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July 14, 2020

To: CSAC Government Finance & Administration Committee

From: Geoff Neill, CSAC Legislative Representative
Ada Waelder, CSAC Legislative Analyst

Re: Proposition 15 – Schools & Communities First – ACTION ITEM

Recommendation

Staff does not have a recommended position on this measure. The Government Finance and Administration policy committee may recommend a position to the CSAC Executive Committee and Board of Directors of support, oppose, neutral, or it may recommend CSAC take no position.

Summary

Proposition 15, the Schools & Communities First Act, would tax most commercial and industrial property based on its fair market value, beginning in 2022-23. Because the measure would tax commercial and industrial property differently than residential and agricultural property, it's also known as "split roll." The measure is estimated to increase tax revenue from these properties by between \$8 billion and \$12 billion per year statewide.

The increased property tax revenue would be distributed to counties, schools, cities, and special districts, in essentially the same proportion as under current law. Before that, however, the increased revenue is required to cover costs incurred by counties to administer the program, as well as any losses to the state General Fund resulting from decreased corporate and personal income taxes.

Background*Current Law*

Article XIII of the California Constitution, originally enacted by Proposition 13 (1978), does not distinguish commercial and industrial property from residential and agricultural property. It caps the ad valorem tax rate for all property at 1 percent and limits increases to the assessed value. Each year, the property's assessed value can increase by no more than 2 percent or the rate of inflation, whichever is lower. Property is only reassessed when there is a change in ownership or new construction, at which point it is reassessed at fair market value.

Statewide, about 46 percent of property tax revenue is allocated to local agencies' counties (14 percent), cities (13 percent), and special districts (19 percent)' hile the remaining 54 percent is allocated to schools and community colleges, although the allocation varies considerably among counties.

Changes under Ballot Initiative

This proposal seeks to tax most commercial and industrial real property, including some vacant land, based on current fair-market value, eliminating the limitation on increasing assessed value by no more than 2 percent per year for those properties. The measure would not apply to residential property, property owned or occupied by small businesses with a market value of less than \$3 million, or farmland (though it would apply to a farm's buildings, such as processing and refrigeration facilities).

The \$3 million threshold for small businesses will be adjusted for inflation every two years by the State Board of Equalization (BOE) beginning in 2025. The BOE will be tasked with calculating the inflation adjustment on a county by county basis, taking in to consideration the average market values of each.

The first \$500,000 of a business's personal property (e.g., machinery, computers, and office equipment) will be exempt from taxation, and businesses with fewer than 50 employees will be exempt from taxation on all personal property. Aircraft and vessels are not included in the personal property exemptions.

Proposition 15 would require the Legislature to establish a Task Force on Property Tax Administration, made up of a county assessor, a member of the BOE, a proponent of Proposition 15, a taxpayer representative, and a member of the Legislature. The Task Force is instructed to make recommendations to the Legislature on certain aspects of implementing which the measure leaves to the Legislature to decide.

The measure's shift to market value assessment would be phased in over three fiscal years, beginning in 2022-23. After the initial reassessment, applicable commercial and industrial real property will be regularly reassessed at intervals determined by the Legislature, but no less frequently than every three years. There is an exception to this timeline for property where a majority of square footage is occupied by small businesses with 50 or fewer employees. These properties would not shift to market value taxation until 2025-26, unless a different date is set by the Legislature.

Before allocating funds raised by this measure to local governments and schools, the proposal requires a portion of the new revenues be allocated to 1) the state General Fund to compensate for any reductions in personal income and corporate tax revenue resulting from the measure, and 2) counties to cover their costs of administering the changes. Which county costs are eligible for reimbursement will be determined by the Legislature. However, the measure does state that "such costs shall at a minimum include the costs of assessment, assessment appeals, legal counsel, tax allocation and distribution, and auditing and enforcement" and that the intent is to "provide full adequate funding to counties to cover all costs associated with implementation of the Act."

Assessment Appeals

Proposition 15 also directs the Legislature to work with county assessors to develop a process for hearing appeals resulting from the required reassessments. The measure outlines several requirements for this process. Most notably, the appeals process would not automatically accept an applicant's opinion of value on the property. Under current law, County Boards of Equalization and Assessment Appeals Boards are required to render their decision on an appeal within two years. If they do not, the new value of the property will default to whatever the applicant's opinion of value is, even if that value is unrealistically or artificially low. In addition, Proposition 15 would require the applicant to shoulder the burden of proof that their property was not properly valued, as opposed to the assessor.

Fiscal Impact

Statewide, the Legislative Analyst's Office estimates that this measure would increase annual property tax revenue by \$8 billion to \$12.5 billion in most years. The amount of revenue will fluctuate year to year based on the state of real estate markets at the time.

The California Assessors' Association (CAA) estimates that the cost to implement the measure would be slightly more than \$1 billion during the first three years. They also estimate an approximate 12-fold increase in the number of commercial and industrial properties that counties would have to reassess annually.

Impact on Small Counties

A survey by the CAA found that many small to mid-size counties have very few commercial or industrial properties with a value greater than the \$3 million threshold. Those counties are likely to receive little, if any, increased revenue from reassessments. Meanwhile, businesses in these counties would still receive the tax exemptions for personal property, and would eliminate, or significantly reduce, their property tax obligation on equipment and machinery. Without increased revenue from high value reassessments to offset these exemptions, property tax revenue is likely to decline in these counties.

Policy Considerations

Existing CSAC Policy

The California County Platform, CSAC's adopted statement of the basic policies of concern and interest to California's counties, say the following:

In order to meet each community's unique needs, counties must be given greater financial independence from the state and federal budget processes, including the authority to collect revenues at a level sufficient to provide the degree of local services the community desires. Counties will seek a level of financial independence that provides for the conduct of governmental programs and services, especially discretionary programs and services, at an adequate level.. counties advocate for aligning revenue authority with service responsibility, and also support other measures that grant counties financial independence. —Chapter 9 – Financing County Services

Proposition 15 would result in significant new revenues for most counties, schools, and other local agencies, providing a measure of financial independence from the state and allowing increased services in those communities. However, the measure is also likely to reduce revenue somewhat for some small counties. In deciding on a position, supervisors will have to weigh these impacts against each other.

Staff Contact

Please contact Geoff Neill at gneill@counties.org or Ada Waelder at awaelder@counties.org.

Resources

- 1) [Full text of Ballot Initiative](#)
- 2) [Title and Summary by Attorney General](#)
- 3) [Fiscal Analysis by Legislative Analyst's Office](#)

Attachment Two

Proposition 15 Title and Summary

October 17, 2019
Initiative 19-0008 (Amdt. #1)

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

INCREASES FUNDING FOR PUBLIC SCHOOLS, COMMUNITY COLLEGES, AND LOCAL GOVERNMENT SERVICES BY CHANGING TAX ASSESSMENT OF COMMERCIAL AND INDUSTRIAL PROPERTY. INITIATIVE CONSTITUTIONAL AMENDMENT.

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. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: **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).** (19-0008.)

Attachment Three

Proposition 15 Text

SECTION 1. Title

This measure shall be known as “The California Schools and Local Communities Funding Act of 2020.”

SEC. 2. Findings

- (a) California is the fifth largest economy in the world, but if we don’t invest in our future, we’ll fall behind. To grow our economy and provide a better quality of life now, and for future generations of Californians, we need to do a better job of investing in our schools, community colleges, and local communities, and do more to encourage small businesses and start-ups.
- (b) Our competitiveness begins with making children and their education a priority. Decades of cuts and underfunding have undermined California schools. A recent national study ranked the performance of California schools in the bottom half of all states. The top ranked states spend thousands of dollars more per student than California.
- (c) California’s funding shortfall has direct consequences for our kids: we’re dead last in the nation in teacher-to-student ratios, last in guidance counselor to student ratios, and last in librarian-to-student ratios.
- (d) The quality of life in our local communities is also critical to our economic future. It depends on streets that are safe and clean, emergency services we can count on, parks and recreation programs that keep our youth off the streets, and roads that are well maintained. Our cities, counties and local agencies are on the front line facing the consequences of the lack of affordable housing and increasing homelessness as well as worsening risks from wildfires and other disasters.
- (e) Property taxes on commercial and industrial properties are a principal source of funding for our schools and local communities. While virtually every other state assesses commercial and industrial property based on its fair market value, California allows commercial and industrial property taxes to go many years, even decades, without reassessment. This unusual system is prone to abusive tax avoidance schemes, diverts funds away from schools and local communities, contributes to the shortage of affordable housing, distorts business competition, and disadvantages business start-ups.
- (f) California’s under-assessment of commercial and industrial properties is a growing problem. Large investors and corporations, many of whom are from other states and countries, are using a variety of schemes to get around the law and buy and sell properties without being reassessed, costing our schools and local communities billions of dollars.
- (g) A recent study by the University of Southern California has found that under-assessed commercial and industrial property allows owners to avoid over \$11 billion in local property taxes each year that should be going to support our schools and local communities.

- (h) California's unusual commercial and industrial property tax system contributes to California's affordable housing crisis. Studies by the Legislative Analyst Office and the University of California have demonstrated that California's property tax system incentivizes owners to hold idle vacant and under-utilized commercial and industrial property. A reformed system, that assesses all properties based on their fair market value, would create a powerful new incentive to build new housing.
- (i) Every commercial and industrial property owner benefits from local schools and services like public safety and infrastructure. It is unfair and anti-competitive that the property tax system forces some businesses to pay higher property taxes to support our schools and local communities while their competitors pay much lower property taxes because their properties are assessed far below their fair market value.
- (j) California's unusual property tax system not only distorts competition, it discourages business investments. Under the current system, businesses that invest in improving their properties trigger reassessment and higher property taxes. But businesses that don't invest in improving their properties continue to enjoy the low cost of under assessment.
- (k) A study done at the University of California demonstrates that reassessing commercial property will have a net positive benefit on jobs and the California economy.
- (l) If we reformed California's under-assessment problem on business properties, California would still rank among the lowest states for business property taxes in the nation because of the California Constitution's provisions related to the 1% limitation on property tax rates.
- (m) Thriving small businesses and start-ups are essential to California's economy now and for our future. The property tax on equipment and fixtures discourages new start-ups, small businesses and larger businesses from making new productive investments. By requiring under-assessed large properties to be assessed at fair market value, small businesses can be fully exempted from the property tax on equipment and fixtures and the tax can be substantially reduced for other businesses, removing this disincentive without harm to funding for our schools and local communities.
- (n) Reassessing under-assessed commercial and industrial property in California would primarily impact a small number of properties owned by the largest corporations and wealthiest investors. Almost 80% of the tax benefits of the under-assessment allowed by the current system go to just 8% of the properties.
- (o) The benefits to our schools, local communities and economy resulting from ending the under-assessment of commercial and industrial property can be achieved while protecting small businesses through exemptions and deferrals of reassessment and at the same time encouraging small businesses by creating a more level playing field and by eliminating the property tax on business equipment and fixtures.

- (p) Reforming commercial and industrial property assessments to fair market value will result in a fairer system for our schools, our local communities and our businesses. All businesses will compete on a level playing field, generating billions of dollars in additional support for our schools and local communities.

SEC. 3. Purpose and Intent.

It is the intent of the People of the State of California to do all of the following in this measure:

- (a) Preserve in every way Proposition 13's protections for homeowners and for residential rental properties. This measure only affects the assessment of taxable commercial and industrial property.
- (b) Provide for increased and stable revenues for schools, cities, counties and other local agencies by requiring under-assessed commercial and industrial properties to be assessed based on their fair market value.
- (c) Distribute the new revenues resulting from this measure to schools and local communities, not to the State.
- (d) Ensure that the portion of any new revenues going to local schools and community colleges as a result of this measure is treated as new revenues that are in addition to all other funding for schools and community colleges, including Proposition 98.
- (e) Guarantee every school district and community college will receive additional funding from this measure and that funds going to schools and community colleges are allocated in a manner that is consistent with local control funding formulas intended to advance equity.
- (f) Ensure that any new revenues going to cities, counties, and special districts as a result of this measure will be allocated in the same manner as other property tax revenues, consistent with prior ballot measures approved by voters, to improve the quality of life in local communities in all parts of California.
- (g) Make certain there is complete public transparency by requiring schools, community colleges, cities, counties, and special districts to publicly disclose the new revenues they receive and how those revenues are spent in a manner that is widely available and easily understood.
- (h) Be very clear that this measure only applies to taxable commercial and industrial real property by including provisions stating that:
 - 1) All residential property is exempt so homeowners and renters will not be affected in any way by this measure.
 - 2) This measure makes no change to existing laws affecting the taxation or preservation of agricultural land.

- (i) Make no change to Proposition 13's constitutional provisions relating to the 1% limitation on property tax rates for all taxable real property so local property taxes on commercial and industrial property will continue to be among the lowest in the country after this measure is approved by voters.
- (j) Ensure stability for owners of small business properties by providing an exclusion for small commercial and industrial real property owners. The intent of this provision is to provide an exclusion that applies only to the true owners of small businesses and that large property owners shall be prevented from using the exclusion for their own benefit.
- (k) Defer reassessments for properties in which small businesses account for 50% or more of the occupied space until the 2025-2026 lien date to provide those small business tenants additional time to choose the leasing option that works for them, recognizing that the impact of this measure will be different for each property, depending on how close the current assessment is to the fair market value and whether or not it qualifies for the small property exclusion for properties with a fair market value of \$3 million or less.
- (l) Encourage new and existing businesses to make new investments by eliminating the business tangible personal property tax on equipment and fixtures for small businesses and providing a \$500,000 per year exemption for all other businesses. The Legislature may not reduce this exemption, but it may increase it.
- (m) Provide greater equity in the taxation of commercial and industrial properties by assessing all of them based on their actual fair market value just like start-ups and new commercial and industrial properties that already are being assessed based on their actual fair market value. The intent is for all businesses to compete on a more level playing field and make sure all businesses are paying their share to support the schools and local communities from which they benefit.
- (n) Require the Legislature, after conferring with a Task Force on Property Tax Administration, to provide by statute for the phase-in of reassessments of under-assessed commercial and industrial real properties so that county assessors may effectively implement the new law. Such phase-in will begin with the lien date for the 2022-23 fiscal year and occur over several years. Affected owners shall only be obligated to pay the taxes based on the new assessed value beginning with the lien date for the fiscal year when the assessor has completed the reassessment.
- (o) Require the Legislature to ensure that the phase-in provisions provide affected owners of under-assessed commercial and industrial real properties reasonable time to pay any increase in their tax obligations resulting from this measure.
- (p) Provide for the recovery of actual direct administrative costs incurred by counties to effectively implement the new law.

- (q) Ensure that the General Fund and other funds of the State are held harmless by reimbursing the State for reductions in tax revenue caused by the deductibility of the property tax.
- (r) Maintain the Board of Equalization's oversight over the property tax system to assure the public that assessments of commercial and industrial real property in every county are equitable and uniform as required by this measure, and to further ensure that the Board of Equalization provides statewide assistance as necessary to support the efficient implementation of this measure within all 58 counties.

SEC. 4. Section 8.7 of Article XVI of the California Constitution is added to read:

SEC. 8.7. (a) The Local School and Community College Property Tax Fund is hereby created in the State Treasury, to be held in trust, and is continuously appropriated for the support of local education agencies as that term is defined in section 421 of the Education Code as that statute read on January 1, 2020, and for the support of community college districts. The moneys deposited in the Local School and Community College Property Tax Fund shall be held in trust for schools, and shall be distributed as follows:

- (1) Eleven percent (11%) of the moneys shall be allocated by the Board of Governors of the California Community Colleges to community college districts in proportion to the funding calculated for each district pursuant to the distribution formulas operative in statute as of January 1, 2020, or any successor statute, provided that property tax revenues calculated pursuant to section 84751 of the Education Code, or any successor statute, that exceed the total funding calculated for a district pursuant to the then-operative distribution formulas shall be subtracted from that district's proportionate share of the Local School and Community College Property Tax Fund.
- (2) Eighty-nine percent (89%) of the moneys shall be allocated by the Superintendent of Public Instruction to school districts, charter schools and county offices of education as follows:
 - (A) To school districts and charter schools, in proportion to each school district's or charter school's total funding calculated pursuant to subdivisions (a)-(i), inclusive, of section 42238.02 of the Education Code, as those provisions read on July 1, 2019. Any school district or charter school that qualifies as a "basic aid school district" or "excess tax entity" under subdivision (o) of that section shall have subtracted from its proportionate share of the Local School and Community College Property Tax Fund the amount by which the sum calculated in subdivision (j) of that section exceeds the amount calculated pursuant to subdivisions (a)-(i), inclusive, as each of those provisions read on July 1, 2019.
 - (B) To county offices of education, in proportion to each office's total funding calculated pursuant to section 2574 of the Education Code as that section read on July 1, 2019.
- (3) Notwithstanding the above, no school district or charter school shall receive from the Local School and Community College Property Tax Fund less than \$100 per unit of average daily attendance, adjusted annually upward or downward by the same percentage that the Local School and Community College Property Tax Fund grew or declined from the previous year, and no community college district shall receive from the Local School and Community College

Property Tax Fund less than \$100 per enrolled full time equivalent student, adjusted annually upward or downward by the same percentage that the Local School and Community College Property Tax Fund grew or declined from the previous year.

(b) Except as provided in paragraph (2) of subdivision (d) of Section 8.6 of this Article, notwithstanding any other law, the moneys deposited in the Local School and Community College Property Tax Fund shall not be subject to appropriation, reversion, or transfer by the Legislature, the Governor, the Director of Finance, or the Controller for any purpose other than those specified in this section, nor shall these revenues be loaned to the General Fund or any other fund of the State or any local government fund.

(c) Moneys allocated to local education agencies, as that term is defined in section 421 of the Education Code as that statute read on January 1, 2020, and to community college districts from the Local School and Community College Property Tax Fund shall supplement, and shall not replace, other funding for education. Funds deposited into or allocated from the Local School and Community College Property Tax Fund shall not be part of "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes" for purposes of paragraphs (2) and (3) of subdivision (b) of Section 8 of this Article or for purposes of Section 21 of this Article. Except as provided in subdivision (c) of Section 8.6 of this Article, revenues generated by Section 2.5 of Article XIII A shall not be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B for purposes of paragraph (1) of subdivision (b) of Section 8 of this Article, nor shall they be considered in the determination of per capita General Fund revenues for purposes of subdivisions (b) and (e) of Section 8 of this Article.

(d) Except as provided in subdivision (c) of Section 8.6 of this Article, revenues generated by Section 2.5 of Article XIII A shall not be deemed to be General Fund proceeds of taxes that may be appropriated pursuant to Article XIII B for purposes of Section 20 or Section 21 of this Article.

SEC. 5. Section 8.6 of Article XVI of the California Constitution is added to read:

SEC. 8.6. (a) The Legislature shall provide by statute a methodology, based on historical experience, for determining the additional revenue generated in each county each fiscal year as a result of the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application of Section 2.5 of Article XIII A. The determination as to the amount of additional revenue in each county shall be transmitted to the county auditor annually for use for the calculations required by this section.

(b) After transferring the necessary funds pursuant to subdivisions (c), (d) and (e) and subparagraph (B) of paragraph (1) of this subdivision, all additional revenue resulting from the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the

application of Section 2.5 of Article XIII A shall be allocated and transferred by the county auditor as follows:

(1) (A) First, to the Local School and Community College Property Tax Fund created pursuant to Section 8.7 of this Article, in an amount equal to the school entities' share of property taxes as determined pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, as that chapter read on January 1, 2020.

(B) Prior to making the transfer pursuant to subparagraph (A) of this subdivision, the county auditor shall subtract an amount equal to the county's share of the increase in appropriations of State General Fund proceeds of taxes for the support of school districts and community college districts pursuant to Section 8 of Article XVI due to the revenue loss resulting from the exemptions provided by Section 3.1 of Article XIII, as determined by the Director of Finance. The county's share of additional State General Fund appropriations shall be transferred by the county auditor to the General Fund prior to the allocation specified in subparagraph (A) of this subdivision. The amount determined by the Director of Finance pursuant to this subparagraph shall for each fiscal year be apportioned by county in proportion to the revenue loss resulting from the exemptions provided by Section 3.1 of Article XIII.

(2) Second, among cities, counties, and special districts pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, as that chapter read on January 1, 2020.

(c) The Franchise Tax Board shall determine the reduction to the General Fund and any other affected state fund of revenues derived from the taxes imposed by the Personal Income Tax Law (Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code) and the Corporation Tax Law (Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code), as those laws read on January 1, 2020, due to the deduction of any net increase in property taxes resulting from the implementation of Section 2.5 of Article XIII A and subdivision (a) of Section 3.1 of Article XIII. The amount of reduction as determined by the Franchise Tax Board shall be transferred by the county auditor to the General Fund and any other affected state fund prior to the allocation specified in subdivision (b). For purposes of making the determinations required by Section 8, 20 and 21 of this Article, the amount transferred to the General Fund pursuant to this subdivision shall be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B and General Fund proceeds of taxes appropriated pursuant to Article XIII B, and shall be included in the calculation of per capita General Fund revenues. The amount transferred pursuant to this subdivision shall for each fiscal year be apportioned among the counties in proportion to each county's contribution to the total additional revenue resulting from the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application Section 2.5 of Article XIII A determined for all counties.

(d) (1) Each county or city and county shall be annually compensated for the actual direct administrative costs of implementing Section 2.5 of Article XIII A and Section 3.1 of Article XIII as identified by the board of supervisors of the county or city and county consistent with statutes identifying those costs. The Legislature shall determine by statute what constitutes actual direct administrative costs for purposes of this subdivision. Such costs shall at a minimum

include the costs of assessment, assessment appeals, legal counsel, tax allocation and distribution, and auditing and enforcement of the provisions of Section 3.1 of Article XIII and Section 2.5 of Article XIII A. It is the intent of this subdivision to provide full adequate funding to counties to cover all costs associated with implementation of the Act.

(2) The Legislature shall determine by statute the initial start-up costs necessary for each county or city and county and the Board of Equalization to implement the Act and shall appropriate State General Fund monies to pay for such startup costs until sufficient funds are available to pay for all ongoing costs to implement the Act, at which time the statute shall provide for the State General Fund to be reimbursed.

(e) Each county or city and county shall annually be reimbursed for actual refunds of property taxes paid in the prior fiscal year as a result of corrections to assessments made pursuant to Section 2.5 of Article XIII A. The amount reimbursed pursuant to this subdivision shall for each fiscal year be subtracted from each county's contribution to the total additional revenue resulting from the application of Section 2.5 of Article XIII A as a result of the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A.

(f) All local education agencies, community colleges, counties, cities and counties, cities, and special districts that receive funds from the revenues generated by Section 2.5 of Article XIII A shall publicly disclose for each fiscal year, including in their annual budgets, the amount of property tax revenues they received for that fiscal year as the result of Section 2.5 of Article XIII A and how those revenues were spent. Such disclosure shall be made so that it is widely available to the public and written so as to be easily understood.

SEC. 6. Section 2.5 of Article XIII A of the California Constitution is added to read:

SEC. 2.5. (a) (1) Notwithstanding Section 2 of this Article, for the lien date for the 2022-23 fiscal year and each lien date thereafter, the "full cash value" of commercial and industrial real property that is not otherwise exempt under the Constitution is the fair market value of such real property as of that date as determined by the county assessor of the county in which such real property is located, except as provided by the Legislature pursuant to subdivision (b).

(2) Paragraph (1) of this subdivision shall not apply to residential property as defined in this section, whether it is occupied by a homeowner or a renter. Residential property as defined in this section shall be assessed as required by Section 2 of this Article. Paragraph (1) of this subdivision shall also not apply to real property used for commercial agricultural production as defined in this section. Real property used for commercial agricultural production as defined in this section shall be assessed as required by Section 2 of this Article.

(b) The Legislature shall establish a Task Force on Property Tax Administration immediately after this section is enacted, including a county assessor or designee, a Board of Equalization member or designee, a proponent of this Act or designee, a taxpayer representative, and a member of the Legislature or designee. The Task Force shall publicly convene immediately upon its creation to examine and recommend to the Legislature all statutory and regulatory changes

necessary for the equitable implementation of this measure consistent with its purpose and intent. The Legislature, after conferring with the Task Force, shall provide by statute for the phase-in of the reassessment of commercial and industrial real property as required by paragraph (1) of subdivision (a). Any such phase-in shall provide for reassessment of a percentage of all commercial and industrial real properties within each county commencing with the lien date for the 2022-23 fiscal year and extending over two or more lien dates each fiscal year thereafter, in order to ensure a reasonable workload and implementation period for county assessors, including provision for processing and timing of assessment appeals. An owner shall first be obligated to pay the taxes based on the new assessed value beginning with the lien date for the fiscal year when the county assessor has completed the reassessment. The phase-in also shall provide taxpayers whose property has been reassessed a reasonable timeframe within which to pay any increase in taxes. After the initial reassessment of commercial and industrial real property pursuant to this subdivision, such commercial and industrial real property shall be periodically reassessed no less frequently than every three years as determined by the Legislature.

Notwithstanding existing statutes, the Legislature shall, in consultation with county assessors, develop a process for hearing appeals resulting from the reassessment of properties pursuant to this section that is consistent with the following:

- (1) The process shall not include automatic acceptance of the applicant's opinion of values within a given time-frame.
- (2) The process shall impose on the taxpayer the burden of proof that the property was not properly valued.
- (3) The process shall require the taxpayer to provide evidence relevant to any appeal in the initial application before the local assessment appeals board.
- (4) The process shall ensure that decisions by local administrative hearing bodies such as assessment appeals boards, if subject to judicial review, are subject only to de novo judicial review on issues of law, while issues of fact, including valuation, shall be reviewed under the substantial evidence standard.

(c) For purposes of this section:

- (1) "Commercial and industrial real property" means any real property that is used as commercial or industrial property, or is vacant land not zoned for residential use and not used for commercial agricultural production. For purposes of this paragraph, vacant land shall not include real property that is used or protected for open space, a park, or the equivalent designation for land essentially free of structures, natural in character to provide opportunities for recreation and education, and intended to preserve scenic, cultural, or historic values.
- (2) "Mixed-use real property" means real property on which both residential and commercial or industrial uses are permitted.
- (3) "Real property used for commercial agricultural production" means land that is used for producing commercial agricultural commodities.
- (4)(A) "Residential property" shall include real property used as residential property, including both single-family and multi-unit structures, and the land on which those structures are constructed or placed.

(B) The Legislature shall provide by statute that any property zoned as commercial or industrial but used as long-term residential property shall be classified as residential for purposes of paragraph (2) of subdivision (a). For mixed-use real property, the Legislature shall ensure only that portion of the property that is used for commercial and industrial purposes shall be subject to reassessment as required by paragraph (1) of subdivision (a). The Legislature shall also define and provide by statute that limited commercial uses of residential property, such as home offices, home-based businesses or short-term rentals, shall be classified as residential for purposes of paragraph (2) of subdivision (a). The Legislature may provide for an exclusion from reassessment for the commercial share of mixed use property provided seventy-five percent (75%) or more of the property by square footage or value is residential.

(d) (1) Subject to paragraph (2) of this subdivision, upon reassessment pursuant to subdivisions (a) and (b), each commercial and industrial real property with a fair market value of three million dollars (\$3,000,000) or less shall not be subject to reassessment pursuant to paragraph (1) of subdivision (a) and shall be assessed as required by Section 2 of this Article. The amount specified in this paragraph shall be adjusted for inflation every two years commencing January 1, 2025, as determined by the State Board of Equalization. The State Board of Equalization shall calculate the adjustment separately for each county taking into consideration differences in average commercial and industrial market values among counties.

(2) Notwithstanding paragraph (1) of this subdivision, real property that would otherwise comply with the exclusion set forth in paragraph (1) of this subdivision shall be subject to reassessment pursuant to paragraph (1) of subdivision (a) if any of the direct or indirect beneficial owners of such real property own a direct or indirect beneficial ownership interest(s) in other commercial and/or industrial real property located in the State, which such real property in the aggregate (including the subject property) has a fair market value in excess of three million dollars (\$3,000,000). The amount specified in this paragraph shall be adjusted for inflation every two years commencing January 1, 2025, as determined by the State Board of Equalization.

(3) All determinations of fair market value under this subdivision shall be determined by the county assessor of the county in which the property is located, and such determinations by the county assessor shall be conclusive and subject only to judicial review for abuse of discretion.

(4) In order to be eligible for the exclusion provided by paragraph (1) of this subdivision, the owner of the real property shall make a claim and certify annually to the county assessor under penalty of perjury that the conditions required by paragraphs (1) and (2) of this subdivision for exemption from reassessment have been met and shall be subject to audit by the county or the State as to that certification. The Board of Equalization shall have the authority to conduct any audits on behalf of the State.

(5) Any real property excluded from reassessment under paragraph (1) of this subdivision shall only be excluded from reassessment so long as it meets the conditions imposed by paragraphs (1) and (2) of this subdivision. If there is any change in the direct or indirect beneficial ownership of such real property, a new claim and certification must be made to the county assessor.

(6) Any appeals by taxpayers who are found not to be excluded from reassessment pursuant to paragraph (1) of this subdivision shall be subject to the process for hearing appeals as provided in subdivision (b).

(e) (1) Provided fifty percent (50%) or more of the occupied square footage of a commercial or industrial real property is occupied by a small business as defined in paragraph (4) of this subdivision, the provisions of paragraph (1) of subdivision (a) shall not take effect prior to the lien date for the 2025-26 fiscal year; provided, however, that if the Legislature establishes by statute pursuant to subdivision (b) that a real property qualified under this paragraph shall be reassessed on a lien date subsequent to the 2025-26 fiscal year, then such property shall be reassessed commencing on that subsequent lien date.

(2) In order to be eligible for the deferral provided by paragraph (1) of this subdivision, the owner of the property shall make a claim and certify annually to the county assessor under penalty of perjury that the conditions required by paragraph (1) of this subdivision for deferral from reassessment have been met and shall be subject to audit by the county or the Board of Equalization as to that certification.

(3) Any real property for which reassessment is deferred under paragraph (1) of this subdivision shall only be eligible for deferral so long as it meets the conditions imposed by paragraph (1) of this subdivision and if there is any change in the direct or indirect beneficial ownership of such real property, a new claim and certification must be made to the county assessor. Upon termination of the deferral, the property shall be subject to paragraph (1) of subdivision (a).

(4) For purposes of this subdivision, the term small business shall include only those businesses which meet all of the following conditions:

(A) The business has fewer than 50 annual full-time equivalent employees.

(B) The business is independently owned and operated such that the business ownership interests, management and operation are not subject to control, restriction, modification or limitation by an outside source, individual or another business.

(C) The business owns real property located in California.

(f) For purposes of this section the failure in any year to claim, in a manner required by the laws in effect at the time the claim is required to be made, an exclusion or classification which reduces or defers an assessment or reassessment shall be deemed a waiver of the exclusion or classification for that year.

(g) Using the methodology prescribed by the Legislature pursuant to subdivision (a) of Section 8.6 of Article XVI, the percentage change in gross taxable assessed valuation within a city, county, or a city and county used to calculate an entity's vehicle license fee adjustment amount pursuant to Section 97.70 of the Revenue and Taxation Code shall not include the additional assessed valuation that results from the application of this section.

(h) Notwithstanding Section 16 of Article XVI or any other law, the additional assessed valuation that results from the application of this section shall not be factored into to any division

of taxes or calculation of growth for treatment as tax increment and shall not be diverted in any manner whatsoever.

SEC. 7. Section 3.1 of Article XIII of the California Constitution is added to read:

SEC. 3.1. (a) (1) For each taxpayer paying the tax on tangible personal property, including business equipment and fixtures, used for business purposes, either of the following shall apply:

(A) (i) For a taxpayer that is a small business, as defined in paragraph (4) of subdivision (e) of Section 2.5 of Article XIII A, all tangible personal property owned and used for business purposes is exempt from taxation.

(ii) A taxpayer shall make a claim and certify annually to the county assessor under penalty of perjury that the condition required by this subparagraph for exemption has been met and such claim shall be subject to audit by the county or the state as to that certification.

(B) Except for a taxpayer subject to subparagraph (A) of paragraph (1) of this subdivision, an amount of up to five hundred thousand dollars (\$500,000) of combined tangible personal property and fixtures, per taxpayer, is exempt from taxation.

(2) Aircraft and vessels shall not be subject to this exemption.

(3) The Legislature shall not lower the exemption amounts provided by this subdivision or change their application, but may increase the exemption amount specified in subparagraph (B) of paragraph (1) of this subdivision consistent with the authority enumerated in Section 2 of this Article.

(b) The Legislature shall provide by statute that all related entities, including but not limited to any subsidiaries, holding companies, or parent corporations, are considered one "taxpayer" for the purposes of this section.

SEC. 8. Section 16 of Article XIII B of the California Constitution is added to read:

SEC. 16. (a) For purposes of this article, "proceeds of taxes" shall not include the additional revenues generated by Section 2.5 of Article XIII A.

(b) For purposes of this article, appropriations subject to limitation of each entity of government shall not include appropriations of the additional revenues collected as a result of the implementation of Section 2.5 of Article XIII A.

SEC. 9. Effective Date.

This measure shall become operative on January 1, 2022, except that subdivision (a) of Section 3.1 of Article XIII shall become operative on January 1, 2024, and subdivision (d) of Section 8.6 of Article XVI and subdivision (b) of Section 2.5 of Article XIII A shall become operative immediately upon passage of this measure.

SEC. 10. Severability

The provisions of this Act are severable. If any portion, section, subdivision, paragraph, clause, sentence, phrase, word, or application of this Act is for any reason held to be invalid by a decision of any court of competent jurisdiction, that decision shall not affect the validity of the remaining portions of this Act. The People of the State of California hereby declare that they would have adopted this Act and each and every portion, section, subdivision, paragraph, clause, sentence, phrase, word, and application not declared invalid or unconstitutional without regard to whether any portion of this Act or application thereof would be subsequently declared invalid. Notwithstanding the foregoing, Section 7 of this Act is non-severable from Section 6 of this Act.

SEC. 11. Liberal Construction

This Act shall be liberally construed in order to effectuate its purposes as articulated in Section 3 of this Act.

Attachment Four

Legislative Analyst's Office Proposition 15 Fiscal Analysis



October 2, 2019

Hon. Xavier Becerra
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

RECEIVED

OCT 02 2019

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative (A.G. File No 19-0008, Amendment No. 1) related to taxation of commercial property.

Background

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 around \$65 billion annually for local governments, about \$2 billion of which is attributable to business personal property. Statewide, about 60 percent of property tax revenue is allocated to cities, counties, and special districts, while the remaining 40 percent is allocated to schools and community colleges.

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 property tax administration exceeds \$600 million each year.

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 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 taxable value generally is based on its purchase price. When a property is purchased, the county assessor assigns a value to the property—often 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.

Legislative Analyst's Office
California Legislature
Gabriel Petek, Legislative Analyst
925 L Street, Suite 1000, Sacramento, CA 95814
(916) 445-4656

California Taxes Individual Income and Corporate Profits. California levies a personal income tax (PIT) on the income of state residents, as well as the income of nonresidents derived from California sources. California also levies a corporation tax on the profits of corporations.

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. This reduces their tax bills.

State Constitution Governs State Spending on Schools and Community Colleges. The State Constitution requires 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.

Proposal

Assess Commercial and Industrial Property at Market Value. The measure requires commercial and industrial properties, as well as vacant land not intended for housing, commercial agriculture, or protected open space to be taxed based on their market value, as opposed to their purchase price. A property’s market value is what it could be sold for today. The measure’s shift to market value assessment is phased in over a number of years beginning in 2022-23. For properties in which the majority of space is occupied by small businesses—defined as businesses that own California property and have 50 or fewer employees—the shift to market value taxation would not begin until 2025-26 or a later date set by the Legislature.

Properties owned by individuals or businesses whose property holdings in the state total less than \$3 million (adjusted for inflation biannually beginning in 2025) are exempt from market value taxation. These properties would continue to be taxed based on purchase price. Similarly, residential properties would continue to be taxed based on purchase price.

Exempt Lower Value Business Personal Property. The measure exempts from taxation the first \$500,000 in value of a business’s personal property. Additionally, the measure exempts from taxation all personal property of small businesses—as defined above.

Allocate New Revenues to Local Governments and Schools. The measure allocates most new revenue resulting from the measure to cities, counties, special districts, and schools. Before allocating funds to local governments, the measure requires a portion of the new revenues be allocated to (1) the state general fund to compensate for any reductions in PIT and corporation tax revenue resulting from the measure (as discussed below) and (2) counties to cover their costs of administering the measure. Of the remaining funds, roughly 60 percent is allocated to cities, counties, and special district, with each entity receiving an amount proportional to the share of property tax revenues in their county that they receive under existing law. The remaining roughly 40 percent would be allocated to schools and community colleges generally according to the same per-pupil formulas the state uses to distribute most other funding for these entities. This allocation would supplement the existing funds schools and community colleges receive under the state’s constitutional minimum funding requirement.

Fiscal Effect

Market Assessment Would Increase Property Tax Revenues. Upon full implementation, the measure’s shift of most commercial and industrial properties to market value assessment would increase annual property taxes paid for these properties by \$8 billion to \$12.5 billion in most

years. The amount of revenue raised in a given year would depend heavily on the strength of the state's real estate markets in that year. As a result, this new revenue stream would fluctuate more from year to year than property tax revenues have historically.

Business Personal Property Exemption Would Decrease Property Tax Revenues. The measure's new business personal property exemptions likely would reduce property tax revenues by several hundred million dollars per year.

Allocation of Net Increase in Property Tax Revenues. On net, the measure would increase statewide property tax revenue by \$7.5 billion to \$12 billion annually in most years. From this revenue, the measure first allocates funding to cover:

- ***Decreased Income Tax Revenues.*** By increasing property tax payments for commercial and industrial properties, the measure would decrease taxable personal and corporate income and, in turn, decrease state PIT and corporate tax revenues. This decrease in PIT and corporate tax revenues could be as much as several hundred million dollars annually.
- ***Increased County Costs for Property Tax Administration.*** The measure creates significant new administrative responsibilities for counties, particularly county assessors. These new responsibilities could increase county property tax administration costs by hundreds of millions of dollars per year ongoing.

Of the remaining \$6.5 billion to \$11.5 billion, roughly 60 percent would be allocated to cities, counties, and special districts and roughly 40 percent to schools and community colleges.

Short-Term General Fund Costs. Counties likely will incur administrative costs related to the measure before new revenue is available to cover their costs. The measure requires the state to provide loans to counties to cover these initial costs—possibly in the hundreds of millions of dollars—until new revenue is available, at which time the state loans would be repaid.

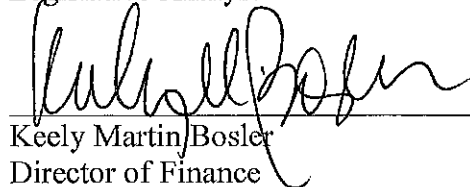
Summary of Fiscal Effects.

- 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).

Sincerely,



Gabriel Petek
Legislative Analyst



Keely Martin Bosler
Director of Finance

Attachment Five

California Assessors' Association Letter and Report



CALIFORNIA ASSESSORS' ASSOCIATION EXECUTIVE COMMITTEE

*****FOR IMMEDIATE RELEASE*****

June 3, 2020

CAA Opposes 2020 Split Roll Initiative

After careful consideration the California Assessors' Association must oppose The California Schools and Local Communities Funding Act of 2020 (initiative No. 19-0008-Amendment 1).

Since 2017 The California Assessors' Association (CAA) has monitored and analyzed the administrative complexities and the estimated costs of implementing two proposed initiatives commonly referred to as "split roll initiatives." These initiatives generally would require regular reassessment of Commercial and Industrial property at current market value, and would eliminate Proposition 13 protections for significant numbers of those properties. "The California Schools and Local Communities Funding Act of 2020", the most recent version of "Split Roll" has now qualified for the November 3, 2020 ballot.

The implementation costs and administrative issues raised by our analysis have only become more problematic due to pending budget cuts and hiring freezes which are being implemented by counties across the State. Current local budgetary realities will make implementation of the initiative extremely difficult.

The CAA, through our Split-Roll Ad Hoc Committee, has surveyed the various California Assessor's Offices to obtain projected costs of the substantial staff increases and technology costs necessary to implement this initiative, if it is passed by the voters. To obtain the most accurate projection of costs, the CAA commissioned an in-depth analysis of the data by Capitol Matrix Consulting. The CAA undertook this project to provide information to our members, to policy makers and to the public for use in their overall evaluation of the Split Roll initiative.

The "Policy Briefing Paper on Split Roll Initiative" prepared by the CAA and the "Split Roll Implementation – Estimated Costs to County Assessors" provided by Capitol Matrix Consulting are the result of CAA research and analysis. Both reports are attached to this statement.

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CALIFORNIA ASSESSORS' ASSOCIATION

EXECUTIVE COMMITTEE

The major discussion points below are discussed in detail in the attached documents.

- Cost to implement is projected at \$1.01 Billion during the three-year phase in period
- Implementation would require a trained workforce that is not available today and would not be available for many years.
- Exclusions with complicated rules to review and approve requiring coordination with all counties
- Disparate impacts on the States Counties and likelihood that the initiative would trigger negative roll growth in small and rural counties due to exemptions and exclusions

The Assessors' of California are committed to fair and impartial implementation of the of the Constitution and the laws of the State of California and, as always, Assessors will faithfully implement the will of the people.

However, given the immense anticipated Statewide implementation costs and complexities, the limited resources of Assessors and the disparate impacts to the various California counties we are compelled to oppose this initiative.

The California Assessors' Association advises a no vote on The California Schools and Local Communities Funding Act of 2020 (initiative No. 19-0008-Amendment 1) on the November 3, 2020 ballot.

Sincerely,

A handwritten signature in blue ink, appearing to read "Don H. Gaekle".

Don H. Gaekle, President
California Assessors' Association

Attachments:

Policy Briefing Paper on Split Roll Initiative (CAA)
Split Roll Implementation – Estimated Costs to County Assessors (Capitol Matrix Consulting)

CALIFORNIA ASSESSORS' ASSOCIATION
Policy Briefing Paper on Split Roll Initiative
 (Initiative No.19-0008-Amendment 1)

Objective

The purpose of this paper is to inform policy makers, community leaders, and the public of the significant administrative and budgetary implications of "The California Schools and Local Communities Funding Act of 2020 (Initiative).¹

The analysis is not intended to justify or refute the policy merits of a split assessment roll, but rather to analyze the potential impacts on personnel and infrastructure which a split roll would create for California County Assessors.

Executive Summary

Commonly referred to as a split roll, this initiative seeks to assess non-residential, commercial and industrial properties (excluding multi-family and agricultural land only) at market value no less than every three years for the purposes of increasing. If enacted, the assessed value of all commercial and industrial properties would increase from approximately \$1.3 trillion (2018-19) to \$2.5 trillion in 2022. In addition, the initiative would create multiple layers of new administrative burdens for assessors, some for the purpose of delaying or mitigating the financial impacts of a split roll on the owners of small businesses. A detailed chart is attached describing the major components of the initiative in relationship to existing law.

As county assessors are responsible for the administration of the assessment roll, the initiative similarly mandates assessors with the accurate and equitable administration of the split roll.

For assessors to implement the initiative, a number of factors will be required, including adequate funding for additional and adequate staff, a reasonable preparation and implementation period, and careful attention to laws or regulations that may be enacted to clarify how a split roll could be administered.

Without an unprecedented increase in resources, including new technology, valuation accuracy and customer service levels for all taxpayers, principally homeowners, will decline dramatically.

The California Assessors' Association (CAA) commissioned a non-partisan and independent analysis by Capitol Matrix, which is available upon request. According to Capitol Matrix's analysis, the estimated cost to implement the initiative over the course of the proposed three-year phase-in, is just over \$1 billion statewide (\$360 million a year). Projected cost increases do not

Major Takeaways

- ✓ *Assessors cannot add \$1.2 Trillion in assessed value by 2022*
- ✓ *The cost to implement is projected at \$1.01 billion during the 3-year phase in*
- ✓ *Initiative will trigger negative roll growth in small and rural counties*

¹ Initiative No.19-0008-Amendment 1, pending Secretary of State approval

include the commensurate increase in costs for County Controllers, Tax Collectors, Assessment Appeal Boards or County Counsels.

What are the Impacts of a Split Roll on the Administration of the Property Tax System?

Without sufficient resources—including substantial increases in appraisal staffing, training, and technology—implementation during the first five to ten years of a Split Roll system could have a devastating impact on the operations of California assessors and their ability to deliver quality customer service to taxpayers. A change in the law of such magnitude poses significant administrative problems for assessors and their local government partners in property tax administration, in addition to enormous start-up expenditures. There will also be additional compliance costs for taxpayers.

Statewide, based upon the “BOE 2016-17 Budget Workload Report”, there are 642,502 commercial and industrial properties that would require periodic reassessment. Currently, Santa Clara County reassesses approximately 2,000 commercial and industrial properties annually, for changes of ownership or new construction. Under a split roll, that number would increase an estimated 12-fold. It is expected that similar increases would result in all counties.

A split roll would also trigger significant downstream impacts for Tax Collectors, Clerks of the Assessment Appeals Board, and County Counsels. Homeowners would probably experience declines in service levels, as assessors reallocate staff resources to focus on new commercial valuation and assessment appeal responsibilities triggered by a split roll.

Projected Costs to Administer Split Roll

The California Assessors’ Association retained the services of Capitol Matrix Consulting to independently review the results of two comprehensive surveys of California assessors. The first survey exclusively focused on the cost to reassess all commercial and industrial property to market value. The second survey focused exclusively on the cost to administer new administrative requirements specific to the split roll. The counties that participated represented about three quarters of total commercial parcels and 83 percent of the commercial assessed value in California. The detailed surveys sought information on the costs of administering a property tax system requiring annual reassessment of commercial properties to market value.

Predicated upon the reassessment of one-third of all commercial properties annually, the Capitol Matrix’s analysis projects one-time costs of \$24 million, and ongoing annual increases of between \$356 million and \$446 million, which equates over a billion dollars in assessor only costs during the first three years. However, it is anticipated costs will be significantly higher due to the practical expectation that most commercial property owners will file assessment appeals requiring revaluation more than once every three years. In addition, the cost estimate does not account for an increase in staff salary expenses necessary to recruit and retain hundreds of new senior appraisers.

Projected costs do not include other costs which would be incurred by related agencies who will experience similar increases in workload. Capitol Matrix’s estimates apply only to county assessors. In Santa Clara County, it was estimated that the financial impact of a split roll on the County Finance Agency, County Counsel, and Clerk of the Assessment Appeals Board, would increase by 36 percent. The Santa Clara County Counsel, for example, stated that the County would need to add at least four trial attorneys, and two Assessment Appeals Board counsel lawyers and support staff dedicated to property tax assessment appeals.

In Santa Clara County, the Assessor, County Executive, Finance Director (Tax Collector, Controller, etc.), County Counsel and the Clerk of the AAB issued a detailed memo in 2019, outlining the dire impacts on county administration, concluding that the Board of Supervisors should oppose the split roll initiative.

Major Staff Challenges to Administering Split Roll Tax Increase

According to Capitol Matrix, hundreds of new positions would need to be created statewide to manage the increase in workload. Practical administrative challenges would make it all but impossible to annually reassess to market value the overwhelming number of commercial properties without significant and sustained investment in the county appraisal workforce. The most significant impact would be the enormous amount of new staffing and training necessary to develop an appraisal workforce that is proficient in property appraisal. Training new appraisers and auditors to assess complex commercial and business properties typically requires up to five years of on the job experience.

According to California Employment Occupational Department, the number of openings for appraisers is just 130 jobs per year, statewide. The number of new positions needed by county assessors would simply overwhelm the system. It would take many years for counties to fill these positions.

To properly defend assessed values created by the increase in assessment appeals, assessors would be competing against a large demand from the private sector appellants. For example, Calaveras County's attempt to recruit a single, advanced level appraiser capable of appraising complex income properties has resulted in no qualified candidates.

Assessment Appeals will increase dramatically

Capitol Matrix also stated in their first report, "Beyond the need for additional appraisal staff, counties would need to create new or expanded assessment appeals boards, along with staff to manage the significant increase in cases. The number and complexity of appeals submitted will likely result in a major backlog requiring multiple years to resolve."

Catch-22: Small and Rural Counties

Many assessors in small and rural California counties are predicting that a split roll will trigger, paradoxically, a potential net decline in assessed added value. They anticipate very few commercial properties will be subject to split roll valuation, negating the promised increase in property taxes. A survey of assessors representing small to mid-sized counties² indicate that less than 10 percent of the commercial properties will be subject to split roll re-assessment as most properties do not have a market value in excess of the \$3 million exclusion. For example, Plumas County has 2,000 commercial parcels, just 16 currently have assessed value in excess of \$2.5 million. Of those, three are subject to welfare exemptions, three are already valued annually and four are subject to annual Prop 8 review, as their assessed values remain below their inflation adjusted purchase price. Most of the remaining properties have transferred recently, or are otherwise close to their market values. Commercial properties that do exceed \$3 million are not anticipated to increase significantly beyond the \$3 million exclusion.

² Fifteen Counties from the Central and Sacramento Valleys, the foothills, Sierra Nevada Mountains, Warner Mountains and the North Coast participated. There are 30 counties with Assessed Values less than \$26 Billion in Assessed Value

In contrast, most of the businesses in small counties, such as farms and small independent businesses, have assessed values below the \$500,000 threshold necessary for the assessment of business property. Many of these businesses will be able to take advantage of opportunities in the split roll initiative to eliminate or reduce their property tax obligation on equipment and machinery. The Plumas Assessor estimates an assessment reduction in excess of \$90 million. Cumulatively, the loss in assessed value will exceed the gain from the split roll assessment of commercial properties. Eighty-seven percent of small counties reported that the value exemption on business equipment would not be offset by properties with market values in excess of \$3 million.

Property tax revenue is anticipated to decline in many small counties, without the means to recover costs to administer a split roll. Small counties project workload increases ranging from 20% to 50%. Reimbursements for increased administrative costs are predicated upon assessment roll growth.

County Supervisors in many small counties are not expected to fund the positions necessary to implement the split roll due to actual loss in property tax revenue. Counties would be reluctant to borrow money from the state for implementation without new revenue to repay the loans.

The Split Roll Initiative did not consider that the funding of additional property tax administrators would actually result in a net loss for many small counties.

Conclusion:

County assessors are essential to the successful implementation of a new split roll system in California. Success depends on the proper financial resources for assessors to complete their constitutionally mandated responsibilities, including but not limited to:

- Adequate funding for a significant increase in workload and staff. Analysis suggests a one-time cost of \$24 million and ongoing annual cost increases of between \$356 million and \$446 million.
- Adequate multi-year phase in period.
- Financial support for recruitment, hiring and training qualified appraisal staff and support professionals, including funds for competitive compensation for senior appraisers.
- Commensurate increase in training programs, including new resources to the Board of Equalization for certified training programs.
- Continuous and open dialogue with policymakers to expeditiously codify laws that provide assessors with tools to effectively implement a split roll.
- Robust access to market data for commercial and industrial properties.

	Proposition 13—current law (Passed June 1978)	California Schools and Local Communities Funding Act of 2020 Initiative 19-0008, amdt 1
Official Ballot Title per Attorney General	<ul style="list-style-type: none"> Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975-76 assessed valuation base for property tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires 2/3 vote of Legislature to enact any change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by 2/3 vote of qualified electors. 	<ul style="list-style-type: none"> Increases funding for public schools, community colleges, and local government services by changing tax assessment of commercial and industrial property.
Financial Impact (direct excerpt from Attorney General ballot summary)	Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately \$7 billion in 1978-79 fiscal year), reduction in annual state costs (approximately \$600 million in 1978-79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds.	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). Proponents have noted that the allocation is a statewide average which varies by county
<u>Property Category:</u> Vacant or Improved Residential and Multi Family (apt) with less than 25% C&I. Agricultural Real Property <u>(Excluding C&I structures)</u>	<ul style="list-style-type: none"> Reassessment to market value upon change in ownership/control and new construction Annual Reassessment of 2% or statewide California CPI whichever is lower Limits general property tax rate on assessed value to 1% 	<ul style="list-style-type: none"> No change No change No change
<u>Property Category:</u> Small Business Real Property Exclusion from Split Roll and remain protected by Proposition 13	<ul style="list-style-type: none"> Reassessment to market value upon change in ownership/control and new construction Annual Reassessment of 2% or statewide California Consumer Price Index whichever is lower Limits general property tax rate on assessed value to 1% 	<ul style="list-style-type: none"> Commercial and industrial property (improved and land) OR Improvements on excluded agricultural land such as processing facilities where none of the entity’s owners have a cumulative fair market value in excess of \$3 million adjusted every 2 years, starting in 2025, by a floating inflation factor to be set by elected board of equalization at county level and based upon average commercial and industrial market values in those counties Temporary deferral until 2025 of new assessment provisions for commercial and industrial real property where 50% or more of the occupied square footage is occupied by “small business” as defined below Land used for producing commercial agricultural commodities Residential property, vacant land zoned for residential use
<u>Property Category:</u> All other properties, primarily Commercial and Industrial (C&I) vacant or improved. C&I Structures and other improvements to commercial agricultural real property.	<ul style="list-style-type: none"> Reassessment to market value upon change in ownership/control and new construction Limits general property tax rate on assessed value to 1% 	<ul style="list-style-type: none"> Reassesses at least every three years to fair market value.
Assessment Methodology	<ul style="list-style-type: none"> Fair Market Value (fee simple) based upon property use 	<ul style="list-style-type: none"> Fair Market Value (fee simple) based upon property use

	Proposition 13—current law (Passed June 1978)	California Schools and Local Communities Funding Act of 2020 Initiative 19-0008, amdt 1
Small Business Exemption of fixtures, machinery and equipment (personal property). Generally, business property equipment is valued annually on original cost, property classification and type of business (and depreciated). Annual Application	<ul style="list-style-type: none"> • Upon County approval the assessor excludes business personal property assessed at \$10,000 or less. (Taxpayer not defined) 	<ul style="list-style-type: none"> • Exempts First \$500,000 of business personal property for a single taxpayer. Single taxpayers to be defined by the legislature as related entities, including but not limited to any subsidiaries, holding companies, or parent corporations. • Exempts all business personal property owned by a “small business” as defined*
Small Business Definition	N/A	<ul style="list-style-type: none"> • 50 or fewer annual full-time employees • The business is independently owned and operated such that the business ownership interests, management and operation are not subject to control, restriction, modification or limitation by an outside source, individual or another business.” • The business owns real property located in California.
Phase-In		<ul style="list-style-type: none"> • Reassessment of qualifying properties effective January 1, 2022, phased-in over two or more years by statute passed by the Legislature • Taxpayers afforded a “reasonable timeframe” to pay increased taxes as determined by the Legislature • Reassessment deferred until 2025 for commercial and industrial property occupied by small businesses
Assessment Appeals	<ul style="list-style-type: none"> • Disputes adjudicated by independent assessment appeals board (AAB) of property tax professionals appoint by County Supervisors • AAB must make decision generally within 2 years unless applicant extends deadline otherwise Applicant’s opinion of value enrolled • Burden of proof on non-residential property taxpayer in most circumstances • All AAB Valuation decisions are final and not subject to appeal to superior court 	<p>For properties subject to split roll, calls on legislature to:</p> <ul style="list-style-type: none"> • Develop a targeted, new process for hearing appeals • require taxpayer to provide evidence relevant to any appeal in the initial application to AAB • Increase burden of proof threshold • Create expedited process for hearing appeals • Eliminate mandatory enrollment of applicant’s opinion of value if not adjudicated within current deadlines (generally two year unless extended by taxpayer)
Effective Date	July 1, 1978	January 1, 2021
Implementation date	January 1, 1979	<ul style="list-style-type: none"> • January 1, 2022. then phased-in over two or more years TBD in consultation with Task Force, by the Legislature • After the initial reassessment properties shall be periodically reassessed no less frequently than every three years as determined by the Legislature. • Exemptions for business personal property effective January 1, 2024 • Taxpayers obligated to pay the taxes resulting from split roll and afforded an undefined “reasonable timeframe” to pay increased taxes as determined by the Legislature • Reassessment deferred until 2025 for commercial and industrial property occupied by “small businesses” as defined

Split Roll Implementation — Estimated Costs to County Assessors

May 2020

Prepared for:

**California Assessors' Association
Ad Hoc Committee on Split Roll**

Prepared by:

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About the Authors

The authors are partners with Capitol Matrix Consulting (CMC), a firm that provides consulting services on a wide range of economic, taxation, and state-and-local government budget issues. Together, they have over 80 years of combined experience in economic and public policy analysis.

Mike Genest founded Capitol Matrix Consulting (originally Genest Consulting) in 2010 after concluding a 32-year career in state government, which culminated as Director of the California Department of Finance (DOF) under Governor Arnold Schwarzenegger. Prior to his four-year stint as the Governor's chief fiscal policy advisor, Mr. Genest held top analytical and leadership positions in both the executive and legislative branches of government. These included Undersecretary of the Health and Human Services Agency, Staff Director of the Senate Republican Fiscal Office, Chief of Administration of the California Department of Corrections and Rehabilitation, and Director of the Social Services section of California's Legislative Analyst's Office.

Brad Williams joined Capitol Matrix Consulting in 2011, after having served in various positions in state government for 33 years. Mr. Williams served for over a decade as the chief economist for the Legislative Analyst's Office, where he was considered one of the state's top experts on the tax system, the California economy, and government revenues. He was recognized by the Wall Street Journal as the most accurate state economic forecaster in the 1990s, and has authored numerous studies related to taxation and the economic impacts of policy proposals. Immediately prior to joining CMC, Mr. Williams served as a consultant to the Assembly Appropriations Committee, where he advised leadership of the majority party on proposed legislation relating to taxation, local government, labor and banking.

Statewide Split Roll Costs to Assessors

Summary

This report presents our analysis and statewide cost estimates associated with the our previous analysis of of a survey conducted by the California Assessors Association and an update based on our review of their second survey. The previous analysis focused on the direct costs to perform appraisals, while this second analysis and survey focuses on the *administrative costs* of implementing the provisions of “The California Schools and Local Communities Funding Act of 2020” (“Initiative”). These costs - which are related to hiring, training, and setting up new systems to track properties and handle exemption requests - are *in addition* to those identified in the initial survey, which focused on the *direct* “front-line” expenditures for assessment and appeals. Our key findings are:

- Taking into account both (1) our updated estimate of assessment and appeals costs identified in the first survey, and (2) the administrative costs identified in the second survey, we estimate that combined costs to implement the Initiative would be \$1.2 billion over the first three fiscal years following voter approval. This consists of:
 - \$360 million *per year in ongoing costs* - representing a roughly 50-percent increase in the statewide combined annual budget totals for county assessor’s offices in California.
 - \$74 million in *one-time costs* for IT, training and other start up activities.
- As a point of comparison regarding annual costs, our firm had previously developed an in-depth estimate of costs to San Bernardino County of administering the split roll. Applying the San Bernardino result to all 58 counties would imply a cost increase of \$686 million in 2022-23 (and more if salary increases are included). All counties are unique; thus, extrapolation of one-county’s experience statewide may result in an over- or underestimate of statewide costs. Notwithstanding this limitation, the results from the in-depth San Bernardino County estimate *may* suggest that when a specific implementation plan is modeled and all overhead and salary-related considerations are accounted for, statewide costs could exceed those identified in our two surveys
- Numerous issues arose during our review and follow-up interviews regarding the second survey. These included challenges relating to hiring and training staff in a short period of time, tracking combined property holdings and employees across the state, and dealing with appeals and refunds.

Introduction

Capitol Matrix Consulting has been commissioned by the California Assessors Association (CAA) to develop an estimate of the statewide costs to county assessors of implementing the “split roll” as proposed by “The California Schools and Local Communities Funding Act of 2020” (Initiative 19-0008, Amendment 1).¹ The Act would amend Proposition 13 by creating a different basis for property taxation for certain commercial and industrial (C&I) properties.

Currently (under Proposition 13), real property (land and buildings) is assessed based on its market value (in most cases, the purchase price), as adjusted for inflation, limited to 2 percent per year. The property is reassessed at market value only when subsequently transferred², although additions to the property are assessed at the market value (i.e. construction).³ As a result, many have an assessed value many years out of date.

Proposal

The California Schools and Local Communities Funding Act of 2020 would require C&I properties, including vacant land, to be taxed based on their assessed “full cash value,” i.e., their market value. The measure exempts vacant land intended for residential or agricultural use and properties assessed at a market value of less than \$3,000,000. However the exemption would not apply to properties in any specific county if the owner’s total C&I properties statewide were valued at greater than \$3,000,000⁴. The measure also delays the taxation of the portion of a C&I property occupied by certain small businesses until 2025-26, and it provides an exemption for personal property (e.g. machinery,

Phase-In Language

Section 2.5 of Article XIII A of the California Constitution (b):

(b) The Legislature shall establish a Task Force on Property Tax Administration immediately after this section is enacted...after conferring with the Task Force, shall provide by statute for the phase-in of the reassessment of commercial and industrial real property...Any such phase-in shall provide for reassessment of a percentage of all commercial and industrial real properties within each county commencing with the lien date for the 2022-23 fiscal year and extending over two or more lien dates each fiscal year thereafter, in order to ensure a reasonable workload and implementation period for county assessors, including provision for processing and timing of assessment appeals... After the initial reassessment...such commercial and industrial real property shall be periodically reassessed no less frequently than every three years as determined by the Legislature.

¹ The proponents have already qualified an earlier version of this proposal for the November 2020 ballot. The version currently qualified for the ballot was drafted in 2017 and it includes implementation deadlines that are no longer feasible. While we have had no direct communication with the proponents, it is generally understood that they will qualify the alternative version and withdraw the version currently qualified. Given this understanding, the committee has asked us to analyze the updated, but not yet qualified version of the proposal.

² For purposes of reassessment, a transfer may include a sale, but may also include a gift, inheritance or other conveyance of ownership, with or without compensation.

³ The California Revenue and Tax Code contains a special look-through rule: If the ownership interest in a legal entity that owns California real estate is transferred, the transfer of the business interest is treated as a change in ownership of the property if (1) there is a change in control of the entity (more than 50 percent of the voting stock of a corporation or more than 50 percent of the ownership interest of a partnership or LLC); or (2) When more than 50 percent of the interests of the original business owners (measured cumulatively) are transferred.

⁴ There is currently no statewide data base that assessors could use to determine the assessed value of properties in counties other than their own. As noted below, some assessors assume that a statewide data base consisting of data provided by each of the 58 county assessors will be developed as a resource for them to access in determining whether an owner is qualified for this exemption. However, the measure contains no requirement for the state to create such a data base.

Statewide Split Roll Costs to Assessors

computers, other equipment) for these small businesses. Other qualifying business entities would receive an exemption for first \$500,000 of qualifying personal property aggregated statewide.

The measure directs the Legislature to confer with county assessors, then provide for the phase-in of the reassessment of C&I property that starts with the lien date of January 1, 2022 for the fiscal year 2022-23 and extends over two more fiscal years, after which each property affected would be reassessed no less frequently than every three years (see the nearby text box for the specific phase-in language).

We note that the measure provides that some of the additional property tax revenues would be used to reimburse counties for their costs to implement it. Thus, some or all of the county costs identified below might be offset by revenues, although the exact amount of any offset will depend on cost-reimbursement regulations not yet drafted. It will therefore be important for the counties to work with the state on the development of such regulations.

CMC Estimate of Assessment and Appeals Costs for a Generic Split Roll Proposal

Capitol Matrix Consulting was commissioned by the CAA to review the results of a survey of its members conducted in 2015 (when the concept of a split roll initiative was under active consideration by the proponents). The survey sought information on the budget costs of administering a property tax system requiring annual reassessment of commercial and industrial (C&I) properties at market value (a “split roll” system), with no phase-in. We estimated that county assessors’ would face one-time costs of \$24 million and ongoing annual cost increases of between \$356 million and \$446 million in the first 5 to 10 years following implementation of market-based annual reassessments of all C&I properties.

We were also asked to evaluate the fiscal impacts of the previous version of the current initiative - submitted in January 2018 - which permitted the Legislature to authorize a phase-in of a split roll system, and required reassessment of each property no less than every three years thereafter. We indicated that, relative to our estimates for a split roll requiring annual reassessment, the 2018 initiative could be somewhat less expensive to administer; however we did not believe its provisions allowing for a phase-in and multiple year assessment cycle would translate into a proportionate cost reduction for several reasons.

We noted, for example, that the Legislature would be under enormous pressure to maximize revenues by, for example, requiring initial appraisals to focus on long-held, high-value properties for which reassessment would yield the largest revenue increases. These businesses would require the most complex and time-consuming appraisals. Once receiving the reassessment, these same businesses would also have the largest incentive to appeal, and the appeals would likely be lengthy and complex. The result would be a buildup of a major appeals backlog that would require considerable time and staffing to resolve. In addition, businesses will seek annual re-appraisals during periods in which the economy is declining. Given these factors, assessors would likely be required to appraise far more than one-third of the C&I properties each year.

We concluded that, under the best of circumstances, we would expect county assessors’ annual administrative costs under the 2018 version of the current initiative to be in the low hundreds of millions of dollars per year for an extended period following implementation of the program. Taking into account growth in county wages, benefits, and pension costs since 2018, we believe ongoing assessment and appeals costs resulting from the 2018 measure would be over \$300 million per year in today’s dollars.

2020 Survey

The 2020 Survey is designed to measure administrative costs in The California Schools and Local Communities Funding Act of 2020 that were not explicitly covered in the first survey. The 2020 survey specifically addresses costs in four areas:

Statewide Split Roll Costs to Assessors

- **C&I property identification.** This includes costs associated with updating systems to improve identification of commercial and industrial properties. Specific examples include updating existing systems to identify and track mixed-use properties and agricultural properties (which are exempt from reassessment). This category also includes costs for additional staff to manage appeals related to property classifications.
- **Exclusions, exemptions, and deferrals.** This includes costs associated with processing, verifying, and tracking property holdings, and handling appeals associated with the less-than \$3 million exemption claims, and the deferral of reassessment for properties with small business occupants.
- **Business personal property.** This includes costs associated with processing and auditing the business personal property exemption for small businesses, and exempting the first \$500,000 for others that qualify.
- **Other administration.** This includes costs for public service personnel to respond to taxpayer inquiries; human resources for activities related to hiring and retaining split roll appraisers and associated staff; additional office space; information technology upgrades and software programs; and county counsel/city attorney support of assessor's appeals caseloads and compliance with new legislation.

Twenty counties responded fully or partially to the second survey. The responding counties represent about three quarters of total C&I *parcels* and 83 percent of the C&I *assessed value* in California.⁵ We received responses from four counties in the Bay Area; five counties in Southern California (including coastal counties and the inland empire); three counties in the Central Coast; eight counties in the Central Valley; and one northern California rural county. Aside from geographic variation, the sample included rural and urban counties and counties with a variety of types of C&I properties, in terms of size and complexity.

Most of the counties provided responses to all of the survey's categories. However, a few provided us with combined data for the full cost of implementing the split roll, without the breakout needed to distinguish between appraisal and appeal costs (covered in the first survey) and administrative costs (covered in the second survey). These responses were helpful in terms of identifying overall county costs (discussed below). However, we were not able to use them for the purpose of developing specific estimates of administrative costs that are separate from the assessment- and appeals-related costs identified in the first survey.

Our Process. For the remaining counties, we compiled the responses into summary tables which showed, for each county, total costs in each of the four categories noted above. To facilitate meaningful comparisons between varying sized counties, we converted the data to a per C&I-parcel basis. We then developed summary data, including the mean and median responses, along with estimates of variation around the central responses. We then conducted follow-up interviews with about two-thirds of the respondents, focusing on the assumptions and methodologies used to arrive at the estimates, and on areas where a particular county's response was significantly higher or lower than average (on a per-parcel basis).

During our review and interview process, we encountered several anomalies that required revisions to the initial survey responses. One of the main issues was a misunderstanding about what should be included in the C&I property identification category. Several counties included appraiser costs in this category that should have been attributed to the first survey. After adjusting for these and related issues, we arrived at estimates of administrative costs that were non-duplicative with those identified in the first survey. After summing up the revised responses from the surveyed counties, we expanded our results to cover the counties not included in the survey to arrive at a statewide total. The expansion factor was the average of

⁵ Responding counties include Alameda, Los Angeles, Madera, Modoc, Monterey, Orange, Placer, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Luis Obispo, Santa Clara, Stanislaus, Tehama, Ventura, Yolo, and Yuba.

Statewide Spilt Roll Costs to Assessors

the percentage of statewide C&I *parcels* and the the percentage of C&I *assessed valuation* in the excluded counties.

Figure 1
One-time Costs by Categories Covered in Second Survey
 (\$ Millions)

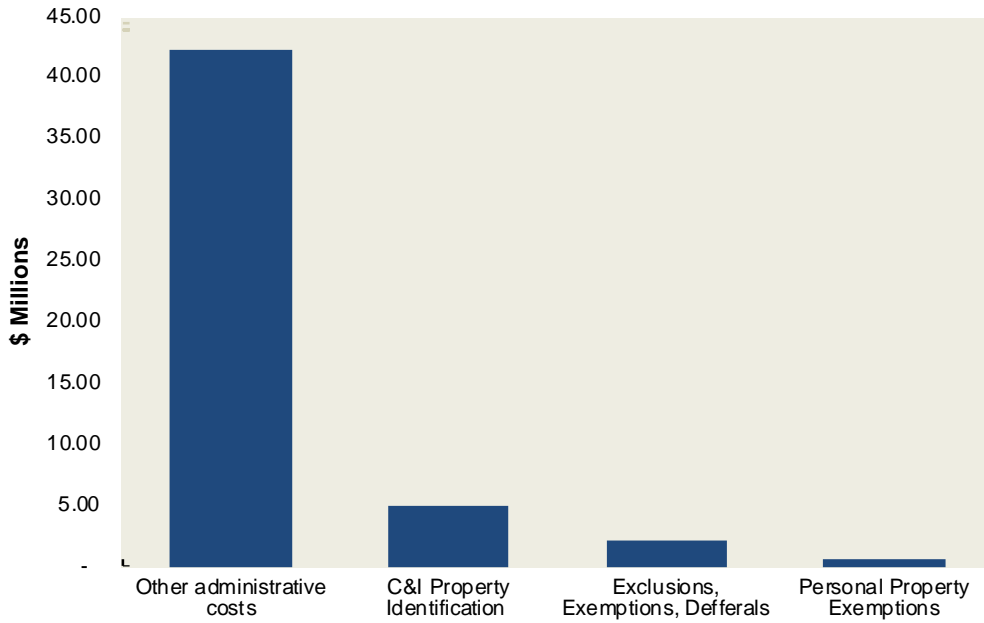
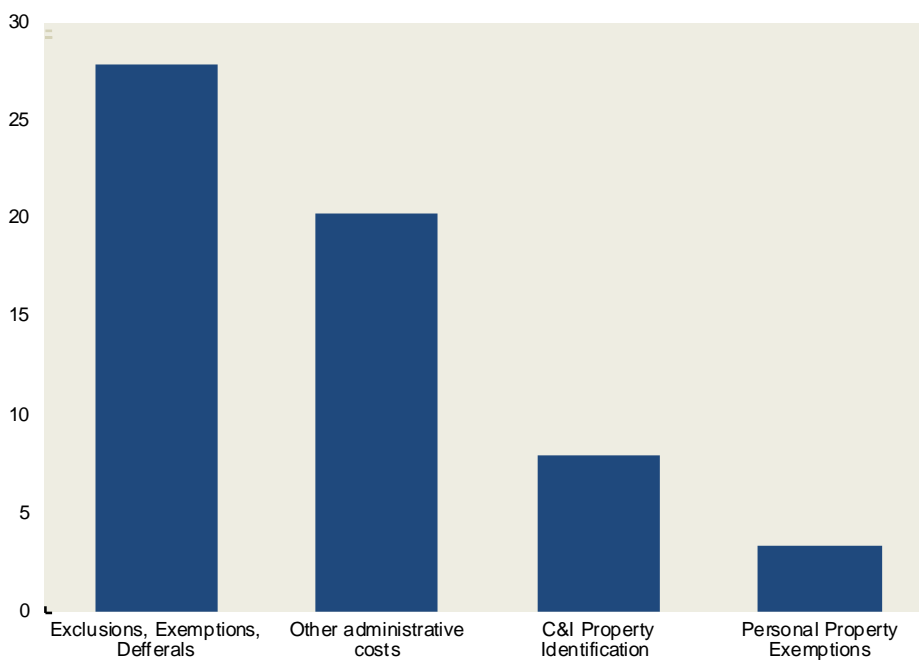


Figure 2
Ongoing Costs by Categories Covered in Second Survey
 (\$ Million)



Statewide Split Roll Costs to Assessors

Results. We estimate that the California Schools and Local Communities Funding Act of 2020 would result in \$50 million in one-time and \$60 million in ongoing costs statewide in the four cost areas identified in the second survey. Figure 1 shows that most of the one-time costs are related to “other administration,” mainly for IT systems enhancements. Figure 2 indicates that nearly one-half of the ongoing costs are related to addressing exclusions, exemptions, and deferrals included in the initiative, with smaller amounts for “other administration” (mostly IT costs), C&I property identification, and administering the business/personal property provisions.

Combined Costs To County Assessors

As noted above, our estimate (based on the first survey) of ongoing assessment and appeals costs for implementing the current initiative would be at least \$300 million per year. We also noted one-time costs of \$24 million. When combined with the results of the second survey, the full costs to county assessor’s offices of implementing the California Schools and Local Communities Funding Act of 2020 would be one-time costs of \$74 million and ongoing costs of at least \$360 million annually. The ongoing amount implies annual budget increases between just-under 50 percent for county assessors’ offices. They do not include significant costs for other county agencies, including auditors, controllers, and county counsel.

Figure 3

Combined County Assessor Costs For Administering “The California Schools and Local Communities Funding Act of 2020

Type of Cost	Annual Amount
One Time	\$74 Million
Ongoing	\$360 Million

Our combined survey-based results are similar to the results we received from the counties that provided combined costs in the second survey for assessment, appeals, and administration. They are also consistent with public data showing estimated impacts of the split roll on assessor budgets for a few of the larger California counties. They are, however, lower than the more detailed estimates we developed for San Bernardino County, discussed below.

Comparative Estimate - San Bernardino Projections

Because the estimate we prepared for the CAA relies on surveys of several counties, we could not review the detailed estimates prepared internally by many counties. It is therefore helpful to compare it with a detailed estimate that we conducted for the San Bernardino Assessor Recorder Clerk’s Office (ARC). The ARC estimate was based on a workload and cost methodology developed in conjunction with ARC staff. It assumed an even, three-year phase-in and modeled a specific set of implementation details that ARC projected would be needed to fully implement the initiative in San Bernardino County. Specifically, the methodology consisted of the following:

- ARC staff divided the county’s C&I properties subject to reassessment into 3 categories, reflecting the complexity of assessment.
- For each of these categories, ARC management surveyed staff to develop workload standards in terms of the amount of appraiser, clerical and first-line supervisor time needed to complete each appraisal, in each category. The estimate also assumes a 25-percent increase in efficiency over the three-year phase-in provided in the initiative.

Statewide Split Roll Costs to Assessors

- The resulting hours per C&I property allowed us to compute the total numbers of additional first-line staff needed each year, and the costs of the salaries and benefits for the additional staff.
- The overhead costs for these additional staff was based on the ARC's annual overhead study, adjusted to account for fixed versus variable costs.
- Special items of expense not accounted for in the overhead study were then added based on input from ARC budget staff.
- Finally, ARC advised that its appraiser pay scale is substantially below what surrounding counties pay. Given the need that the initiative would create for additional appraisers statewide and the expected competition for trained appraisers to work in the private sector, ARC estimated that it would have to provide a 20-percent pay raise to existing and new appraiser staff, which the estimate accounts for separately. While many assessors we interviewed agreed that some salary adjustment might well be necessary to recruit so many new appraisers in such a tight market, none actually included such costs in their responses to either survey.

Figure 4 displays our estimate of the cost to the ARC to implement the 2020 version of a split roll. It shows that, with the proposed salary increase, the ARC budget would more than double by 2022-23 and without it, the budget would still increase by 94 percent that same year.

	2020-21	2021-22	2022-23	2023-24
San Bernardino costs in millions	\$1	\$21	\$26	\$25
Percent increase - with salary increase	3%	89%	104%	96%
Percent increase - without salary increase	3%	80%	94%	87%
Implied statewide costs - with salary increase	\$21.9	\$649.7	\$759.2	\$700.8
Implied statewide costs - without salary increase	\$21.9	\$584.0	\$686.2	\$635.1

Figure 4

San Bernardino County ARC Costs To Implement Split Roll

We estimate that the combined annual budgets of all 58 California county assessors is approximately \$730 million per year. Applying the percentage budget increases for San Bernardino to this total yields a range of the estimated statewide assessors' costs to implement a split roll from \$686 million (without a salary increase) to \$760 million in 2022-23 (with salary increases).

Caveats to the Estimates

The estimate based on the CAA survey encompasses a wide range of counties, large and small, urban and rural, north and south, coastal and inland. However, it lacks a specific implementation plan and does not include the budgeting and administrative detail available to us in estimating the ARC costs in San Bernardino. On the other hand, the estimate based on our San Bernardino study, while detailed and comprehensive, relies on data and assumptions for a single county. Each estimate is thus subject to potential error. However, they are close enough in magnitude to suggest with some confidence that the costs statewide should fall somewhere in the range of \$430 million to \$760 million per year during the first three years of implementation, probably declining somewhat thereafter. However, we also note the following caveats to this estimate:

Statewide Split Roll Costs to Assessors

Overhead. The estimate based on the CAA survey did not systematically account for overhead costs. Some of the counties surveyed identified some specific costs such as IT and work space, while some did not and when queried, acknowledged that as an oversight. None of the counties surveyed explicitly addressed costs such as additional management and support (e.g., personnel, accounting, training, etc.). These oversights may be enough to explain much of the difference between the two estimates.

No- and Low-Cost Outliers. One of the counties surveyed identified costs near the average, but asserted that it could implement split roll at little or no additional costs by resorting to computer-assisted appraisals that would not be property specific. The assessors we surveyed all agreed, however, that the use of mass appraisals would result in under-valuing properties and would probably violate California's Constitution. The associated property tax revenue losses could easily be much larger than any assessment cost-savings. Moreover, some owners would still appeal such assessments and developing a defensible, specific appraisal for the appeals process could result in net higher costs in the long run.

One of the counties we surveyed was a medium-sized county with a unique history during the 2008 recession, in which it performed Proposition 8 reappraisals on virtually all of its C&I properties. From that time, the county has automated annual collection of detailed information from all of its C&I properties, sufficient in the assessor's view to perform a valid, detailed assessment for every C&I property in the county without the need to hire any additional appraisers. This one county was unique and can not be used as a model for the rest of the state.

County Variability. Each county is unique. We found substantial variations among the counties we surveyed with regard to the degree of automation and the mix of types of C&I properties. In addition, geography differences could drive implementation cost differences, such as longer distances between offices and the properties to be assessed⁶.

Another important difference could be the ability of county governments to fund the costs of reassessments in advance. While the initiative allows counties to recoup their costs of assessments from the additional property tax revenues they collect, this requires counties to provide funding up front. While many counties would see a positive return from up-front funding in the form of higher property tax revenues, some may not, or may not have the ability to finance the first few years even if they expect up-front funding to yield a net gain at some point in the future. We also note that the measure's methodology for funding property tax administrators, such as assessors, is predicated upon the initiative generating a net revenue increase in revenue. As noted below, several small and rural counties have reported that the initiatives' exemption for businesses' personal property will result in a net negative change in assessed value and therefore these counties may not see any benefit in advance funding their assessors.

Outstanding Issues

Non-property Specific Appraisals and Refunds. Our interviews found a range of opinions regarding the degree to which assessors would, at least initially, rely on non-property specific appraisal techniques. While reliance on such appraisals would drive costs down initially, it could result in higher costs over time due to the need to bring individualized appraisals to appeals boards. Counties resorting to these could have unfunded liabilities against future property tax revenues, especially if appeals become backlogged over multiple years. The measure provides no mechanism for setting aside revenues to cover refunds. We recommend that the state develop a mechanism for handling refunds.

Impact of Business Personal Property Exemption. Some smaller counties reported that the revenue loss from \$500,000 exemption for personal property would be larger than the revenue gain from the reassessment of real property to market value for certain C&I parcels. The measure provides a mechanism to reimburse the state General Fund for reduced personal income tax revenues resulting from

⁶ We note, for example, that San Bernardino is geographically the largest county in the US.

Statewide Spilt Roll Costs to Assessors

businesses writing off the higher property tax costs that would, in most cases, result from reassessments. We recommend that CAA work with the state to develop a similar offset, using state General Fund revenues, to cover any net loss of property tax revenues in smaller counties due to the personal property exemptions.

Cost Reimbursement. As noted above, the measure allows counties to withhold some portion of any net additional revenues resulting from the measure to cover their costs of implementation. These costs would include the county assessor costs estimated in this analysis and also costs to other elements of county government, not included in our estimate (e.g., county counsel, appeals boards, auditor and treasurers, etc.). Clearly, other jurisdictions inside each county and the state will have a vested interest in minimizing the amount of additional property tax revenues that go to cover county implementation costs⁷. We therefore recommend that CAA work with the County Supervisors Association of California (CSAC) and the state to ensure that any guidelines for reimbursement of county implementation costs are comprehensive, accurate and fair.

⁷ Increasing property tax revenues reduces the state's share of the costs of K-14 schools. Cities and special districts also receive a share of property tax revenues collected in their counties.