructure the state tax system to ensure a broadly based, equitable system of taxation that generates adequate revenues to fund education and all other services needed by the children, youth and families of California."** This measure, first and foremost, seeks to "make fair" property tax inequalities that have emerged since the passage of Proposition 13. The current property tax structure allows properties owned by publicly traded companies, large corporations, and older business entities to be taxed on a much lower valuation (older property value) than properties owned by newer commercial entities, thus creating an inequitable tax situation for competing businesses.
The portion of property tax revenues from this initiative being distributed to local jurisdictions could benefit numerous services for children, including public health services, parks and recreation, and juvenile justice systems.

**PTA authorities call for opposition to "property tax relief measures which would provide most of the benefits to owners of commercial and industrial property" and support for "a constitutional amendment which would permit a lower property tax rate for owner-occupied dwellings than for other property.**" This initiative would raise property taxes (due to more current valuations rather than higher rates) for longer-held commercial properties while leaving in place the current property tax protections for residential property.

**Conclusion/Recommendation:**
California State PTA take a Support position on the proposed 2018 ballot initiative: "The California Schools and Local Communities Funding Act of 2018".