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OFFICE OF THE CITY CLERK
OAKLAND

14 FEB 13 PM 3:59

CITY OF OAKLAND



ONE FRANK OGAWA PLAZA • 2ND FLOOR • OAKLAND, CALIFORNIA 94612

Councilmember Kalb	(510) 238-7001
Councilmember Kaplan	(510) 238-7008
Councilmember McElhaney	(510) 238-7003
Councilmember Schaaf	(510) 238-7004

Re: RESOLUTION TO ENCOURAGE THE CALIFORNIA STATE ASSEMBLY AND SENATE TO PLACE ON THE 2016 BALLOT A PROPOSITION THAT WOULD REFORM PROPOSITION 13 BY SPLITTING THE TAX ROLL BETWEEN RESIDENTIAL AND COMMERCIAL PROPERTIES

Dear Members of the City Council:

Proposition 13 (officially named the **People's Initiative to Limit Property Taxation**) was an amendment of the California Constitution that was approved by California voters on June 6, 1978.

The proposition decreased property taxes by assessing property values at their 1975 value and restricted annual increases of assessed value of real property to an inflation factor, not to exceed 2% per year. It also prohibited reassessment of a new base year value except for in cases of (a) change in ownership, or (b) completion of new construction.

In addition to decreasing property taxes, the initiative also contained language requiring a two-thirds majority in both legislative houses for future increases of any state tax rates or amounts of revenue collected, including income tax rates. It also requires a two-thirds vote majority in local elections for local governments wishing to increase special taxes.

An unintended effect of Proposition 13 is the shifting of the tax burden away from business /commercial properties and onto residential property. Data shows that in virtually every county in the state, the share of the property tax borne by residential property has increased since the passage of Proposition 13 in 1978, while the share of the property tax borne by non-residential property has decreased.

Specifically in Alameda County the balance of property tax shifted from 45% non-residential and 55% residential in 1973-1973 to 26% non-residential and 74% residential in 2009-2010.¹

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In addition to the basic problems underlying Proposition 13, corporations have utilized a loophole in the legislation's definition of "ownership" and "change of ownership." Current law states that a "change of ownership" does not occur unless one owner acquires more than 50% of a property. Currently, with many commercial property sales, the sale can legally occur where no party purchasing the property will own more than 50% of the property, such that no reassessment is triggered by the County Assessor.

A local example would be the CVS takeover of Longs. In Alameda County, at least five Long's Drug Store Properties in 2010 had not been reassessed as a result of the 2008 buyout and were at very early base year values, according to the Alameda County Assessor's Office. All five properties are owned by Longs Drug Stores Inc., according to Dataquick. A location at 699 Lewelling Blvd. in San Leandro has a 1984 base year value and is taxed at \$0.22/sq. ft. of land. A Long's Drug property at 3320 Fruitvale Ave. in Oakland had a 1975 base year value and is assessed at \$0.11/sq. ft. of land in 2010, and another property at 2314 Santa Clara Ave. in Alameda has a 1984 base year value and is taxed at \$0.33/sq. ft. of land."

A split roll would redefining "change in ownership," narrowing a loophole which currently allows commercial property owners to pay less property tax than would be paid if such properties were reassessed to their fair market value. The result would be increased property tax revenue for schools and public services in the City of Oakland, as well as State of California and County of Alameda from future reassessed commercial properties.

We recommend that the council support the attached resolution encouraging the State Assembly and Senate to place on the 2016 ballot a proposition that would reform Proposition 13 by splitting the tax roll between residential and commercial properties, as well as supporting any legislation that would address the definition of ownership that is currently being used as a loophole by corporate commercial property owners to avoid reassessment of property values.

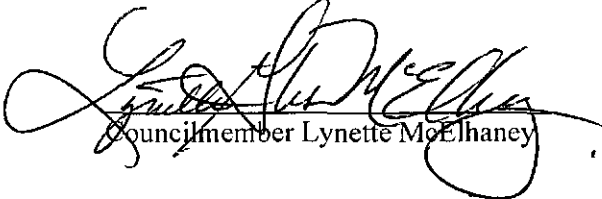
Respectfully submitted,



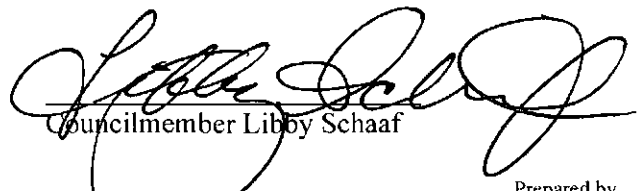
Councilmember Dan Kalb



Councilmember Rebecca Kaplan



Councilmember Lynette McElhaney

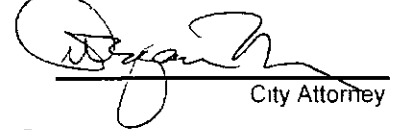


Councilmember Libby Schaaf

Prepared by
Bruce Stoffmacher Policy Analyst – Councilmember Schaaf
Ada Chan Policy Analyst – Councilmember Kaplan

¹ California Tax Reform Association (CTRA), *System Failure California's Loophole- Hidden Commercial Property Tax May 2010* pg 13

¹¹ California Tax Reform Association (CTRA), *System Failure California's Loophole- Hidden Commercial Property Tax May 2010* pg 89


City Attorney

14 FEB 13 PM 3:59 RESOLUTION No. _____ C.M.S.

Introduced by Councilmembers Schaaf, Kalb, Kaplan, Mc Elhaney

**RESOLUTION TO ENCOURAGE THE CALIFORNIA STATE ASSEMBLY
AND SENATE TO PLACE ON THE 2016 BALLOT A PROPOSITION THAT
WOULD REFORM PROPOSITION 13 BY SPLITTING THE TAX ROLL
BETWEEN RESIDENTIAL AND COMMERCIAL PROPERTIES**

WHEREAS, Proposition 13, passed in 1978, capped property taxes for California residents and commercial property owners; and

WHEREAS, while Proposition 13 shifted the overall property tax burden towards residential property and away from businesses; and

WHEREAS, the state of California continues to face chronic budget crises in large part because Proposition 13 has forced the state to rely on revenue sources that are more volatile than the property tax, such as income taxes and sales taxes paid by working families, which rise and fall with economic cycles, causing deficits and requiring cuts to vital services that grow our economy, and thereby worsening economic downturns; and

WHEREAS, the budget crises in California have been particularly detrimental for education funding, including negatively impacting the Oakland Unified School District and public institutions through the state; and

WHEREAS, regularly reassessing nonresidential property would, according to an analysis of data provided by the California Board of Equalization, generate at least \$6 billion in additional revenue for California; and

WHEREAS, regularly reassessing nonresidential property would shift the tax burden from homeowners, renters, and working families back to corporations and commercial landholders back to levels that existed before Proposition 13 was enacted; now, therefore, be it

RESOLVED: That the Oakland City Council supports commercial property tax reform that will require commercial properties to be reassessed at such times as when entities that are commercial property change ownership; and be it

FURTHER RESOLVED: That changes to the rules for the reassessment of commercial property would in no way whatsoever affect the methodology for reassessments of residential property; and be it

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FURTHER RESOLVED: That the Oakland City Council urges a change in state law that would allow a reassessment of commercial property tax after cumulative changes in ownership, regardless of how many parties are involved or whether a single party acquires more than 50% of ownership interest, which would change the current rules under which commercial properties avoid reassessment; and be it therefore

FURTHER RESOLVED: That the Oakland City Council requests that state elected officials put a Constitutional Amendment on the California ballot to reassess commercial property periodically.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF and PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

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