CITY OF OAKLAND

AGENDA REPORT

To: The Honorable City Council

FROM: Mayor Libby Schaaf
Council President Reid
Councilmember Guillen
Councilmember Kalb

SUBJECT:
Resolution In Support of the California Schools and Local Communities Funding Act of 2018

DATE: 3/1/18

RECOMMENDATION

That the City Council adopt a resolution

1) IN SUPPORT OF THE CALIFORNIA SCHOOLS AND LOCAL COMMUNITIES FUNDING ACT OF 2018 ("THE INITIATIVE") ON THE NOVEMBER 6, 2018 BALLOT, WHICH WILL AMEND THE STATE CONSTITUTION TO CLOSE A CORPORATE TAX LOOPHOLE BY REASSESSING COMMERCIAL AND INDUSTRIAL REAL PROPERTY ON A ONE TO THREE YEAR BASIS BASED ON FAIR MARKET VALUE; AND 2) ENCOURAGE OTHER JURISDICTIONS IN THE REGION TO TAKE SUPPORT POSITIONS ON THE INITIATIVE

EXECUTIVE SUMMARY

The League of Women Voters California, PICO California, California Calls, Advancement Project California and Evolve California have submitted a ballot initiative which has been approved by the CA Attorney General and released by the CA Secretary of State to gather qualifying signatures for certification for the November 6, 2018 ballot.

BACKGROUND / LEGISLATIVE HISTORY

Californians approved Proposition 13 in a referendum in June 1978, which marked a turning point away from public investment in education, infrastructure and social services. While it protected older Californians from steadily increasing residential property taxes, it also rolled back assessed property values to their estimated market value in 1975 and limited annual increases to no more than 2% as long as the property wasn't sold. It capped the property tax rate at 1% of the assessed value for city, county, school and other local governments, draining local revenue, and it mandated that any increase in state taxes would require a two-thirds vote in the Legislature and that any increase in designated or special purpose taxes would require two-thirds voter approval. Local property tax revenues quickly declined by about 60% after Prop. 13 took effect and California, which ranked in the top ten states in per pupil spending in the 1960s had dropped to ranking as 46 in per pupil spending by 2014. Concurrently, City revenue for local services also declined.

ANALYSIS AND POLICY ALTERNATIVES

Without touching residential property taxes, the initiative seeks to close the Corporate Property Tax Loophole in Proposition 13, while continuing to guarantee protections for homeowners, residential renters, agricultural land, and small businesses. The initiative will exempt businesses with 50 or fewer employees from the reassessment and businesses where the owner-operator operates a business on a majority of the real property, if the fair market value of that property is less than $2,000,000. See attached fact sheet, materials, and initiative language and https://schoolsandcommunitiesfirst.org/ for more information.

FISCAL IMPACT

Supporting the initiative has no fiscal impact for the City.

PUBLIC OUTREACH / INTEREST

Stakeholders in support of the measure have sought the Mayor's support. Organizations supporting this measure include:

League of Women Voters of California, PICO California, California Calls, Advancement Project California, Evolve California, Common Sense Kids Action, Alliance San Diego, the Coalition for Humane Immigrant Rights of California (CHIRLA) and the California Federation of Teachers, as well as over 200 other organizations.

COORDINATION

The Mayor's Office consulted with the City Administrator's Office, Council President Reid, and Councilmember Guillen in bringing forward this report.

SUSTAINABLE OPPORTUNITIES

Economic: If the initiative succeeds, the potential increase in revenue generated by closing this tax loophole is estimated to be $192 million annually in Alameda County, with $24.6 million estimated for the City of Oakland.

Environmental: There are no environmental impacts.

Social Equity: General increase in the City's revenue can be used to improve infrastructure and services and in particular to address disparities that may exist underserved parts of the City. Increased tax revenue to state and county will improve the social safety net and increase access to high quality education.

ACTION REQUESTED OF THE CITY COUNCIL

Adopt a resolution in support of The California Schools and Local Communities Act pf 2018 and encourage other jurisdictions in the region to take support positions on the initiative.

For questions regarding this report please contact Joanne Karchmer, Deputy Chief of Staff, at 510-238-7168.

Respectfully submitted,

Mayor Libby Schaaf

Prepared by:
Joanne Karchmer, Deputy Chief of Staff
Office of the Mayor

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2018 MAR -1 PM 5:57

Approved as to Form and Legality

DRAFT

Office of the City Attorney

OAKLAND CITY COUNCIL

Resolution No.______________C.M.S.

INTRODUCED BY MAYOR LIBBY SCHAAF, COUNCIL PRESIDENT REID, COUNCILMEMBER GUILLEN, AND COUNCILMEMBER KALB

ADOPT A RESOLUTION 1) IN SUPPORT OF THE CALIFORNIA SCHOOLS AND LOCAL COMMUNITIES FUNDING ACT OF 2018 ("THE INITIATIVE") ON THE NOVEMBER, 2018 BALLOT, WHICH WILL AMEND THE STATE CONSTITUTION TO CLOSE A CORPORATE TAX LOOPHOLE BY REASSESSNG COMMERCIAL AND INDUSTRIAL REAL PROPERTY ON A REGULAR BASIS BASED ON FAIR MARKET VALUE; AND 2) ENCOURAGE OTHER JURISDICTIONS IN THE REGION TO TAKE SUPPORT POSITIONS ON THE INITIATIVE

WHEREAS, Californians approved Proposition 13 in a referendum in June 1978, which marked a turning point away from public investment in education, infrastructure and social services; and

WHEREAS, Prop. 13 rolled back assessed property values to their estimated market value in 1975 and limited annual increases to no more than 2% as long as the property wasn't sold, it capped the property tax rate at 1% of the assessed value for city, county, school and other local governments, draining local revenue, and it mandated that any increase in state taxes would require a two-thirds vote in the Legislature and that any increase in designated or special purpose taxes would require two-thirds voter approval ; and

WHEREAS, local property tax revenues quickly declined by about 60% after Prop. 13 took effect and California, which ranked in the top ten states in per pupil spending in the 1960s had dropped to ranking as 46 in per pupil spending by 2014.; and

WHEREAS, the sentiment which led to the passage of Prop 13 was that older Californians should not be priced out of their homes due to their inability to pay property taxes, but Prop. 13 also provided an enormous tax benefit to big businesses and corporations; and

WHEREAS, the initiative will exempt businesses with 50 or fewer employees from the reassessment and businesses where the owner-operator operates a business on a majority of the real property, if the fair market value of that property is less than $2,000,000; and

WHEREAS, a commercial loophole in the California tax system is the driver of a significant loss in tax revenue and can be corrected by reassessing commercial and industrial real property on a regular basis; and

WHEREAS, a very small number of properties owned by the largest corporations and wealthy investors benefit most from this loophole. Almost 80% of the tax avoidance comes from only about 8% of the properties worth $5 million or more; and

WHEREAS, the initiative will not change the law related to residential properties; and

WHEREAS, USC's 2017 research estimates that commercial and industrial properties in California, when reassessed to current values, will generate an estimated $11.4 billion annually in new revenues. Roughly 45% of the revenues will support California's public schools and community colleges, with the balance directed to counties, cities and special districts; and

WHEREAS, a projection (based on new statewide revenues of $9.1 billion related to 2015 real estate values) estimated the Alameda County share at $192 million annually, with $24.6 million estimated for the City of Oakland; and

WHEREAS, the initiative has been endorsed by Senator Nancy Skinner, Senator Scott Weiner, Senator Holly Mitchell and Assemblymember Rob Bonta; and

RESOLVED: That we the Oakland City Council support the passage of The California Schools and Local Communities Funding Act of 2018; and

FURTHER RESOLVED: That the Oakland City Council encourages other cities in the region to also support The California Schools and Local Communities Funding Act of 2018.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GIBSON MCELHANEY, GUILLÉN, KALB, KAPLAN AND PRESIDENT REID

NOES –

ABSENT –

ABSTENTION –

ATTEST:______________________

LATONDA SIMMONS
City Clerk and Clerk of the Council of the City of Oakland, California

California Schools and Local Communities Funding Act of 2018

Restores Over $11 Billion a Year for our Schools and Communities Services
Does NOT Raise Taxes on Homeowners, Renters or Small Businesses

The League of Women Voters California, PICO California, California Calls, Advancement Project California and Evolve California have submitted a ballot measure to protect California from the Trump federal tax giveaway for millionaire, billionaire, and corporate landowners like himself.

The California Schools and Local Communities Funding Act of 2018 will:

Restore over $11 billion a year in revenue for our schools and local communities by closing the Prop 13 Corporate Loophole.

NOT raise taxes on homeowners, renters, or small businesses.

Helps small businesses by eliminating the burdensome business personal property tax while also leveling the playing field for new businesses.

Mandate full transparency and accountability for all revenue restored to California's schools and local communities.

Trump's federal tax bill is a massive tax giveaway to large corporations paid for by raising taxes on Californians and slashing funding for our schools and vital community services. In California we have our own massive tax giveaway that benefits these same large corporations at the expense of homeowners, renters and small businesses.

The Prop. 13 Corporate Loophole allows a small number of large commercial property owners to avoid paying over $11 billion every year in property taxes. In fact, only 8% of commercial properties get 77% of the benefit from this loophole.

Schools and local communities have already suffered from 40 years of disinvestment due to the Prop. 13 Corporate Loophole. Trump's massive corporate tax cuts will hurt Californians even more — our education, first responders, healthcare, and community services are all threatened. It's time to close this loophole and make large commercial property owners pay their fair share in order to restore vital funding for:

- **Schools and Community Colleges**
- **Parks**
- **Roads and Bridges**
- **Firefighters and First Responders**
- **Affordable Housing and Homeless Services**
- **Libraries**
- **Public Transportation**
- **Health Clinics and Trauma Centers**

The California Schools and Local Communities Funding Act of 2018 is the only fair way to restore billions of dollars of reliable revenue every year for our schools and local communities without raising taxes on homeowners, renters, or small businesses.

Join a growing statewide coalition of community groups, educators, parents, local community leaders and more than 250 organizations that are supporting this commonsense and desperately needed reform.

THE CALIFORNIA SCHOOLS AND LOCAL COMMUNITIES FUNDING ACT OF 2018

How to Raise Billions for Schools and Services by Reforming the Commercial Property Tax System

Policy Brief

Summary

The California Schools and Local Communities Funding Act of 2018 proposes a constitutional amendment to put before voters an improvement to the 1978 law, Proposition 13. It will periodically reassess commercial and industrial properties to full market value, while safeguarding homeowners, renters and agricultural land. It will provide tax relief to small businesses and full transparency for the public. It will raise approximately $11.4 billion in statewide revenues from reassessment for 2019-2020, if fully implemented. A large share of the new revenues, or over $4.5 billion, will support K-12 schools and community colleges, with the balance allocated to local government (cities, counties, special districts).

I. The Problem

The system for assessment of commercial and industrial property is loophole-ridden, harmful to sound land use, housing, and new investment, and negatively impacts revenue for cities, counties, and schools. Not even the largest beneficiaries of the system—wealthy property owners and large corporations—can provide a rationale for its continuation.

A. The Loophole-Ridden System

Property tax assessment under Proposition 13 is based on a "change of ownership", which locks in assessment at the purchase price (plus 2% per year), and limits the tax rate for all properties to 1%. Intended to help homeowners, change of ownership is easily avoided by corporations and wealthy investors because of the complex ways commercial and industrial property is legally held, and cannot be reformed without maintaining loopholes and inequities.

1. *Publicly-Traded Corporations:* Change of ownership fails to reassess publicly-traded corporations, whose stock turns over regularly, unless those companies are fully bought out. For example, Chevron, Intel and IBM own land still assessed at 1975 values while nearby land is assessed at 50 times the value or more.

2. *Investor-owned Property:* Complex ownership patterns allow for avoidance of reassessment in many ways, on everything from industrial parks, offices, shopping centers and hotels to parking lots and mini-malls. Real Estate Investment Trusts (REITs) allow Wall Street investors to buy and sell shares in large properties without reassessment. Limited liability companies (LLC's) and partnerships have changing ownership shares and members but easily avoid reassessment. Family trusts have passed down ownership of valuable land for generations, protecting low assessments for the last 40 years and indefinitely into

the future. Land leases are often used to keep land taxes low even when new construction occurs.

B. Unfair to New Investment
The current system taxes new investment heavily while failing to tax windfalls, the opposite of good economics. It holds land off the market, inflating land prices, which is bad for housing affordability and new investment. It is anti-competitive, as new businesses have to pay higher property taxes than their competitors, even though they are charging the same prices for their rents, products and/or services. Newer investors pay taxes on inflated market values and substantial fees and mitigations, while older commercial property owners who benefit from infrastructure growth and rising markets continue to pay on the old, outdated property values.

C. Failed Fiscal Policy
Even with massive economic growth and a proliferation of new local taxes, tax revenue per capita for cities and counties has fallen from $790 per person to $640 since 1978, according to the Legislative Analyst's Office (LAO), generating fiscal stress on most local governments in the state. The property tax has shifted away from commercial/industrial to residential in virtually every county. Our infrastructure investment has declined because local governments cannot generate the revenue needed from the growth in land values.

D. Works Against "Smart Growth" Land Use
The system has negative impacts on land use and the environment. The LAO and academic research shows that the system promotes keeping urban land vacant. It increases speculation and sprawl, the opposite of "Smart Growth". It drives up land prices that make housing less affordable. Important approaches to climate change and livability—increased density and transit—are discouraged by the current failure to tax commercial land appropriately.

II. The Policy Solution

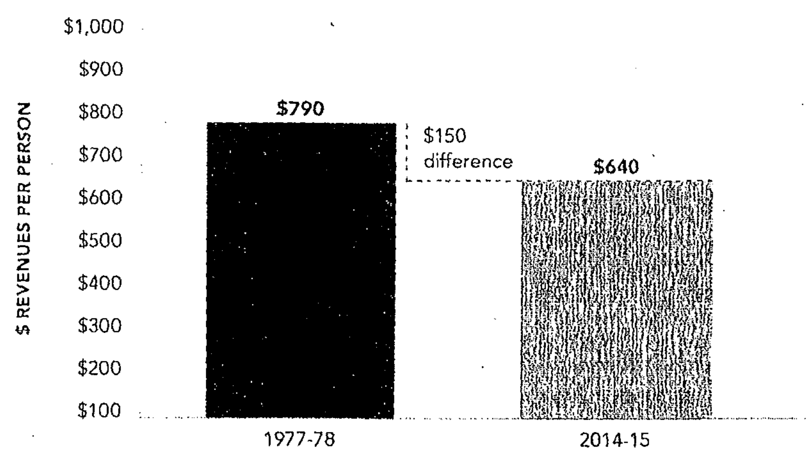
This policy proposal will require a constitutional amendment to be approved by California voters in order to reform the system for assessment of commercial and industrial property.

A. Reassessment
The core component of this proposal is the reassessment of commercial and industrial property to market value on a periodic basis, as occurs nearly everywhere else in the country. The current constitutionally mandated rate of 1% would remain unchanged.

B. Protecting Residential and Agricultural Property
Periodic reassessment will only affect commercial and industrial property, NOT residential and agricultural property. The measure defines such property through zoning categories in order to establish a "bright line". Properties zoned for agricultural purposes have long been protected by the Williamson Act, and are not to be reassessed. No residential properties will be reassessed, whether rental residential (apartments and rental homes), homeowner or condominium owner, or mobile home. To the extent that zoning categories are not sufficiently tight (e.g. residential hotels, nursing homes), the legislature is required to make certain by statute than no residential property will ever be affected. Mixed-use property is to be assessed based on proportion of commercial to residential footage.

C. Phasing In the New System
Since the system has not been changed in 40 years, a transition period will be necessary.
1. Assessor Provisions: The measure requires the legislature to provide for a "start-up" period, not less than two years, plus one year of lead time, to ensure a reasonable workload and implementation period for

Decline in Cities/Counties Per Person Revenues,
1977 to 2014



Legislative Analyst's Office. September 2016. *Common Claims about Proposition 13.* http://lao.ca.gov/reports/2016/3497/common-claims-prop13-091916.pdf.

assessors. It then requires on-going assessment on a periodic basis, but no more than every three years, after initial reassessment is completed. There are many ways for the assessors to approach this work. For example, assessing the oldest properties and the largest properties first would generate substantial revenue while allowing smaller properties to be phased-in over a longer period. The timing is to be worked out by the legislature, in consultation with the assessors.

2. *Taxpayer Phase-In:* The phase-in process is also to be developed by the legislature. One possibility is a 3-year phase-in for the first properties to be reassessed, to ease in any increases in taxes, and 2-years for the more recent properties. The legislature will determine the appropriate phase-in period, but not less than two years.

D. Small Business Protections

1. *Business Personal Property Tax Relief:* The measure provides relief from the business personal property tax, eliminating it for all small businesses under 50 employees and providing an exemption of the first $500,000 for all other businesses. This exemption helps the vast majority of businesses that lease but do not own their property. It will take over 90% of businesses off the business personal property tax rolls, and provides relief from a nuisance tax as well as financial relief to small businesses.

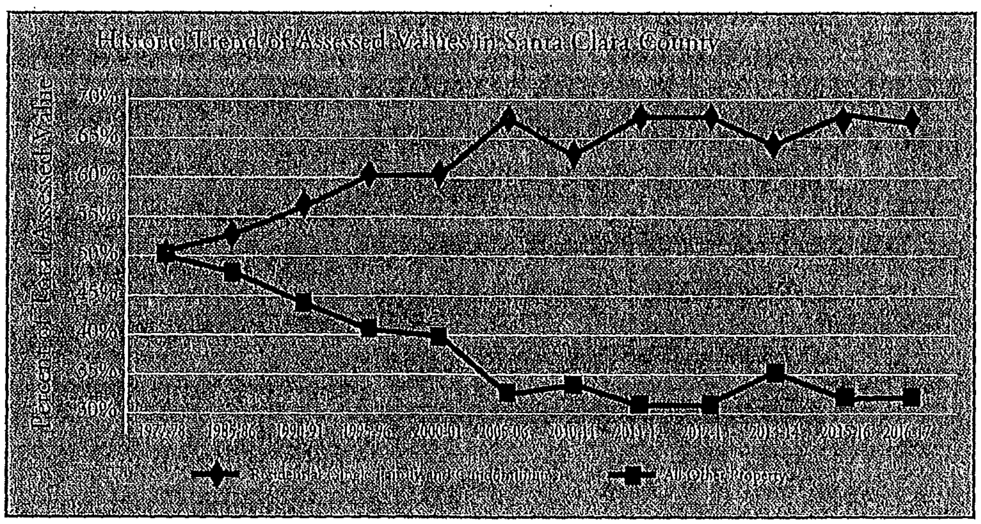
2. *Small Owner-Operators:* A very small number of smaller businesses own their properties and also run their businesses on it, most often in rural areas (e.g. motels, independent gas stations). Those businesses, with property value under $2 million, will be exempt from reassessment until they sell or no longer run their businesses on their property

E. Revenue Allocation

1. *Local Government Share of Revenue:* The proposal calls for revenue in each county to be allocated based on the current proportions of the property tax which go to the cities, counties, schools, and special districts. Except for the schools, the local jurisdictions in each county will receive the new revenue based on the share of the local property tax they currently receive. The measure leaves property tax allocation unchanged, because a combination of Proposition 13, (which puts property tax allocation in the hands of the legislature), and a subsequent constitutional measure (Prop 1A) control allocation.

2. *School Share of Revenue:* Because of the potentially great fiscal differences among school districts in richer vs. poorer areas, the school revenue generated in each county from the share of the property tax in each school district will be pooled statewide and protected for use solely by K-14 education. This incremental revenue will be over and above Prop. 98 formulas, so will not lower any state support for schools. To further address equity, it will be distributed based on the current Local Control Funding Formula or any successor formula provided by statute.

Property Tax Shift in 55 of 58 Counties



Office of the County Assessor. September 2016. 2016-2017 *Assessor's Annual Report*. https://www.sccassessor.org/edocman/AnnualReport2016_2017.pdf

F. Revenue Reimbursements

The state General Fund will be reimbursed against any losses resulting from an increase in commercial property tax deductions caused by reassessment, with the Franchise Tax Board to provide an estimate yearly. Assessors will be reimbursed from the new revenue for any increased costs of implementation. Revenue will be allocated to the newly-created school fund and to local districts after these reimbursements, which are a very small percentage of total revenue.

G. Accountability to Taxpayers

All school districts and local governments receiving revenue from the measure will be required to prepare reports to provide accountability to taxpayers for the use of the incremental revenue from collections. The legislature shall develop a consistent method to calculate the incremental revenues received.

III. Impacts

A. Projected Revenue

1. *Statewide Revenue:* Statewide revenue from reassessment is estimated at $11.4 billion annually, or between $10.8 and $12 billion statewide if it were to be fully implemented in 2019-2020. This is higher than the previously estimated $8-10 billion and is based on over 10 years of complete statewide commercial property data sets running from 2004-2016. This amount will grow with economic growth. The reform will generate $3.6 billion in Los Angeles County, $1 billion each in Santa Clara and Orange Counties, and produce substantial increases for all counties.

2. *Schools:* Schools will see over $4.5 billion in increased revenue yearly. This translates into between $15,000-$20,000 per classroom when fully implemented. Every school district will receive increased revenue, based on the Local Control Funding Formula applied statewide. All revenue will be in addition to and on top of current revenue guaranteed by Proposition 98.

Estimated Revenue Gains by County 2019-2020

COUNTY	ESTIMATED RANGE	MID-ESTIMATE
ALAMEDA	523.9 - 583.9	553.4
ALPINE	.2 - .2	0.2
AMADOR	2.4 - 2.9	2.7
BUTTE	15.0 - 17.5	16.3
CALAVERAS	2.3 - 2.7	2.5
COLUSA	4.0 - 4.4	4.2
CONTRA COSTA	329.5 - 366.7	347.8
DEL NORTE	1.4 - 1.6	1.5
EL DORADO	16.1 - 18.4	17.2
FRESNO	106.7 - 120.4	113.4
GLENN	3.2 - 3.5	3.3
HUMBOLDT	20.8 - 23.2	22.0
IMPERIAL	14.4 - 16.3	15.3
INYO	6.8 - 7.9	7.3
KERN	105.4 - 119.1	112.1
KINGS	15.6 - 17.6	16.6
LAKE	1.7 - 2.1	1.9
LASSEN	1.3 - 1.5	1.4
LOS ANGELES	3,443.8 - 3,826.9	3,632.2
MADERA	10.4 - 12.1	11.2
MARIN	67.1 - 75.1	71.0
MARIPOSA	1.9 - 2.2	2.1
MENDOCINO	25.8 - 29.0	27.4
MERCED	29.5 - 33.2	31.4
MODOC	.3 - .4	0.4
MONO	2.0 - 2.5	2.2
MONTEREY	61.9 - 70.6	66.2
NAPA	62.9 - 70.7	66.7
NEVADA	15.8 - 17.8	16.8

COUNTY	ESTIMATED RANGE	MID-ESTIMATE
PLACER	58.3 - 66.5	62.4
PLUMAS	3.8 - 4.3	4.1
RIVERSIDE	314.6 - 356.7	335.3
SACRAMENTO	134.2 - 155.5	144.7
SAN BENITO	5.8 - 6.5	6.2
SAN BERNARDINO	387.5 - 438.2	412.4
SAN DIEGO	800.1 - 898.4	848.4
SAN FRANCISCO	795.4 - 877.7	835.9
SAN JOAQUIN	84.0 - 96.1	90.0
SAN LUIS OBISPO	54.8 - 61.8	58.2
SAN MATEO	559.5 - 615.7	587.2
SANTA BARBARA	122.7 - 137.4	129.9
SANTA CLARA	1,011.4 - 1,121.3	1,065.5
SANTA CRUZ	43.5 - 48.7	46.1
SHASTA	18.6 - 21.3	19.9
SIERRA	.1 - .1	0.1
SISKIYOU	4.5 - 5.2	4.9
SOLANO	57.6 - 66.2	61.8
SONOMA	109.0 - 122.0	115.4
STANISLAUS	43.6 - 50.2	46.8
SUTTER	13.3 - 15.0	14.1
TEHAMA	6.3 - 7.0	6.6
TRINITY	1.4 - 1.6	1.5
TULARE	30.1 - 35.2	32.6
TUOLUMNE	5.6 - 6.4	6.0
VENTURA	163.0 - 183.2	172.9
YOLO	25.2 - 29.2	27.1
YUBA	7.1 - 7.9	7.5
Total	**10,778.8 - 12,031.3**	**11,394.7**

Program for Environmental and Regional Equity, University of Southern California Dornsife. May 2015. *Getting Real About Reform: Estimating Revenue Gains from Changes to California's System of Assessing Commercial Real Estate.* http://dornsife.usc.edu/pere/getting-real-about-reform/. Revenue estimates updated in June 2017.

3. *Local Government:* Cities, counties, and special districts will receive over $6 billion in increased revenues. Like all property taxes, revenues will be spent at local government discretion, for parks, libraries, public safety, capital outlay, health and social services, etc.

B. Who Pays?

1. *Highest-Value Properties Pay the Most:* The highest-value properties provide most of the revenue. 77% of the revenue comes from a small share of properties—that is, from properties estimated worth over $5 million, or 8% of commercial and industrial properties. These are mostly corporate-owned and wealthy investor-owned and have the lowest current assessment compared to market value. In contrast, nearly 75% of properties are worth under $1 million and generate only 5% of the total revenue.

2. *Many Properties See Little Change:* Many properties will see little or no impact. 46% of all commercial/industrial properties are within 30% of market value, with many of those close to or at market, and will pay little or no additional taxes as the measure phases in.

3. *Oldest Properties Pay:* Over 56% of the revenue comes from properties which were last reassessed before 2000. These include large corporate and investor-owned properties, many of which have not been reassessed since the 1970s and 1980s.

4. *Most Value in Land, Not Buildings:* Sixty percent of the revenue comes from the reassessment of land as compared to buildings and improvements. Buildings which are improved are currently reassessed while land may still be held at very old values. The differences in building values are nowhere near the disparities in land values, which can be as high as 100 to 1 in places where values have grown rapidly, such as Silicon Valley, San Francisco, and west Los Angeles.

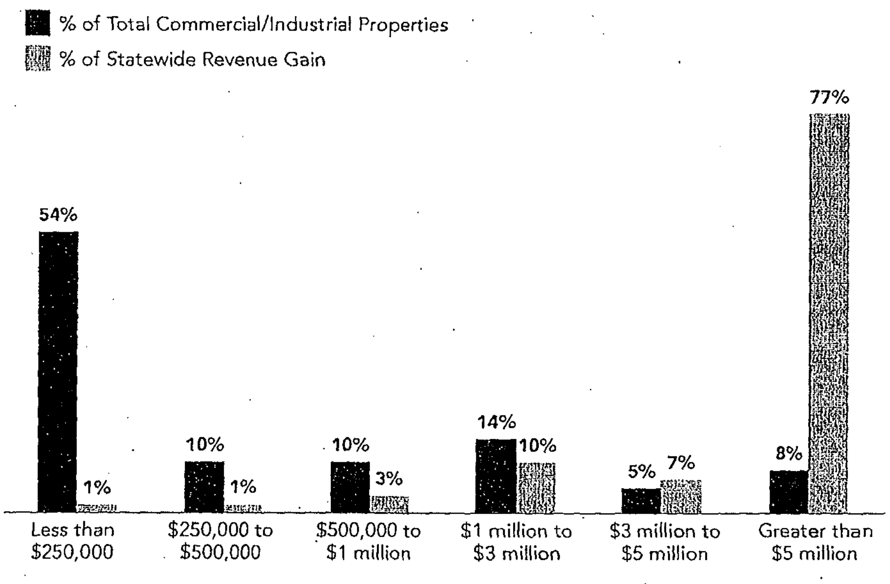
5. *Out of State Investors:* Substantial amounts of the new tax revenue will be paid by out-of-state and foreign investors and the very wealthy. Large properties are often owned by Real Estate Investment Trusts and are publicly-traded on national and international exchanges, and foreign investors have seen California commercial property as a safe long-term investment. Corporate shareholders are widely distributed nationally and internationally and would pay much of the property tax. Owners of commercial property are far wealthier than most citizens, generally within the top 1% of earners.

C. Broader Benefits and Impacts

1. *Relief from Fees and Local Tax Pressures:* Increasing revenue from commercial property taxes eliminates pressures for additional local taxes and fees, which have grown considerably as a portion of local government expenses. Over time, citizens and businesses have borne many of these new taxes and fees because large property owners have paid so little.

2. *Infrastructure Benefits:* Because rising land values will be captured, the ability to finance infrastructure is greatly improved, particularly for transit, where new investments can recover costs from rising land values.

Share of Total Number of Commercial/Industrial Properties and Share of Statewide Revenue Gain by Estimated Market Value, 2019



Source: USC PERE analysis of disparity ratios of commercial and industrial properties based on CoreLogic assessor roll data for 2016.

3. *"Smart Growth" Benefits:* Development which concentrates urban land use instead of promoting suburban sprawl and big-box retail will increase as underutilized, in-fill properties with high value but low assessments will be brought onto the market. Smart growth is a necessary part of combating climate change.

4. *Regulatory Climate Will Improve for Business:* The regulatory burden of fees and exactions put on new economic development will diminish, as cities have stronger fiscal incentives for new development and will be able to finance the costs of economic growth.

5. *Affordable Housing:* Local revenues from reassessment will enable cities to meet their local affordable housing obligations and address their homeless problems. The heavy fee burden on new housing development is likely to diminish. And the land use benefits will improve affordability for all types of housing.

6. *Small Business Benefits:* Every small business will benefit from the elimination of the business personal property tax. Opponents of reform cite the pressures on small business who have leases which would require pass-through of property taxes as rent increases. The fact is that commercial rents are at market and will not increase as a result of reassessment. Since many properties will face little or no increases, many businesses will have net benefits due to the elimination of the business personal property tax. A phase-in period allows small business the ability to adjust, including in their leases.

THE CALIFORNIA SCHOOLS AND LOCAL COMMUNITIES FUNDING ACT OF 2018

phone: 323-735-9515

The CALIFORNIA SCHOOLS AND LOCAL COMMUNITIES FUNDING ACT OF 2018 Coalition Steering Committee

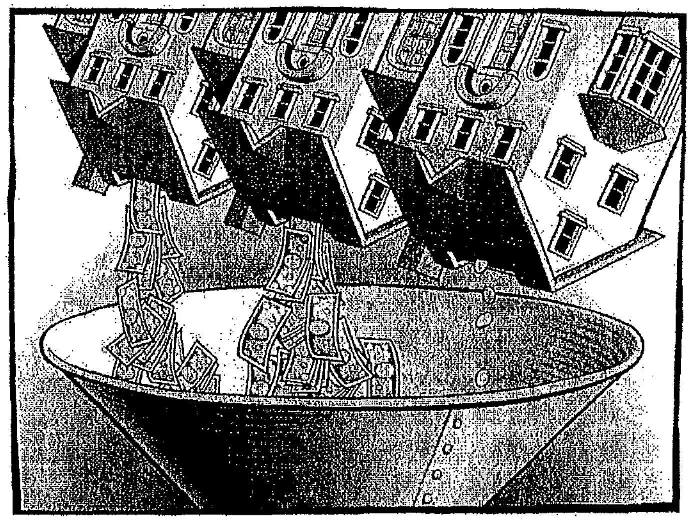
ACLU American Civil Liberties Union of Southern California — Stand for Justice
Housing California
California Federation of Teachers AFT, AFL-CIO — A Union of Professionals
LWV League of Women Voters
California Calls — an alliance to renew the dream
PolicyLink
ACCE
evolve — a community organization
PICO California
Mobilize the Immigrant Vote
Advancement Project
UTLA United Teachers Los Angeles
CTRA
Bend the Arc — a Jewish partnership for justice
Community Economics
Courage Campaign

The Mercury News
The Newspaper of Silicon Valley
MercuryNews.com

Opinion: How California voters can update, improve Prop. 13

By **DAVID C. BOHNETT** | PUBLISHED: February 19, 2018 at 2:08 pm

California voters have an opportunity this November to correct decades-old legislation that has resulted in deteriorated public institutions and services throughout our state. It's time to challenge the divisive and widespread anti-tax sentiment promulgated by powerful interest groups bankrolled by wealthy donors.
The California Schools and Local Communities Funding Act is a proposed constitutional amendment that would update and improve Proposition 13, the 1978 tax law that fundamentally crippled local governments.



An initiative on the California ballot in November will give voters a chance to update and improve Proposition 13, which passed in 1978.
(Doug Griswold/Bay Area News Group Illustration)

A contributing factor to Prop. 13's passage was the sentiment that older Californians should not be priced out of their homes through high property taxes. However, the proposition's underreported giveaways to big business and corporations have exacerbated inequity and inefficiency in the state's tax structure.

The new law would keep tax rates the same for individual homeowners, but would close the business loophole. It will periodically reassess commercial and industrial properties to full market value, while safeguarding homeowners, renters and agricultural land.

Currently, just a fraction of the wealthiest landowners are benefiting from the loophole. In fact, a recent study at USC calculated that 77 percent of the new revenues will come from just 8 percent of the properties, all valued over $5 million.

Having greater and more stable revenue sources will generate innumerable benefits for our state by funding critical services and infrastructure projects, while also improving California's development climate.

The catastrophic effects of Prop. 13 have played out in a particularly shameful way for California's public education system, which has plummeted from No. 1 — the pride of the nation — to close to the bottom.

For example, the UC system is a powerful economic engine and a center for technical, scientific, social, and cultural advancement. However, years of budget cuts to higher education have skyrocketed tuition, cut vital services, and encouraged the use of out-of-state and international students as cash cows; putting those iconic institutions at serious risk.

We can't abide by that. This critical reform will raise approximately $11.4 billion annually in statewide revenue from reassessment, with a majority going to public education.

California's current property tax system is also terrible for land use, promoting sprawl and disincentivizing developing underutilized land, particularly commercial land. Reassessing commercial property will lead to higher density development on that land, raise revenues, and incentivize increased density from both commercial and residential uses.

Beyond the devastating impact on our local schools and other critical services, Prop. 13's corporate loophole is specifically hurting small businesses and tech startups. Virtually each tech company founded after the passage of Prop. 13 is paying much more in property taxes than some of its neighbors.

Ultimately, it is the responsibility of local and state governments to fund public services and an infrastructure system that facilitates commerce, helps sustain a middle class, and educates our workforce to keep us competitive in a global economy. But here's the big rub: Prop. 13 has choked government funding to the point of starvation, and it's hard to think clearly when you're starving. As an investor in early stage technology, and an active funder of cultural arts and social services in California, I care deeply about the welfare of all Californians.

We must all raise our voices to eschew self-interest in favor of the greater common good — and hold lawmakers, including our current governor and gubernatorial candidates, accountable to that same commitment. It's time for those of us who can afford to pay higher taxes to do so, and it's time to reform California's dysfunctional commercial property tax system.

David C. Bohnett, technology entrepreneur and philanthropist, heads the private equity firm Baroda Ventures and chairs the David Bohnett Foundation.

https://www.mercurynews.com/2018/02/19/opinion-how-california-voters-can-update-improve-prop-13/

THE CONVERSATION

Author **Manuel Pastor**, Professor of Sociology, University of Southern California – Dornsife College of Letters, Arts and Sciences - November 1, 2017 6.12am EDT

After tax cuts derailed the 'California dream,' is the state getting back on track?

In 1978, the year I graduated from college with a degree in economics, most voters in my state chose to turn their backs on the "California dream." Not unlike the American dream, California's iteration focused on the limitless possibilities awaiting anyone who moved to the state. It was the state's basic philosophic footing, a social compact that connected generations, geographies and economic classes in a common destiny. Proposition 13, which Californians approved in a referendum in June 1978, marked a turning point away from the kind of public investment in education, infrastructure and social services – as well as a shift in an attitude that welcomed all comers – that made the California dream a reality for so many. The highly controversial measure slashed property taxes, impoverished local governments and made it very hard for the state to raise new revenues. Besides ushering in an era of underinvestment, it spread the fantasy – since gone national – that governments can cut taxes without reducing services.

Almost 40 years later, California is at a crossroads and may finally be ready to begin to reverse Prop 13's damage. As I explore in a forthcoming book, the state is pushing against the national grain by protecting immigrants, tackling climate change and raising the minimum wage. And most significantly for the legacy of Proposition 13, more residents are coming to see how replenishing the state's coffers is key to restoring prosperity.


Howard Jarvis, right, joins Gov. Jerry Brown at a news conference after Proposition 13 passed. AP Photo/Robbins

Pulling up the drawbridge

Just days after Proposition 13 passed, I stood in front of my fellow graduates at the University of California, Santa Cruz, to give the student address. I chose to talk about the result of the vote – not because it had anything to do with my chosen field of study but because of the sharp rift with the past it represented. California had invested in me, like millions of others, by funding quality public schools, a world-class university system and economic growth. Now, a majority of voters were seeking to selfishly pull up the drawbridge on future generations. So I spent my 15 minutes of fame in front of classmates, professors and parents explaining why I thought Prop 13 would shipwreck the state. I wish I had been wrong – and that I'd spent more of my allotted time thanking my parents, neither of whom had finished high school and were beaming with pride because the California dream had come true for their son. Sadly, Prop 13 meant that dream would be much less likely to come true for others.

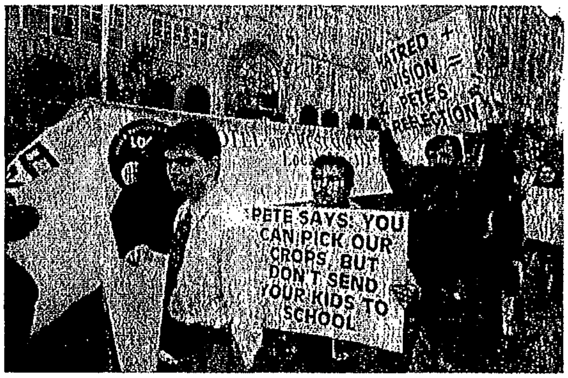
At its core, Proposition 13 was written as an amendment to the state's constitution with three key elements and affected all types of property, from residential to commercial:

- It rolled back assessed property values to their estimated market value in 1975 and limited annual increases to no more than 2 percent as long as the property wasn't sold. With any new sale, the assessed value could climb to the actual sale price, essentially locking in the property tax for long-time homeowners and shifting the burden to newcomers.

- It capped the property tax rate at 1 percent of the assessed value for city, county, school and other local governments, down from an average of 2.6 percent before the measure, draining local coffers.

- It mandated that any change in state taxes that would increase the tax take would require a two-thirds vote in the legislature (while tax cuts required only a majority vote) and that any increase in designated or special purpose taxes by local governments would require two-thirds voter approval. This effectively staightjacketed the ability of a changing electorate to raise new revenues.

Prop 13 and its racial undertones.



Protesters demonstrate against California's Proposition 187 outside the Heritage Foundation in Washington in 1994 as then-Gov. Pete Wilson speaks inside. AP Photo/Joe Marquette

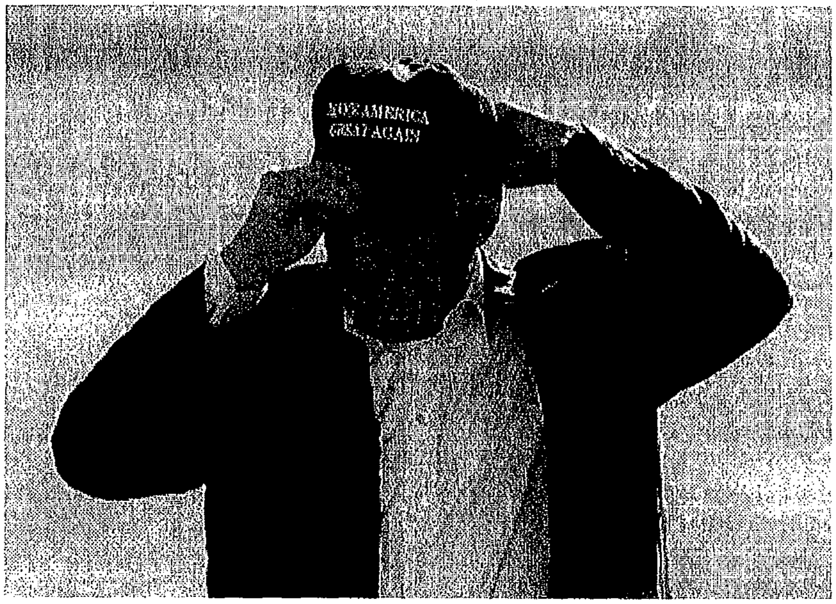
One reason for Prop 13's popularity was that the median value of a house in California rose by over 250 percent from 1970 to 1980, more than twice as fast as median household income in the state. With reassessments triggering property tax hikes that outpaced family finances, the die was cast for a taxpayer rebellion. But the roots of this suburban-based revolt were far deeper than a fight over taxes. The forces behind it were the same ones that fought against fair housing in the 1960s and busing to promote school integration throughout the 1970s. And they were goaded by a series of court decisions that mandated the equalization of school spending across districts, stirring white resentment that local property tax dollars were not being spent on "our kids." Indeed, at the same time that property rates were soaring, the share of youths who were minorities rose from 30 percent in 1970 to 44 percent by 1980 – the largest decadal change in California's history. And while these racial undertones were, well, undertones, the resentment of the changing demography was clear when Prop 13's main architect, Orange County businessman Howard Jarvis, wrote after it passed that immigrants "just come over here to get on the taxpayers' gravy train." In essence, Proposition 13 became the first shot across the bow in a series of referendums some dubbed "racial propositions" that reached their apogee with Proposition 187, the famous 1994 measure that sought to cut off nearly all public services, including education, to undocumented immigrants.

That was followed by voter-approved measures to ban affirmative action, eliminate bilingual education and expand a prison system marred by racial disproportionality in its sentencing and rates of incarceration. That Prop 13 itself was a sort of generational warfare with overtones of race was clear in its structure. Since the assessment didn't increase more than 2 percent unless property changed hands, incumbent homeowners (who were older and whiter) wouldn't see their tax burden change much as long as they didn't sell. Meanwhile, new homeowners (more likely to be younger, minority and eventually immigrant) would have to pay higher tax rates and thus bear a disproportionate share of the costs of local services. And that wasn't the only bias against the future. The requirement for a supermajority to pass legislation to raise taxes effectively constrained the ability of future state governments to pour in the sort of money that had built the state's famed transportation, water and university systems.

The Consequences.

The immediate damage from Prop 13, however, was masked. When local property tax revenues quickly fell by about 60 percent, the state government stepped in to fill the gaps. But over time, the damaging effects of Proposition 13 in terms of education spending and income inequality became increasingly apparent. In the 1960s, California ranked among the top 10 states in terms of per-pupil spending. By 2014, its ranking had plunged to as low as 46. And while California's level of income inequality was in the middle of the pack nationally in 1969, it is now the fourth most unequal state in the country. While Proposition 13 was not the only culprit behind these trends, it didn't help. About half of the total residential property tax relief provided by Prop 13 went to homeowners with incomes in excess of US$120,000 a year – or about 15 percent of all households. And because the property tax was no longer a growing source of revenue for local governments, cities and counties had more reason to chase sales taxes with retail development and less incentive to promote housing, helping to set in motion the severe housing shortage that wracks the state today. The final irony is that Prop 13 – a measure promoted by those in favor of smaller government – pushed authority and decision-making to the state capitol, which became the main source to bail out local municipalities.

Efforts to Change it.



President Trump's 'Make America Great Again' plans follow a playbook similar to what resulted from Prop 13. AP Photo/Jae C. Hong

So why has Proposition 13 not been overturned?

Its political appeal remains, particularly to older residents who vote and to businesses worried about any increase in taxes. Efforts to keep the protections for residential homeowners but allow commercial and industrial property to be assessed at market rates – a so-called "split roll" – have failed or stalled and currently command the thinnest possible majority in public polling. So while the split role remains a goal for some reformers, many concerned about the effects of Prop 13 have simply tried to raise taxes elsewhere to offset the lost revenue. California voters approved a temporary "millionaire's tax" in 2012 and its long-term extension in 2016. And more than two-thirds of voting taxpayers in Los Angeles County approved sales tax hikes in 2008 and 2016 that will generate $160 billion over the next 40 years for transportation investments ranging from rail expansion to highway improvement to new bike paths. But such tinkering does not solve the fundamental problems with Prop 13 that I've noted above. Addressing those will require a new set of conversations about optimal tax policy and how to address legitimate concerns such as how to protect older homeowners with a fixed income from the potential end of Prop 13.

California – and the country – at a crossroads.

Unfortunately, the same demographic shifts, economic anxieties and political polarization that spurred Prop 13 have since gone national. The president's plan to "Make America Great Again" similarly involves slashing taxes while underinvesting in education and social services – the kinds of investments that actually made America great in the 20th century. California has the opportunity to show the nation how to get this right and invest in our future and our collective dreams rather than shortchange them. And a growing number of voices, including local governments, unions and political groups, are calling for reform. So while the discussion about Prop 13 might seem to be about a few obscure tax rules, it is highly symbolic: At stake is the future of the state and, indeed, the nation. A day of reckoning for a measure that seems increasingly out of date may soon be upon us.

SECTION 1. Title

This measure shall be known as "The California Schools and Local Communities Funding Act of 2018."

SEC. 2. Findings

a) California's public schools, once the envy of the nation, are severely underfunded. Restoring funding to create world-class schools that educate the next generation of entrepreneurs and the workforce for tomorrow's economy is critical to California's future.

b) California has slid to 41st in the nation in per pupil spending, putting a severe strain on students, families, and teachers of our K-12 schools and community colleges.

c) California's local governments are also chronically underfunded, which has hurt the quality of local services including emergency responder services, parks and libraries, health clinics and trauma centers, housing construction and homeless services, roads and bridges, and local schools and community colleges.

d) A loophole in California's tax system has been the primary driver of this disinvestment by failing to reassess commercial and industrial real property on a regular basis.

e) A recent study by the University of Southern California has found that commercial and industrial property owners avoid over $11 billion in local property taxes.

f) Closing this loophole would raise billions in new funding for schools, and local city and county services to extend library hours, fix roads, expand health access, and re-open fire stations each year.

g) This loophole creates an unequal playing field for new and small businesses in California. Thousands of large commercial property owners are paying a small fraction of what many other businesses and property owners are paying.

h) A relatively small number of properties owned by the largest corporations and wealthiest investors get most of the benefits from this tax loophole. Almost 80% of this tax avoidance comes from only 8% of the properties worth $5 million or more.

i) The federal tax law recently enacted by Congress provides huge tax cuts to the same large corporations and wealthy investors that benefit from California's commercial property tax loophole. And unlike California individual taxpayers, all their state and local taxes will still be deductible from their federal taxes.

j) Much of the money pocketed through the existing loophole flows to out-of-state and foreign shareholders. Reassessing commercial property would ensure that money stays here in California.

k) Recent analysis demonstrates that reassessing commercial and industrial real property will have a net positive effect on California's economy, improving competition and helping new business and new investment which creates jobs.

l) Reassessing commercial property is critical to smart and environmentally safe local development. The failure to reassess commercial property has encouraged owners to keep land parcels vacant, exacerbating the housing crisis and promoting sprawl.

m) Reassessing commercial property at fair market value will close the loophole and still maintain California's property tax rates as among the lowest in the country.

n) By closing this loophole, California can restore funding to its underfunded schools, provide for high-need students, invest in local communities, level the playing field for business, and stimulate the economy. Given the consequences of the recently enacted federal tax law, closing this loophole is important to California's future.

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) Provide for increased and stable revenues for schools, cities, counties, and local agencies by requiring that all commercial and industrial real properties are assessed at their full market value.

(b) Ensure that the portion of any new revenues going to local schools and community colleges is treated as new revenues that are in addition to all other funding for schools and community colleges, and is allocated in a manner that benefits all schools and community colleges consistent with constitutional requirements to advance equity.

(c) Distribute to cities, counties and special districts any new revenues resulting from the implementation of this law in the same manner as other property tax revenues.

(d) Provide funding for infrastructure through faster payment of current bonded indebtedness on the property tax.

(e) Preserve in every way Proposition 13's protections for homeowners and for rental residential properties. This measure only affects the assessment of taxable commercial and industrial real property.

(f) Provide small commercial real property owners owning and operating their business on their property an exemption that ensures stability for their business.

(g) Make no change to existing laws affecting the taxation or preservation of agricultural land.

(h) Assist businesses, whether they own or rent their place of business, by reducing the business tangible personal property tax on equipment and fixtures for each business by exempting $500,000 of that property from taxation, and by eliminating this tax for small businesses with 50 or fewer employees. This would eliminate the tax on equipment and fixtures for about 90 percent of all California businesses. The Legislature would be prohibited from lowering this exemption but would be authorized to increase it.

(i) Require the Legislature to provide for the phase-in of the assessment of under-assessed commercial and industrial real properties to give county assessors time to effectively implement the new law.

(j) Require the Legislature to provide owners of under-assessed commercial and industrial real properties time to meet their obligations under the law by phasing in assessment increases resulting from the initial implementation of this law.

(k) Make sure schools, community colleges, counties, cities, and special districts are appropriately spending any new revenues they receive from this measure by requiring that new revenues and their expenditure be publicly disclosed.

(l) Ensure that the General Fund and other funds of the State are held harmless by reimbursing the State for reductions in personal income tax and corporation tax revenue caused by the deductibility of the property tax.

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, 2018, 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 pursuant to the local control funding formula for local education agencies and other distribution formulas for community college districts as these formulas were operative on January 1, 2018, or pursuant to any subsequent modification of the formula that provides for funding, as provided by statute, for local education agencies and community college districts. Basic aid districts as defined in section 41544(c) of the Education Code, necessary small schools as defined in section 42283(a) and necessary small high schools as defined in section 42285(a) of the Education Code shall receive for each high-need student, as designated by the local control funding formula, an amount of funding equal to the average per-pupil funding calculated by dividing the total funding available for allocation to local education agencies in the Local School and Community College Property Tax Fund by the statewide K – 12 attendance. For these districts and schools, these funds shall be used to support services for high-need students. For purposes of this subdivision high-need student shall have the same meaning as unduplicated pupil as defined in section 42238.02(b) of the Education Code.

(b) 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, 2018, 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 the Local School and Community College Property Tax Fund and 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) 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 county auditor shall annually determine the additional revenue in the county 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 pursuant to a methodology prescribed by the Legislature by statute.

(b) After transferring the necessary funds pursuant to subdivisions (c) and (d), the additional revenue resulting from the application of Section 2.5 of Article XIII A shall be allocated and transferred as follows:

(1) First, to the Local School and Community College Property Tax Fund created pursuant to Section 8.7, in an amount equal to the school and community college 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, 2018.

(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, 2018.

(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, 2018, 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 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 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 Section 2.5 of Article XIII A determined for all counties.

(d) 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 as identified by the board of supervisors of the county or city and county consistent with statutes identifying those costs. The board of supervisors of the county or city and county shall identify the annual direct administrative costs of implementing Section 2.5 of Article XIII A. The Legislature may determine by statute what constitutes actual direct administrative costs for purposes of this subdivision.

(e) 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. This subdivision shall not apply to funds transferred pursuant to subdivision (c) of this section.

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, for the lien date for the 2020-21 fiscal year and each lien date thereafter, the "full cash value" of commercial and industrial real property that is not zoned for commercial agricultural production or otherwise exempt under the Constitution is

the fair market value of that property as of that date, except as provided by the Legislature pursuant to subdivision (b).
(2) Paragraph (1) 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) 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, after conferring with county assessors, 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 commercial and industrial real properties commencing with the lien date for the 2020-21 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 and taxpayers, including provision for processing and timing of assessment appeals. 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.

(c) For purposes of this section:
(1) "Commercial and industrial real property" means any real property that is either used or zoned as commercial or as industrial property, or is vacant land not used or zoned for residential use or used for commercial agricultural production. For purposes of this paragraph vacant land shall not include land zoned for open space or the equivalent designation for land essentially free of structures, natural in character to provide opportunities for recreation and education, and intended to preserves scenic, cultural and 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 or zoned for producing commercial agricultural commodities.
(4)(A) "Residential property" shall include property used or zoned as residential property, including both single-family and multiunit 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) 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).

(d) 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.

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 used for business purposes, either of the following shall apply:
(A) Except for a taxpayer subject to subparagraph (B), an amount of up to five hundred thousand dollars ($500,000) of tangible personal property per taxpayer is exempt from taxation.
(B) (i) For a taxpayer that is a business with 50 or fewer annual full-time equivalent employees in the state, all tangible personal property owned and used for business purposes is exempt from taxation.
(ii) A taxpayer shall certify annually to the assessor under penalty of perjury that the condition required by this subparagraph for exemption has been met and shall be subject to audit by the assessor as to that certification.
(2) Fixtures shall be included as tangible personal property subject to this exemption, but aircraft and vessels shall not be included.
(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 (A) of paragraph (1) consistent with the authority enumerated in Section 2 of this Article.

(b) (1) Real property owned by a taxpayer that operates a business or businesses on that real property shall not be subject to reassessment pursuant to Section 2.5 of Article XIII A if both of the following conditions are met:
(A) The owner-operator operates the business on a majority of the real property.
(B) The total fair market value of all property owned by the taxpayer in the state on which the business operates is less than two million dollars ($2,000,000). This amount shall be adjusted for inflation every two years commencing January 1, 2023, as determined by the Board of Equalization.
(2) Real property described in paragraph (1) shall be subject to reassessment pursuant to Section 2.5 of Article XIII A if either of the following occurs:
(A) The property is sold.
(B) The business or businesses no longer operate on a majority of the property.
(3) A taxpayer shall certify annually to the assessor under penalty of perjury that the conditions required by this subdivision have been met and shall be subject to audit by the assessor as to that certification.

SEC. 8. Section 15 of Article XIII B of the California Constitution is added to read:

SEC. 15. (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, 2020, except that subdivision (a) of Section 3.1 of Article XIII shall become operative on January 1, 2021.

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.