



## CITY OF GLENDALE, CALIFORNIA REPORT TO THE CITY COUNCIL

### AGENDA ITEM

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Report: Consideration of Support for California Proposition 15, Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative

1. Resolution in Support of the Schools and Local Communities Funding Act

### COUNCIL ACTION

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**Item Type:** Action Item

**Approved for** August 4, 2020 **calendar**

### ADMINISTRATIVE ACTION

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**Approved by:**

Yasmin K. Beers, City Manager

## **RECOMMENDATION**

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Staff respectfully recommends that Council provide direction on support for California Proposition 15, the Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative, that will appear on the November 3, 2020 statewide ballot.

## **BACKGROUND/ANALYSIS**

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This report is being presented at the request of City Council for consideration of Council's support for Proposition 15, known as the Schools and Communities First Initiative. The official ballot title for this measure is, "Increases Funding for Public Schools, Community Colleges, and Local Government Services by Changing Tax Assessment of Commercial and Industrial Property. Initiative Constitutional Amendment." and will appear on the November 3, 2020 ballot in California.

A "Yes" vote on this measure means that property taxes on most commercial properties worth more than \$3 million would increase in order to provide new funding to local governments and schools. A "No" vote on this measure means that property taxes on commercial properties would stay the same, and local governments and schools would not get new funding. Should the measure pass, increased property taxes on commercial properties worth more than \$3 million would provide \$6.5 billion to \$11.5 billion in new funding to local governments and schools. The full text of the ballot initiative is provided as Exhibit 1 of this report.

### **Background**

California cities, counties, schools, and special districts collect property taxes from property owners based on the value of their property. Property taxes raise around \$65 billion each year for these local governments. Overall, about 60% of property taxes go to cities, counties, and special districts. The other 40% goes to schools and community colleges. These shares are different in different counties. Property taxes apply to many kinds of property. Land and buildings are taxed, and businesses also pay property taxes on most other things they own. This includes equipment, machinery, computers, and furniture, and is referred to as "business equipment."

Each property owner's annual property tax bill is equal to the taxable value of their property multiplied by their property tax rate. The typical property owner's property tax rate is 1.1%. In the year a piece of land or a building is purchased, its taxable value typically is its purchase price. Each year after that, the property's taxable value is adjusted for inflation by up to 2% percent. When a property is sold again, its taxable value is reset to its new purchase price. The taxable value of most land and buildings is less than what they could be sold for. This is because the sale price most of properties grows faster than 2% per year. Unlike land and buildings, business equipment is taxed based on how much it could be sold for today.

County assessors determine the taxable value of property, county tax collectors bill property owners, and county auditors distribute tax revenue to local governments. Statewide, counties spend about \$800 million each year on these activities.

The ballot initiative would amend the California State Constitution to require commercial and industrial properties, except those zoned as commercial agriculture, to be taxed based on their market value. In California, the proposal to assess taxes on commercial and industrial properties at market value, while continuing to assess taxes on residential properties based on the purchase price, is known as split roll.

The change from the purchase price to market value would be phased in beginning in fiscal year 2022-23. The change does not start before 2025 for properties used by California businesses that meet certain rules and have 50 or fewer employees. Housing and agricultural land continues to be taxed based on its original purchase price.

The ballot initiative would make an exception for properties whose business owners have \$3 million or less in holdings in California (adjusted for inflation every two years). These properties would continue to be taxed based on original purchase price. The measure would reduce the taxable value of each business's equipment by \$500,000 starting in 2024. Businesses with less than \$500,000 of equipment would pay no taxes on those items. All property taxes on business equipment would be eliminated for California businesses that meet certain rules and have 50 or fewer employees.

### **Fiscal Impact**

Should Proposition 15 pass, most owners of commercial land and buildings worth more than \$3 million would pay higher property taxes. Only some of these property owners would start to pay higher taxes in 2022. By 2025, most of these property owners would pay higher taxes. Beginning in 2025, total property taxes from commercial land and buildings would probably be \$8 billion to \$12.5 billion higher in most years. The value of commercial property can change significantly from year to year, which means the amount of increased property taxes also could change significantly from year to year. Additionally, property taxes on business equipment would probably be several hundred million dollars lower each year.

The measure sets aside money for various costs created by the measure. This includes giving several hundred million dollars per year to counties to pay for their costs of carrying out the measure. The measure would increase the amount of work county assessors do and could require changes in how they do their work. The state would loan money to counties to cover these initial costs until new property tax revenue is available.

Overall, \$6.5 billion to \$11.5 billion per year in new property taxes would go to local governments. Of this, 60% would go to cities, counties, and special districts. Each city, county, or special district's share of the money depends on several things, including the amount of new taxes paid by commercial properties in that community. Not all governments would be guaranteed new money. Some in rural areas may end

up losing money because of lower taxes on business equipment. The other 40% would increase funding for schools and community colleges. Revenue appropriated for education would be divided as follows: 11% for community colleges and 89% for public schools, charter schools, and county education offices. There would also be a requirement that schools and colleges receive an annual minimum of \$100 (adjusted each year) per full-time student.

Blue Sky Consulting Group compiled a report in May 2020 for the Schools and Communities First campaign, which supports Proposition 15. This report, included as Exhibit 2, provides estimates of the allocation of revenues for select counties:

- Alameda County
  - County General Fund: \$175.3 million
  - City of Oakland: \$69.4 million
- Sacramento County
  - County General Fund: \$38.2 million
  - City of Sacramento: \$19.5
- Fresno County
  - County General Fund: \$23.8 million
  - City of Fresno: \$15.3 million
- Ventura County
  - County General Fund: \$24.3 million
  - City of Stockton: \$6.3 million
- **Los Angeles County**
  - **County General Fund: \$1.3 billion**
  - **City of Los Angeles: \$473.6 million**
- Santa Barbara County
  - County General Fund: \$28.9 million
  - City of Santa Maria: \$3.4 million
- Orange County
  - County General Fund: \$126.7 million
  - City of Santa Ana: \$19.1 million
- Santa Clara County
  - County General Fund: \$255.7 million
  - City of San Jose: \$76.8 million
- San Bernardino County
  - County General Fund: \$138.3 million
  - City of Ontario: \$18.72 million
- San Diego County
  - County General Fund: \$147.2 million
  - City of San Diego: \$79.7 million

According to this Blue Sky report, the City of Glendale is estimated to receive approximately \$15.5 million per year from this measure. While school district estimates have not been widely published yet, a representative from the Schools & Communities

First campaign indicated that the Glendale Unified School District is estimated to receive approximately \$15.2 million every year.

Blue Sky Consulting Group compiled another report for the campaign titled, “Concentration of Revenue Generated by Proposition 15,” which provides an analysis on the share of properties responsible for the majority of revenues generated by this measure. This report is included as Exhibit 3. The report suggests that about 10% of commercial industrial properties would pay 92% of the revenues raised by the measure.

### **Support for Proposition 15**

Support for Proposition 15 is led by the Yes on 15: Schools and Communities First campaign. A list of supporters can be found in Exhibit 4 of this report.

### **Opposition to Proposition 15**

Stop Higher Property Taxes and Save Prop. 13, also known as No on Prop 15, is leading the campaign in opposition to the ballot initiative. A list of opponents can be found in Exhibit 5 of this report.

## **FISCAL IMPACT**

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There is no direct fiscal impact associated with passing a resolution of support in favor of Proposition 15. The Schools and Communities First campaign, which is the campaign in favor of this proposition, has reported that the City of Glendale is estimated to receive approximately \$15.5 million per year from this measure of the passage.

## **ALTERNATIVES**

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Alternative 1: The City Council may approve a resolution in support of Proposition 15, as it appears on the November 3, 2020 statewide ballot.

Alternative 2: The City Council may choose to not approve a resolution in support of Proposition 15 and remain neutral on the measure.

Alternative 3: The City Council may direct staff to bring back a resolution in opposition to Proposition 15, as it appears on the November 3, 2020 statewide ballot, for Council’s consideration.

Alternative 4: The City Council may consider any other alternative not proposed by staff.

## **CAMPAIGN DISCLOSURE**

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N/A

## **EXHIBITS**

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1. Full Text of Ballot Initiative

2. Blue Sky Consulting Group Report: Allocation of Revenues from Schools and Communities First for Selected Counties
3. Blue Sky Consulting Group Report: Concentration of Revenue Generated by Proposition 15
4. Proposition 15 Supporters
5. Proposition 15 Opponents