



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 20-757

Board Meeting Date: 10/6/2020

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Manager
Connie Juarez-Diroll, Legislative Officer

Subject: Resolution in Support of Proposition 15 (2020)

RECOMMENDATION:

Adopt a resolution in support of Proposition 15, a Statewide Ballot Initiative, "The California Schools and Local Communities First Act."

BACKGROUND:

Proposition 15 would establish a process by which most commercial and industrial properties are taxed at their fair market value beginning in 2022-23. Because the measure sets a process for assessing commercial and industrial properties that is different from that of residential properties, this measure is also known as the "split roll" measure, referring to the two separate processes for the property tax roll. According to the fiscal analysis prepared by the Legislative Analyst's Office, Proposition 15 is expected to generate between \$8 and \$12.5 billion in new property tax revenues annually per year statewide.

Increased tax revenues within San Mateo County would be allocated to the County, cities, and special districts, generally in the manner in which they are allocated under current law, after county administration costs are paid for and after the state General Fund is reimbursed for any losses associated with larger corporate and personal income tax deductions. In other words, the County, cities, and special districts would receive their pro-rata share of the increased taxes resulting from Proposition 15. Unlike the proportionate share of the increased taxes received by the County, cities and special districts, Proposition 15 provides that the aggregate pro-rata shares of increased tax revenues attributable to school districts within the County will be deposited in a statewide fund and distributed by the State pursuant to a modified pro-rata formula.

Article XIII of the California Constitution, originally enacted by Proposition 13 (1978), does not distinguish commercial and industrial real property from residential and agricultural real property.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. In most years, the market value of properties grows faster than 2 percent a year; as a result, under Proposition 13, the taxable value of most properties is less than their market value.

Property tax revenues are allocated to counties, cities, and special districts and are constitutionally protected as a local revenue source by Proposition 1A (2004). In San Mateo County, about 54 percent of property tax revenues is distributed to counties (26 percent), cities (17 percent), and special districts (11 percent) with 44 percent allocated to K-12 schools and community colleges and approximately 2% distributed to former redevelopment agencies*.

DISCUSSION:

If passed, Proposition 15 would tax most commercial and industrial real property, including some vacant land (not intended for housing, commercial agriculture, or protected open space), 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 would be adjusted for inflation every two years by the State Board of Equalization (BOE) beginning in 2025. The BOE would be tasked with calculating the inflation adjustment on a county by county basis, taking into consideration the average market values of each.

The first \$500,000 of a business's personal property (e.g., machinery, computers, and office equipment) would be exempt from taxation, and businesses with fewer than 50 employees would 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 would be instructed to make recommendations to the Legislature on certain aspects of implementation 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 would 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 would require 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 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."

It should also be noted that of the remaining funds (once the state's and county costs are covered), the schools' share of the new revenues would be sent to the state and allocated pro-rata based on the Local Control Funding Formula, generally, with downward adjustments to the pro-rata shares of basic aid school districts. In light of the number of basic aid school districts in San Mateo County, it is anticipated that some portion of the additional revenues generated in San Mateo County by Proposition 15 would be used to fund education costs in other parts of the state. Currently, all property tax revenues generated in San Mateo County remain in the county. Non-education local entities (i.e., counties, cities and special districts), however, would continue to receive their pro rata share of the new revenue in the same proportion that they currently receive property tax revenues.

Proposition 15 also directs the Legislature to work with counties to develop the process for hearing appeals resulting from the required reassessments. The measure outlines several requirements for this process. 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. Proposition 15 would eliminate the automatic acceptance of an applicant's opinion of values for properties that are reassessed as a result of the split roll. 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.

Proposition 15 is supported by the following: Senator Kamal Harris, Governor Gavin Newsom, Assembly Member Kevin Mullin, Contra Costa Board of Supervisors, Santa Clara Board of Supervisors, San Francisco Board of Supervisors, the California Democratic Party, the California Federation of Teachers, Chan Zuckerberg Advocacy, and a long list of education interests. Proposition 15 is opposed by the following: Stop Higher Property Taxes and Save Proposition 13, also known as No on Proposition 15 is leading the campaign to the ballot initiative, the California Assessor's Association (CAA), the Howard Jarvis Taxpayers Association, the California Chamber of Commerce, the California Business Roundtable, and a long list of business interests. The California State Association of Counties (CSAC) opted to take no position on the measure.

Supervisor Pine has requested that the Board support this measure.

The California Assessors' Association (CAA) has indicated that they anticipate costs of slightly more than \$1 billion over the first three years of implementation. Following preparation of this memo, the County Manager's Office received an analysis from the San Mateo County Assessor, County Clerk-Recorder & Chief Elections regarding potential impacts of Proposition 15 on the County Assessor's staffing, workloads, and technology. That analysis is attached to this memo.

Passage of Proposition 15 will result in additional work for the County's Controller's Office, specifically research needed to implement the new law and an updating of the office's property tax system and processes. The Controller's Office estimates that it will need one additional FTE (perhaps as many as 2 FTEs) to perform the annual additional ongoing work required

Proposition 15 is consistent with the County's general policy of supporting additional revenues to fund county programs and services. However, there are several implementation challenges that

must be considered including, 1) the CAA's estimated costs for initial implementation and the need for counties to secure loan funding from the state (to be repaid with the new revenues) during the first three years of implementation until revenues are collected, and 2) increased workload for assessors, auditor-controllers, tax collectors, assessment appeals boards, county counsels, and other county staff.

County Counsel has reviewed and approved the resolution as to form.

FISCAL IMPACT:

As previously stated, the Legislative Analyst's Office has estimated that upon full implementation, Proposition 15 would generate between \$8 and \$12.5 billion in new property tax revenues per year statewide. While the County has not commissioned an analysis of the new revenue gains from passage of Prop. 15, a February 2020 study published by the University of Southern California's, Dornsife, Program for Environmental and Regional Equity determined that an additional \$11.4 billion, or between \$10.3 and \$12.6 billion in property tax revenues would be available in 2021-22.**

Furthermore, while every county would gain additional revenue, the counties that would see the greatest gains include: 1) Los Angeles (\$3.4 billion), 2) Santa Clara (\$1.2 billion), 3) Orange (\$1.0 billion), 4) San Mateo (\$770 million), 5) San Francisco (\$733 million), 6) Alameda (\$652 million), and 7) San Diego (\$631 million). More notably, when looking at per capita revenue gains by county, the study ranked San Mateo County at the top of the list with an estimated gain of \$1,008 per resident. San Francisco followed with an estimated \$848 per resident and Santa Clara with \$636 per resident. Finally, the study determined that approximately 6 percent of properties would account for 78 percent of revenue gains (i.e., those properties estimated to have a market value in 2021-22 of greater than \$5 million).

At a time of decreased economic growth due to the coronavirus global pandemic and increased need by county residents for ongoing and expanded supportive services, the additional estimated revenues to the county would be welcome. However, an exact estimate of anticipated revenues is not known.

* San Mateo County Controller's Office, *Fiscal Year 2018-19 Property Tax Highlights* at 9.

** https://dornsife.usc.edu/assets/sites/242/docs/Updated_2019_Rev_Est_memo_Design_v5.pdf