



## **Reforming Proposition 13: Bringing Equity to Property Taxes**

California Schools and Local Communities Funding Act of 2018

*Frequently Asked Questions*

### **Why make changes to Prop 13?**

In 1978, voters passed Proposition 13, which set property tax rates at 1% of a property's value in 1975. A property's assessed value cannot increase more than 2% each year except in cases of a change in ownership or completion of new construction or improvements. Additional local taxes may be added if approved by voters.

Since that time, California schools, infrastructure, and public services, financed in large part by property taxes, have become underfunded. California went from being one of the top states in per-pupil spending to one of the lowest. Maintenance of our roads, water systems, and sewage systems has been deferred, and our first responders must struggle to find money for new equipment and staffing.

### **What will the California Schools and Local Communities Funding Act of 2018 do?**

The act seeks to restore billions of dollars annually directly to California communities by creating a "split roll" for property taxes, with non-residential, non-agricultural commercial property being reassessed every three years, while retaining Prop 13 protections for homeowners, residential renters, agricultural land, and small businesses.

### **How has Prop 13 affected California property tax revenue?**

In 1978, property tax revenue in California was split 44%/56% between commercial and residential properties. Today, there's a huge differential between the two: residential properties pay 72% of property taxes, while commercial properties account for only 28%. Residential property changes ownership on average every ten years, which usually triggers a reassessment of property taxes. Large commercial properties owned corporations such as Disney, Chevron, and Wells Fargo rarely changes hands, and when it does, corporations and wealthy individuals have found a loophole in Prop 13 to avoid reassessment.

### **What is the loophole that this act fixes?**

Wealthy corporations have found ways to exploit the ambiguity of Prop 13 with regard to change of ownership, so that now even county assessors have a difficult time determining when commercial property has changed hands. When commercial properties change hands, large corporations hire attorneys to find ways to avoid reassessment, such as creating shell corporations or never transferring more than 50% of a property at one time. Reassessment doesn't apply until 51% of interest in the property changes hands.

Voters were told Prop 13 would protect homeowners, and it has done so. It's less clear whether most voters intended that commercial property owners would shirk paying their fair share of what it costs to run the state.

### **Where will all the new tax money go?**

This measure will increase funding for schools and local services, including libraries, health clinics, fire fighters, affordable homes, safe neighborhoods, and job training by approximately \$11 billion each year.

The new tax revenue will be collected by California counties and be allocated using the same formula for current property taxes. Each county has a breakdown of how the money gets allocated among schools, cities, the county itself, and special districts. Money for schools gets collected by the state and then is allocated to school districts using a formula that helps create equity among school districts.

### **If we make this change in Prop 13, won't that open the door to other changes?**

No changes can be made to Prop 13 without voter approval. This measure limits changes in reassessments to commercial property.

### **Why is agricultural land exempt from reassessment?**

Prior to Prop 13, agricultural land was subject to reassessment at the “highest and best use” rate, regardless of the value of the property at its present use. As an example, San Jose at that time was a mix of agricultural and residential property but was quickly becoming a major metropolitan center. What used to be called “blossom valley” for its fruit trees was becoming “Silicon Valley”.

Before 1978, when agricultural lands in the valley were reassessed annually for property taxes, assessors valued the land at full market price. This meant that if the land could be sold and developed as commercial or residential property, it would be taxed at that value, which was many times the price it would have been if sold for agriculture. When their property taxes skyrocketed with the value of the land, this forced farmers to sell. The best agricultural land in the United States is now under Silicon Valley. This is an example of what was happening across California, and without the Prop 13’s protections, which this act continues, much of California’s agricultural land would have been developed.

### **Will this measure raise property taxes on apartment buildings, residential care facilities, hospitals, or assisted living facilities?**

No. All property that is zoned or used as residential will be exempt from reassessment. Not-for-profit hospitals don’t pay property taxes.

### **What about small businesses?**

- Businesses that own their own property are exempt from the requirement to reassess to market value if 1) they operate their business on a majority of that property and 2) the fair market value of the business' real property in California is less than \$2 million.
- Businesses with 50 or fewer full-time employees are exempt from paying tax on their business personal property (e.g. equipment, furniture, and supplies).
- All businesses are exempt from paying tax on up to \$500,000 in business personal property.

### **Will businesses leave California for states with lower property taxes?**

California has comparatively high property values and low property tax rates. California ranks among the largest economies in the world, making it unlikely that businesses will leave just because of a property tax increase.

### **Won't these property tax increases just be passed on to consumers in higher prices?**

Prices are set by the market and what the market will bear. Chevron doesn't give us a rebate on gas prices because they pay lower property taxes. The money saved on taxes is going into the pockets of Chevron shareholders, not into our schools. The gas station that pays ten times less in property taxes than the one across the street that was sold last year doesn't give you a Prop 13 discount on gas. This measure will help create a level playing field so new businesses can compete more fairly with established businesses. Plus, the big corporations that we are asking to pay this tax are the same ones that just got a big, permanent tax break from the federal government, a tax break that makes commercial real estate more lucrative than ever.

### **Won't commercial property owners who lease their property pass on higher taxes to the small- and medium-sized businesses who rent from them?**

Commercial property owners are already charging rent at what the market is willing to bear, and it's unlikely they would interrupt existing revenues in hope of finding a tenant willing to pay more. Only 8% of commercial properties get 72% of the tax savings from this loophole. California businesses would benefit in many indirect ways from stronger communities: better schools (well-educated employees), more law enforcement and safety, well-repaired streets and well-functioning infrastructure, less homelessness.

*For more information and to help qualify  
this initiative for the November 2018  
ballot, email: [petitions@lwvsc.org](mailto:petitions@lwvsc.org)*

**LWV** LEAGUE OF WOMEN VOTERS®  
OF SANTA CRUZ COUNTY