Blue Sky

CONSULTING GROUP

CONCENTRATION OF REVENUE GENERATED BY PROPOSITION 15

ANALYSIS OF THE SHARE OF PROPERTIES RESPONSIBLE FOR THE MAJORITY OF REVENUES GENERATED BY COMMERCIAL PROPERTY TAX REFORM

Prepared for

Yes on 15 - Schools & Communities First

July 2020

Concentration of Revenue Generated by Proposition 15

Conclusion: About 10% of top commercial properties would generate 92% of the revenue from the measure.

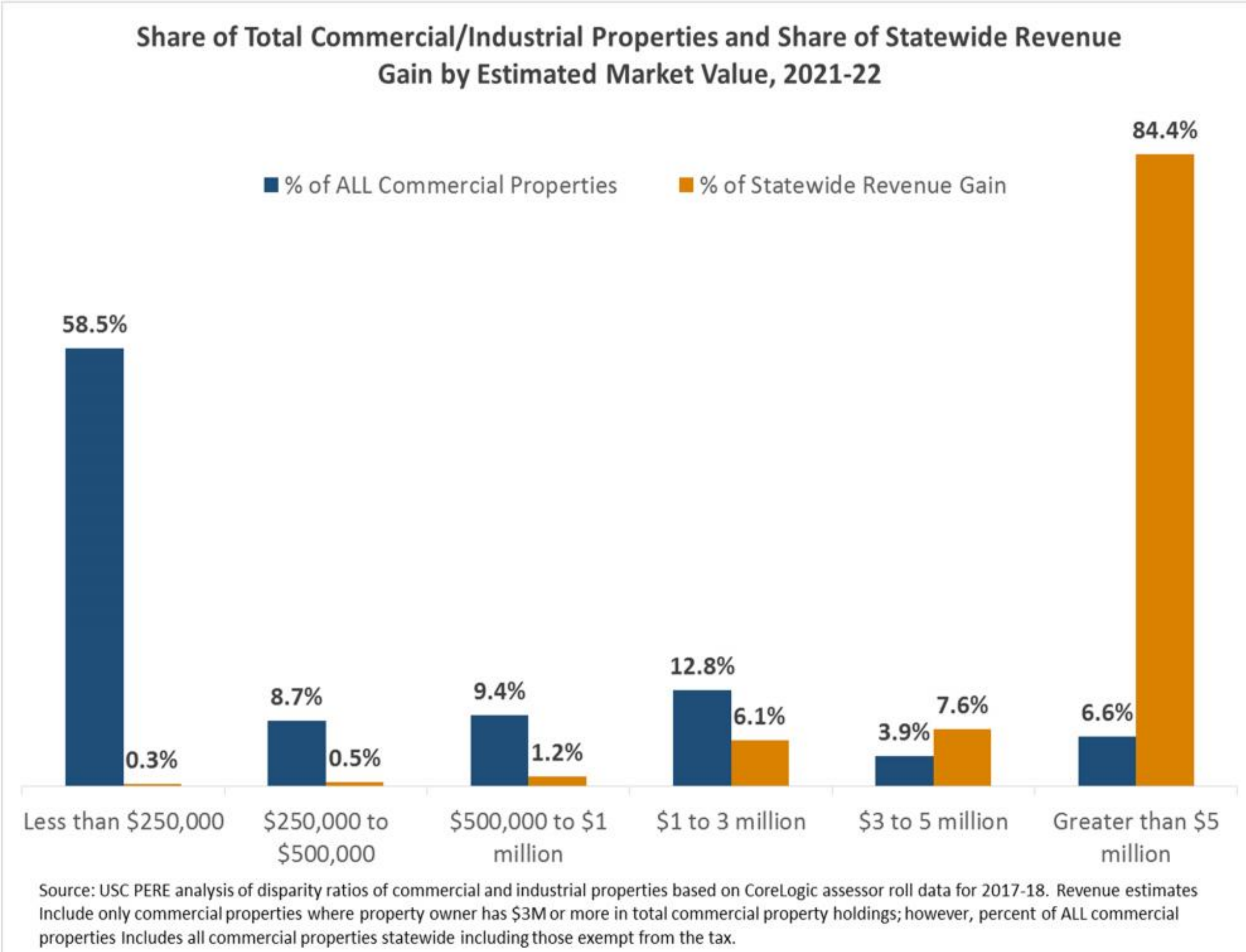
The question has been raised as to the distribution of property taxes that businesses would pay if the Schools and Communities First measure, Proposition 15 on the November ballot in California, is approved by voters. In answering this question, we wanted to understand whether revenues raised by the measure would come fairly equally from all commercial and industrial properties – an across-the-board increase -- or be concentrated among a more limited number of properties.

To perform this analysis, we used the assessors' property tax roll data used by the Program on Environmental and Regional Equity at the University of Southern California. That data shows how many properties would generate how much revenue and reveals that most of the revenue would come from a relatively small share of commercial and industrial properties. However, because USC PERE's analysis was done before all of the initiative's details were finalized, we wanted to update their analysis to reflect the measure's specific provisions. In particular, the Schools and Communities First initiative provides for an exemption from reassessment for properties worth $3 million or less, not including properties whose owners own multiple properties valued collectively at more than $3 million.

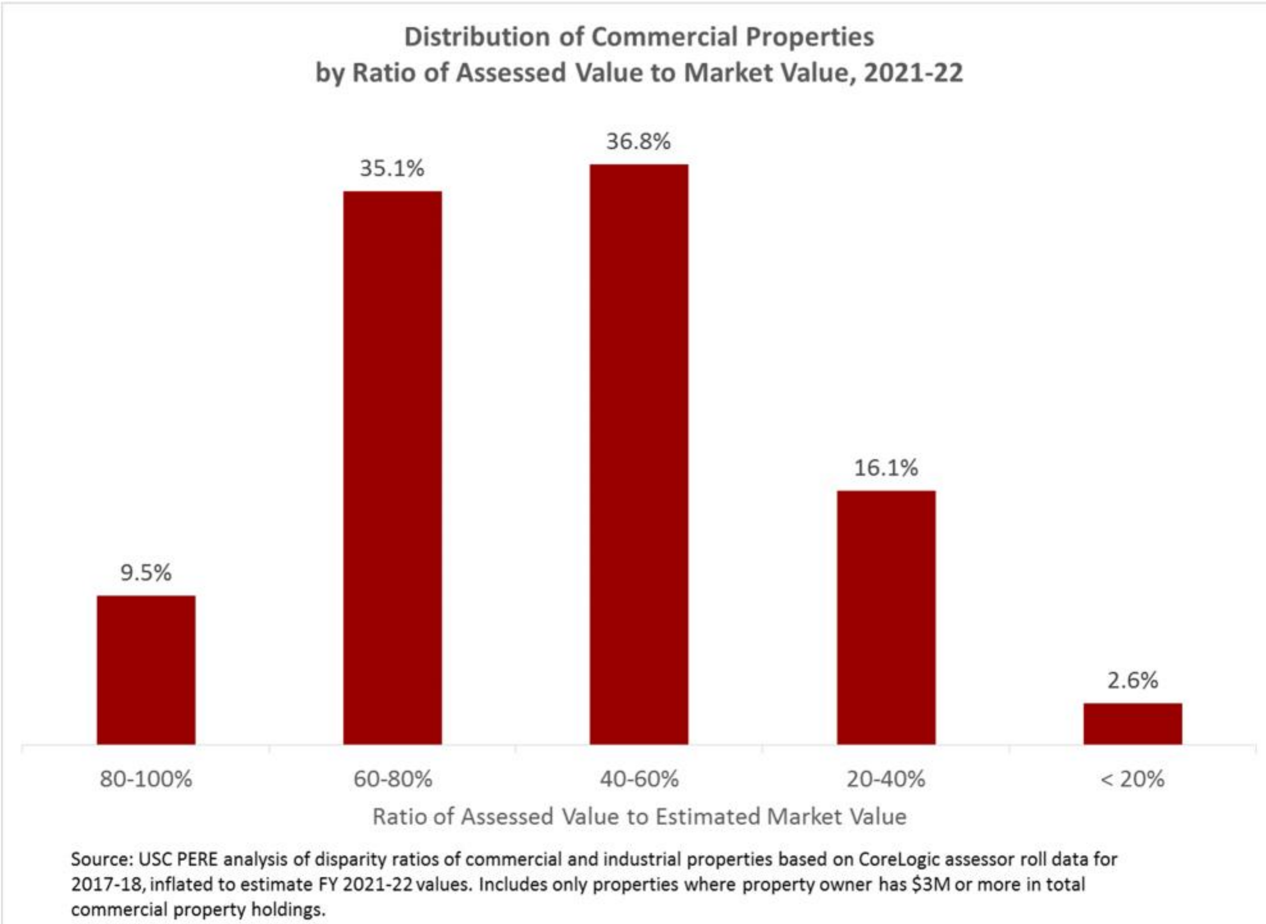
About 10 percent of commercial industrial properties would pay 92 percent of the revenues raised by the measure. Adjusting for this $3 million exemption, we concluded that 10.5 percent of commercial and industrial properties would pay 92 percent of the revenues raised by the measure, as shown on the chart on the next page. Thus, rather than the revenues from the initiative coming fairly evenly from all commercial and industrial properties, reassessment of a very small share of all properties will generate the vast majority of the revenues.

> ***"the responsibility for higher taxes from the measure is highly concentrated among a small percentage of properties."***

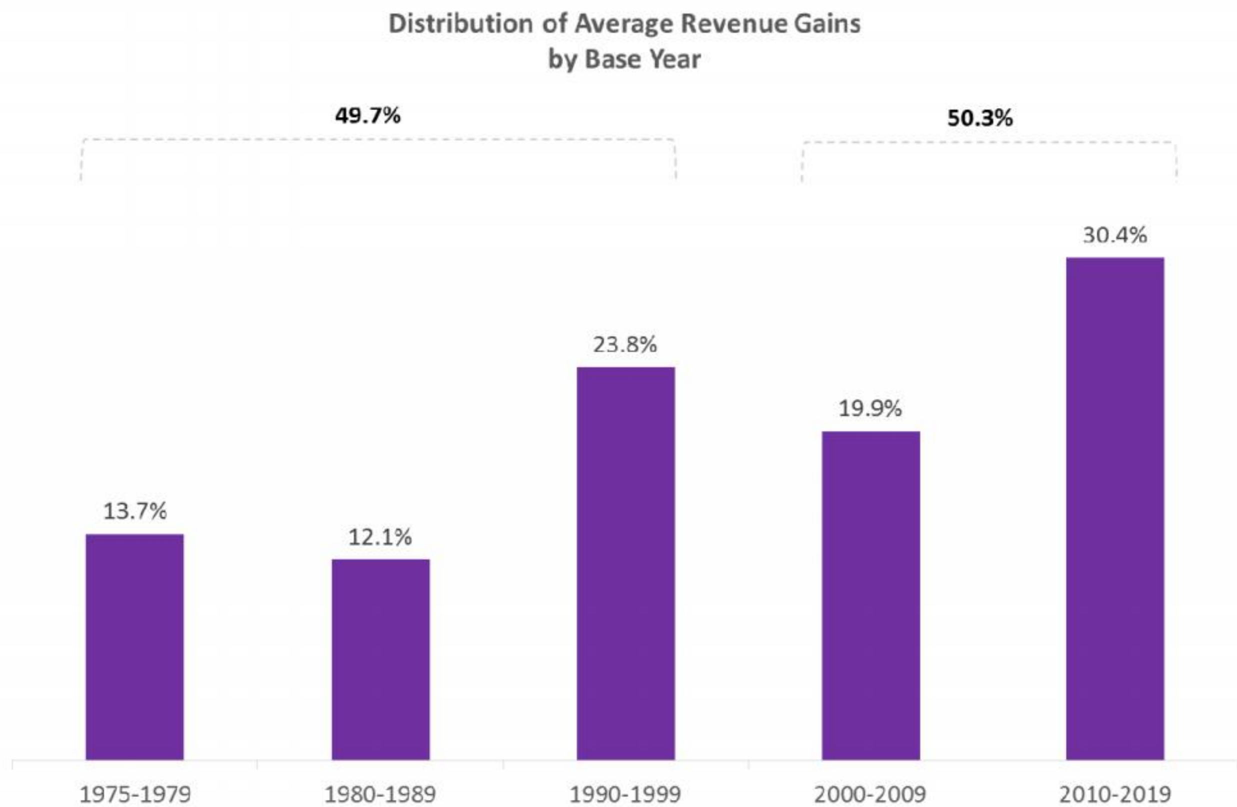
This means that the responsibility for higher taxes from the measure is highly concentrated among a small percentage of properties. This is borne out by digging further into the numbers. Reassessing the properties representing 2 percent of all commercial and industrial properties will generate over three-quarters of all of the revenue raised.



On average, properties that will be reassessed under Schools and Communities First are under-assessed by 50 percent or more. The large share of revenues coming from a small percentage of commercial properties results in large part from the fact that those properties are the most under-assessed, meaning that they have the largest gap between their assessed and market values. On average, properties that will be reassessed under Schools and Communities First are under-assessed by 50 percent or more. This means that their assessed value under Proposition 13 is about half or less than half of their market value because they have not been reassessed for a considerable period of time. Because this is an average, some properties are under-assessed by a smaller percentage and some are under-assessed by larger percentages. Thus, as shown on the graph on the next page, 18.7 percent of commercial and industrial properties that would be reassessed under the measure are assessed at less than 40 percent of their market value, and 55.5 percent at less than 60 percent of their market value.



Nearly 50 percent of the revenue from the measure will come from properties that have not been reassessed since before 2000. As shown in the graph on the next page, nearly 50 percent of the revenue from the measure will come from properties that have not been reassessed since before 2000 and more than a quarter of the revenues from properties that haven't been reassessed since prior to 1990.



Source: USC PERE analysis of disparity ratios of commercial and industrial properties based on CoreLogic assessor roll data for 2017-18, inflated to estimate values for FY 2021-22. Includes only properties where the owner has $3M or more in total commercial property holdings.

New business personal property tax exemption likely means that the overall impact is even more concentrated among a relatively small share of commercial properties. In addition to the exemption provided for properties worth $3 million and under, it's worth noting that the Schools and Communities First measure includes a provision that exempts all taxpayers from property taxes on business personal property such as fixtures up to $500,000 of such property and completely exempts small businesses, as defined, from business personal property taxes. While there's insufficient data to incorporate this provision into the analysis of the distributional impact of the initiative, it's likely that it means the overall impact is even more concentrated among a relatively small share of commercial properties.