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MEMO

To: **City of Cupertino**
Legislative Review Committee

From: **Townsend Public Affairs, Inc.**

Date: March 2, 2020

Subject: **California Schools and Local Communities Funding Act of 2018 Summary**

Summary

The California Schools and Local Communities Funding Act of 2018 is currently eligible for consideration at the November 3, 2020, General Election. The ballot measure, commonly referred to as "Split Roll" or "Prop 13 Reform," requires certain commercial and industrial real property to be taxed based on fair-market value and dedicates portions of any increased revenue to education and local services.

Proposition 13, approved in 1978, ensures that valuations of property are based on the purchase price of a property, capped at one percent, plus smaller voter-approved rates to finance local infrastructure. Each year after purchase, the property's taxable value increases by two percent or the rate of inflation, whichever is lower. This process continues until the property is sold and is again taxed at its purchase price.

This initiative would require commercial and industrial properties, as well as vacant land not intended for housing or commercial agriculture, to be taxed based on their market value, as opposed to their purchase price. Properties owned and operated on by businesses whose property holdings in California total less than $2 million would be exempt from the market value assessment. The initiative would alter the conditions for that reassessment to every three years for commercial property while keeping the residential and qualified small-business properties under the current system.

It is estimated that upon full implementation, the change to assessment of commercial property taxes based on market value would result in an additional $10.8 to $12 billion in annual property tax revenues across the state. The exact amount of revenue raised in any given year would depend upon the strength of the real estate market and, even more so than is the case with current property taxes, could fluctuate significantly in hot or cold markets. Additionally, there would be associated impacts that would lessen the total amount of funding generated, including decreases in income tax returns due to increased property taxes paid and increased costs to counties for property tax administration.

It is anticipated that the net new revenue generated by this initiative would range from $6 billion to $10 billion annually. This funding would then be distributed via property tax distribution formulas with approximately 60% of the funding allocated to cities, counties, and special districts and approximately 40% of funding allocated to schools and community colleges.

This will likely be one of the costliest initiative campaigns of the general election. The supporters, consisting primarily of labor and education stakeholders, currently have just over $4 million raised, while opponents, consisting primarily of business and property stakeholders, have roughly $1.4 million leading into January. It is expected that the supporters and opponents will combine to spend in excess of $100 million on this initiative before the election cycle is over.

Status

On October 15, 2018, the Secretary of State verified that the proponents had submitted sufficient valid signatures to qualify for the November 3, 2020 General Election ballot.

The initiative proponents are currently circulating a slightly modified version of the original initiative. If it gathers sufficient valid signatures, it will replace the current measure on the November 3, 2020 ballot.

The revised initiative that is currently circulating would make the following changes to the current initiative measure:

- Change the threshold for market value reassessment from more than $2 million in property value to more than $3 million in property value.
- Modify the distribution of revenues directed to education from the existing state distribution formulas to: 11% for community colleges and 89% for public schools, charter schools, and county offices of education.
- Change the existing initiative to eliminate an owner-operator exemption and instead include that exemption as part of the small business definition.
- Change the effective date from January 1, 2020 to January 1, 2022. Additionally, properties that are 50% occupied by small businesses would not be included until fiscal year 2025-26.

Support

The California Schools and Local Community Funding Act of 2018 has significant support across the State, led in by public employee unions. The public employee supporting organizations include, American Federation of State, County and Municipal Employees (AFSCME), American Federation of Teachers, California Teachers Association, California Federation of Teachers, SEIU California State Council, and the United Teachers of Los Angeles.

In addition to public employee unions, the initiative is endorsed by a large number of Democratic elected officials, including five of the top candidates running for the Democratic nomination for President of the United States. Dozens of other elected members of Congress, the State Legislature, and locally elected office have endorsed the measure.

Nearly all of those that have endorsed the measure have done so due to the belief that large businesses and commercial property owners are able to utilize the current property tax structure to minimize their property taxes, thereby not providing adequate funding to schools and other core functions that rely on property taxes for a primary sources of revenue. They believe this initiative will better align the property taxes paid by the commercial sector, to those paid by the residential sector and generate additional funding that will be directed to schools and local governments.

Opposition

The campaign against the California Schools and Local Communities Funding Act of 2018 is being led by Californians to Stop Higher Property Taxes. The opponents to the measure include the California Business Roundtable, California Chamber of Commerce, California Farm Bureau Federation, California Taxpayers Association, and the Howard Jarvis Taxpayers Association.

The opponents of the initiative feel that this measure is an attempt by special interests to generate revenue that will help pay for increasing public pensions and other programs, instead of focusing on how to best use the existing revenue streams. Opponents believe that the proposed property tax increases for businesses, would further worsen California's business climate. They believe the measure would force some businesses to close due to the inability to meet their new property tax burden, would result in businesses relocating out of California to other states that are more business friendly, and serve as a deterrent from businesses locating in California. All of these scenarios would result in the loss of local jobs, as well as the income and property taxes associated with those jobs and businesses.