

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: June 8, 2016

TO: Honorable Members of the Rules, Elections, Intergovernmental Relations
and Neighborhoods Committee

FROM: Sharon M. Tso *SKT*
Chief Legislative Analyst

Council File No: 15-0002-S76
Assignment No: 15-07-0561

SUBJECT: Resolution (Koretz-Krekorian) to SUPPORT SCA 5 (Hancock)

CLA RECOMMENDATION: Adopt Resolution (Koretz-Krekorian) to include in the City's 2015-16 State Legislative Program SUPPORT for SCA 5 (Hancock), which would annually assess larger commercial and industrial properties to more closely tie their tax rates to current market value.

SUMMARY

On July 1, 2015, Resolution (Koretz-Krekorian) was introduced proposing that the City support Senate Constitutional Amendment 5 (SCA 5), authored by Senators Loni Hancock and Holly Mitchell. If approved by two-thirds of the State Legislature and a majority of the voters, SCA 5 would enact the Property Tax Fairness amendment to begin reassessing commercial and industrial properties at their fair market value after a phase-in period, and would exempt from business personal property taxes the first \$500,000 in equipment and fixtures used for business purposes. The authors of SCA 5 estimate that the latter provision will remove 90 percent of all businesses from the personal property tax rolls. The authors of SCA 5 estimate that enactment and implementation of SCA 5 will generate at least \$9B in additional revenue for California. The Resolution recommends support of SCA 5.

BACKGROUND

According to an analysis of SCA 5 prepared by staff to the California State Board of Equalization (State BOE), based on 2014-15 assessed values, approximately \$94.3B in "business personal property" would be exempt from taxation under SCA 5, reducing tax revenue statewide by about \$1B. However, State BOE staff estimate that there are 650,000 commercial/industrial properties in California with a total assessed value of \$1.160T that would be subject to reassessment under SCA 5, which could increase tax revenue by more than \$5B annually, offsetting revenue losses from the tax exemption.

As currently drafted, if SCA 5 is enacted by the Legislature and approved by the voters, the provisions of SCA 5 would be phased in beginning in the 2018-19 Fiscal Year. Beginning in 2018, all commercial and industrial property subject to SCA 5 would be reassessed based on the property's fair market value, with certain exceptions, and would be subject to taxation based on that value. For those properties with a fair market value of less than \$3M whose assessed value

under SCA 5 increases by more than 25 percent, liability for the increased taxes would be delayed for up to five years under certain conditions. SCA 5 will not apply to residential or agricultural properties, and property tax rates established under Proposition 13 will remain unchanged. SCA 5 also contains other provisions detailing the methods to be used for allocating the increased revenue to schools and local government.

As noted in the State BOE staff report, over the years, there have been more than two dozen legislative proposals and initiatives that would change the law to require periodic or annual reassessments, create a split tax rate, add business personal property exemptions, or increase the frequency of reassessments of legal-entity owned property. In 2014, the City of Los Angeles adopted Resolution (Koretz-Bonin-Cedillo-Krekorian) to express support for any state legislation that would implement commercial property tax reform that will require non-residential commercial properties to be reassessed regularly, while maintaining Proposition 13 protections for residential properties and small businesses.

DEPARTMENTS NOTIFIED

None

BILL STATUS

March 27, 2016 – Introduced.

April 7, 2016 - Referred to the Senate Committee on Government & Finance, Senate Committee on Elections & Constitutional Amendments, and the Senate Appropriations Committee.

April 12, 2016 - Most recent amendments.



Roy R. Morales
Analyst

Attachments: 1. Resolution (Koretz-Krekorian)
2. SCA 5 (Hancock)

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, Proposition 13, passed in 1978, has unfairly allowed some of the largest corporations and property owners to avoid reassessment of their business property in the nearly four decades since voters passed Proposition 13, often by taking advantage of loopholes in the law, which has resulted in a shift of the tax burden to residential property, including everyday homeowners and working families; and

WHEREAS, Senate Constitutional Amendment 5 (SCA 5), authored by Senators Loni Hancock and Holly Mitchell, would enact the Property Tax Fairness amendment to begin reassessing commercial and industrial properties at their fair market value after a phase-in period, rather than allow them to continue to be taxed at their base value from the mid-1970's or only when they change ownership.

WHEREAS, SCA 5 would also provide tax relief to nearly 90 percent of all small businesses by exempting from taxation the first \$500,000 in equipment and fixtures subject to business personal property taxes beginning in 2019, protecting homeowners and renters from any changes to their property tax status, and creating strict new accountability measures for new revenues.

WHEREAS, regularly reassessing larger non-residential property while protecting small businesses would generate at least \$9 billion in additional revenue for California according to authors of SCA 5, and phase in a shift of the tax burden away from homeowners, renters, and working families to larger corporations and commercial landholders;

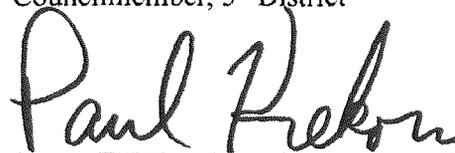
NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2015-16 State Legislative Program SUPPORT for SCA 5 (Hancock) which would annually assess larger commercial and industrial properties to more closely tie their tax rates to current market value.

PRESENTED BY:



PAUL KORETZ
Councilmember, 5th District

SECONDED BY:



JUL 1 2015

ORIGINAL

AMENDED IN SENATE APRIL 12, 2016

AMENDED IN SENATE JULY 16, 2015

AMENDED IN SENATE JULY 8, 2015

AMENDED IN SENATE JUNE 9, 2015

Senate Constitutional Amendment

No. 5

Introduced by Senators Hancock and Mitchell

March 26, 2015

Senate Constitutional Amendment No. 5—A resolution to propose to the people of the State of California an amendment to the Constitution of the State, by adding Section 3.1 to Article XIII thereof, by adding Sections 2.5 and 8.8 to Article XIII A thereof, by adding Section 14 to Article XIII B thereof, and by adding Sections 8.6 and 8.7 to Article XVI thereof, relating to local government finance.

LEGISLATIVE COUNSEL'S DIGEST

SCA 5, as amended, Hancock. Local government finance.

The California Constitution provides that all property is taxable, unless exempted by the California Constitution or by federal law. The California Constitution authorizes the Legislature to classify personal property for differential taxation or for exemption by means of a statute approved by a $\frac{2}{3}$ vote of the membership of each house.

This measure would exempt from taxation for each taxpayer an amount up to \$500,000 of tangible personal property used for business purposes. This measure would prohibit the Legislature from lowering this exemption amount or from changing its application, but would authorize it to be increased consistent with the authority described above. This measure would provide that this provision shall become operative on January 1, 2019.

This measure, for owners of commercial and industrial property subject to ~~reassessment~~, *reassessment under this measure* who ~~also~~ operate a business or businesses on that property, where the *resulting* increase in assessed value ~~as a result of this measure~~ exceeds 25% compared to the assessed value of the property prior to the operation of this measure, would exempt that portion of the *increase in* assessed value that exceeds 25% ~~as so described~~ from taxation for a period of 5 years if specified conditions are met.

The California Constitution generally limits ad valorem taxes on real property to 1% of the full cash value of that property. For purposes of this limitation, “full cash value” is defined as the assessor’s valuation of real property as shown on the 1975–76 tax bill under “full cash value” or, thereafter, the appraised value of that real property when purchased, newly constructed, or a change in ownership has occurred.

This measure, commencing on the lien date for the 2018–19 fiscal year, would require the full cash value of commercial and industrial property, as defined, to be the fair market value of that property as of the lien date. ~~This measure, for the 2018–19 fiscal year, would require only 50% of those properties that have not been reassessed at fair market value, as specified, to be assessed at fair market value, and by the 2019–20 fiscal year would require all other properties that have not been brought to fair market value to be assessed at fair market value. This measure would require owners of property subject to reassessment as so described to pay only a portion, as provided, of any increase in property tax due in the first year and second years after initial reassessment to fair market value. This measure would require the Legislature to provide by statute for the phase in of the reassessment of commercial and industrial property for fair market value in order to ensure a reasonable workload and implementation period for county assessors and taxpayers.~~

This measure would establish the Local School and Community College Property Tax Fund in the State Treasury, which would be continuously appropriated for the support of school districts, charter schools, schools operated by county offices of education, and community college districts. The measure would require the Controller to allocate 11% of the moneys in the fund to community college districts based on an equal amount per unit of full-time equivalent student receiving educational services, and 89% of the moneys in the fund to school districts, charter schools, and county offices of education. For school districts, charter schools, and county offices of education, the measure

would require the Superintendent of Public Instruction to allocate the moneys based on a formula that would include a base grant, a supplemental grant, and a concentration grant, as specified. The measure would require moneys from the fund to support the K–14 educational program for instructional improvement and accountability, and would prohibit them from being used to pay administrative costs. The measure would require school districts, charter schools, and county offices of education to demonstrate through their local control and accountability plans that they are increasing or improving services for unduplicated pupils in proportion to the increase in funds they receive pursuant to those supplemental and concentration grant allocations. The measure would prohibit moneys in the fund from being subject to appropriation, reversion, or a transfer by the Legislature, Governor, Director of Finance, or Controller for any purpose other than those specified in the measure, or from being loaned to the General Fund or any other fund of the state or any local government fund. The measure would, among other things, provide that moneys appropriated by the fund shall not be applied toward the minimum funding requirements for school districts and community college districts imposed by Section 8 of Article XVI of the California Constitution, and that they shall not be considered for purposes of calculations relating to the Budget Stabilization Account or the Public School System Stabilization Account.

This measure, for each fiscal year beginning with the 2018–19 fiscal year to the 2020–21 fiscal year, inclusive, would require the county assessor to make specified calculations to determine the total “baseline assessed value” and the “incremental assessed percentage” of commercial and industrial property, and to identify the “total revised assessed value” of all commercial and industrial property in the county as determined following the reassessment of commercial and industrial property. This measure would require the county assessor to make additional calculations using the total revised assessed value and the incremental assessed value to determine the incremental revenues available for distribution. This measure, beginning with the 2018–19 fiscal year and for each fiscal year thereafter, would require an amount equal to the reduction in revenues derived from the taxes imposed pursuant to the Personal Income Tax Law and the Corporation Tax Law for each county resulting from the higher property taxes due to the reassessment of commercial and industrial properties and the lower property taxes due to the exemptions described above as estimated by the Franchise Tax Board, to be transferred by each county auditor to

the state General Fund and the Mental Health Services Fund, as provided. This measure, beginning with the 2018–19 fiscal year to the 2020–21 fiscal year, inclusive, would require the county auditor, after transferring the amounts as so described to the state General Fund and the Mental Health Services Fund, to make specified determinations and calculations with respect to the remaining incremental revenues, and to transfer specified amounts to the Controller for deposit in the Local School and Community College Property Tax Fund, for allocation and distribution, as described above. This measure would require the balance of the incremental revenues remaining after transferring the amounts as so described to the Controller to be allocated among local agencies. This measure would require the county auditor to report the incremental revenues available for distribution and calculation made, along with supporting documentation, to the Controller, and would require the Controller to certify that the calculation was properly made and to post the percentage figure for each county on the Controller's Internet Web site. This measure, for the 2021–22 fiscal year, would require the county assessor to perform the calculations described above, and would require the county auditor to report the resulting percentage to the Controller. This measure, for the 2021–22 fiscal year and each fiscal year thereafter, would require the county auditor to make the determinations and calculation described above, and to transfer the resulting property tax revenues to the Controller for deposit in the Local School and Community College Property Tax Fund, and would require the balance of the incremental revenues to be allocated among local agencies.

This measure would require all local education agencies, community colleges, counties, cities and counties, cities, and special districts that receive funds from the new revenues generated by the reassessment of commercial and industrial properties to publicly disclose the amount of property tax revenues received, as specified, and how those revenues were spent, and to publish online all public disclosures, with a copy of each disclosure to the Controller. This measure would require all annual public audits required of local education agencies, community colleges, counties, cities and counties, cities, and special districts that receive funds from the new revenues generated by the reassessment of commercial and industrial properties to disclose the amount of property tax revenues received, as specified, and to confirm whether the use of those revenues is consistent with the requirements of this measure.

This measure would authorize expenses incurred by local education agencies to comply with these audit and disclosure requirements to be

paid with funding from the Local School and Community College Property Tax Fund.

The California Constitution prohibits the annual appropriations subject to limitation of any entity of state or local government from exceeding its adjusted annual appropriations limit. The California Constitution defines “appropriations subject to limitation” as any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity, and defines “proceeds of taxes” to include all tax revenues and the proceeds to an entity of government from specified sources.

This measure would prohibit proceeds of taxes, and appropriations subject to limitation of each entity of government, from including tax revenues generated by the reassessment of commercial and industrial property under this measure.

The California Constitution requires the state, whenever the Legislature or a state agency mandates a new program or higher level of service on any local government, to provide a subvention of funds to reimburse the local government, with specified exceptions.

This measure would exclude the duty to collect the tax revenues generated by the reassessment of commercial and industrial property under this measure from being considered a new program or higher level of service mandated by the state. This measure would, however, authorize the board of supervisors of a county or city and county to direct the county auditor to allocate to the county or city and county an amount equal to the actual direct administrative costs associated with the implementation of the reassessment of commercial and industrial property.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

1 WHEREAS, The majority of commercial and industrial
2 properties are assessed at or close to their actual market value, and
3 their owners are paying their share of property taxes to help support
4 schools and other local services. But many other commercial and
5 industrial properties currently are assessed far below their actual
6 value; and

7 WHEREAS, According to a recent study by USC Dornsife
8 researchers, owners of these underassessed commercial and
9 industrial properties are avoiding over \$9 billion in local property
10 taxes that should be going to support schools, community colleges,

1 and other community services such as public safety, fire protection,
2 libraries, and parks; and

3 WHEREAS, Proposition 13 was approved by voters in 1978 to
4 protect homeowners from skyrocketing property taxes. But since
5 then, underassessment of commercial and industrial properties has
6 contributed to a tax shift that has substantially increased the share
7 of property taxes being paid by owners of residential properties,
8 including both homeowners and residential rental property; and

9 WHEREAS, Since 1978 the residential share of assessed value
10 statewide has increased from ~~55% to 72%~~ *55 percent to 72 percent*
11 of the total while the commercial, industrial, and agricultural share
12 of assessed value has decreased from ~~45% to just 28%~~ *45 percent*
13 *to 28 percent* and

14 WHEREAS, The combination of Proposition 13 and the
15 Williamson Act have been effective tools in the preservation of
16 agricultural land and should be protected; and

17 WHEREAS, When homeowners sell their homes, the property
18 is reassessed to the full market value of the property based on the
19 sales price. But many large corporations and wealthy individuals
20 are able to take advantage of loopholes and complex stock
21 manipulations to avoid reassessment when a commercial or
22 industrial property changes hands. For example, in one widely
23 publicized transaction, a wealthy CEO was able to structure the
24 purchase of a \$200 million hotel property in a way that prevented
25 reassessment, avoiding more than \$1.1 million a year in local
26 property taxes; and

27 WHEREAS, California's current system of taxing commercial
28 and industrial properties is an impediment to fair competition. It
29 favors underassessed businesses over other businesses competing
30 for the same customers that are assessed at their actual value. It
31 allows owners of underassessed properties to avoid paying their
32 share of taxes to support the local public services they benefit from
33 just as much as the fully assessed businesses that are paying their
34 fair share; and

35 WHEREAS, The current system of taxing commercial and
36 industrial properties also creates perverse incentives that discourage
37 owners from investing in improvements in order to avoid
38 reassessment, while these same underassessed owners are being
39 unfairly advantaged over other commercial and industrial property

1 owners, starting up or expanding an existing business, who are
2 assessed at the full market value of their property; and

3 WHEREAS, The current system of assessing commercial and
4 industrial properties has had the unintended consequence of
5 encouraging sprawl and discouraging “smart growth,” which is an
6 inefficient use of scarce resources such as energy, water, and land;
7 and

8 WHEREAS, While the property tax on business equipment and
9 fixtures is an irritating burden for small businesses, particularly
10 for those attempting to start up or expand, it also provides revenues
11 that support local services. Because this measure eliminates the
12 underassessment of commercial and industrial properties and
13 thereby provides other revenue to support local services, it also
14 can provide businesses with an exemption of up to \$500,000 for
15 equipment and fixtures. A \$500,000 exemption helps all businesses,
16 and will eliminate the tax on equipment and fixtures entirely for
17 ~~90%~~ *90 percent* of businesses whether they own and operate their
18 own small business or rent their place of business; and

19 WHEREAS, If commercial and industrial properties pay their
20 fair share of taxes, more money will be available for our public
21 schools, which remain funded well below the national average.
22 Because of the unique interactions between property tax revenues
23 and the Proposition 98 minimum funding guarantee, however, the
24 best way to ensure that all school districts benefit equally from
25 these new property tax revenues is to place them in a special fund
26 outside Proposition 98 and distribute them based on enrollment,
27 with more revenues going to those districts that have higher
28 proportions of low-income or English learner students and foster
29 youth; and

30 WHEREAS, If California were a country, it would have the
31 eighth largest economy in the world. California corporations are
32 enjoying record profits and many businesses are starting up,
33 expanding, and relocating here, even though some businesses do
34 leave California. The complaints of some businesses and their
35 spokespersons about high taxes are not an excuse for corporations
36 and wealthy investors to avoid paying their fair share of local
37 property taxes as do other businesses. Local communities are
38 strengthened when everyone is contributing to the common good
39 by paying their share to support schools, job training, public safety,
40 fire protection, and other local services; and

1 WHEREAS, Reforming commercial and industrial property
2 assessments to bring underassessed properties up to their full value
3 will remove tax-induced disincentives to investment in commercial
4 and industrial property, provide a level playing field for businesses
5 to compete, and require owners of underassessed properties to join
6 with the majority of businesses already paying their fair share to
7 support local schools and other community services; and

8 WHEREAS, Proposition 13 limits property tax rates to ~~1%~~ 7
9 percent of assessed value. Requiring assessors to bring assessments
10 of underassessed commercial and industrial properties up to their
11 actual market value will not affect the ~~1%~~ 7 percent limitation on
12 rates in any way. Property tax rates on California businesses will
13 continue to be among the lowest in the country; now, therefore,
14 be it

15 *Resolved by the Senate, the Assembly concurring,* That the
16 Legislature of the State of California at its 2015–16 Regular
17 Session commencing on the first day of December 2014, two-thirds
18 of the membership of each house concurring, hereby proposes to
19 the people of the State of California that the Constitution of the
20 State be amended as follows:

21 First— That it is the intent of the people of the State of
22 California to do all of the following in this measure:

23 (a) Eliminate the inequities and impediments to economic
24 growth caused by current laws governing the assessment of
25 commercial and industrial properties, by requiring all commercial
26 and industrial properties to be assessed at their full market value
27 and reducing the property tax on business equipment and fixtures.

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

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

34 (d) Make sure schools, community colleges, counties, cities and
35 counties, cities, and special districts are appropriately spending
36 any new revenues they receive from this measure by requiring that
37 new revenues and their expenditure be publicly disclosed and
38 annually audited and that all required disclosures and audits are
39 easily accessible online.

1 (e) Authorize the distribution among local governments of any
2 new revenues resulting from the implementation of this law in the
3 same manner as other property tax revenues.

4 (f) Ensure that the portion of any new revenues going to local
5 schools and community colleges is treated as new revenues that
6 are in addition to all other funding for schools and community
7 colleges, and is allocated in a manner that benefits all schools and
8 community colleges consistent with constitutional requirements.
9 Accordingly, these additional funds for schools and community
10 colleges shall not be considered funds of the State, shall not be
11 subject to Proposition 98 or the Proposition 2 rainy day fund, and
12 shall not be subject to appropriation by the Legislature. The funds
13 will be allocated to school districts and community college districts
14 based on enrollment. School districts with higher proportions of
15 low-income and English learner students and foster youth will
16 receive additional funds to provide more or better services to those
17 students.

18 (g) Assist small businesses, whether they own or rent their place
19 of business, by reducing the business tangible personal property
20 tax on equipment and fixtures for each business by exempting
21 \$500,000 of that property from taxation. This would eliminate the
22 tax on equipment and fixtures for about 90 percent of all California
23 businesses. The Legislature would be prohibited from lowering
24 this exemption but would be authorized to increase it.

25 (h) ~~Provide~~ *To require the Legislature to provide* for the phase
26 in of the assessment of underassessed commercial and industrial
27 properties to give county assessors time to effectively implement
28 the new law.

29 (i) Provide owners of underassessed commercial and industrial
30 properties time to meet their obligations under the law by phasing
31 in assessment increases resulting from the initial implementation
32 of this law. Small business owners will be eligible for additional
33 assistance in complying with the law through an additional
34 five-year phase-in for small business owner-operators.

35 Second— That Section 3.1 is added to Article XIII thereof, to
36 read:

37 SEC. 3.1. (a) For each taxpayer paying the tax on tangible
38 personal property used for business purposes, an amount of up to
39 five hundred thousand dollars (\$500,000) per taxpayer is exempt
40 from taxation. Fixtures shall be included as tangible personal

1 property subject to this exemption, but aircraft and vessels shall
2 not be included. The Legislature shall not lower this exemption
3 amount or change its application but otherwise may increase it
4 consistent with the authority enumerated in Section 2.

5 (b) (1) For owners of property subject to reassessment under
6 Section 2.5 of Article XIII A who operate a business or businesses
7 on that property, where the increase in assessed value as a result
8 of this measure exceeds 25 percent compared to the assessed value
9 of the property prior to the operation of this measure, that portion
10 of the assessed value that exceeds 25 percent compared to the
11 assessed value of the property prior to the operation of this measure
12 shall be exempt from taxation for a period of five years following
13 the reassessment of the property as a result of this measure,
14 provided that all of the following conditions are met:

15 (A) The owner uses a majority of the property for their own
16 business purpose.

17 (B) The total fair market value is less than three million dollars
18 (\$3,000,000) for the entire property, including land and buildings.
19 Property owners owning properties in a single county shall certify
20 under penalty of perjury that the aggregate fair market value of all
21 their properties in that county does not exceed three million dollars
22 (\$3,000,000) in order to qualify for this exemption. Property
23 owners owning properties in more than one county must certify
24 under penalty of perjury that the aggregate fair market value of all
25 of their properties statewide does not exceed three million dollars
26 (\$3,000,000) in order to qualify for this exemption.

27 (2) This exemption shall expire five years from its initial
28 application to a commercial or industrial property, at which time
29 the property owner shall be liable for the full amount of property
30 taxes levied on the property pursuant to the operation of this
31 measure. However, property owners who have realized a reduction
32 in property taxes as a result of the operation of this subdivision
33 are not liable for the property taxes exempted for the duration of
34 the operation of this exemption.

35 Third— That Section 2.5 is added to Article XIII A thereof,
36 to read:

37 SEC. 2.5. (a) (1) This section shall not apply to residential
38 property as defined in this section, whether it is occupied by a
39 homeowner or a renter. Residential property as defined in this
40 section shall be assessed consistent with Section 2 of Article XIII A.

1 This section shall also not apply to real property used for
2 commercial agricultural production as defined in this section.
3 Property used for commercial agricultural production as defined
4 in this section shall be assessed consistent with Section 2 of Article
5 XIII A.

6 (2) Notwithstanding Section 2 of Article XIII A, for the lien
7 date for the 2018–19 fiscal year and each lien date thereafter, the
8 “full cash value” of commercial and industrial real property that
9 is not used for commercial agricultural production or is otherwise
10 exempt under the Constitution or a statute enacted pursuant to the
11 authority in Section 2 of Article XIII A is the fair market value
12 of that property as of that date, except as provided in subdivisions
13 (b) and (c): *by the Legislature pursuant to subdivision (b).*

14 ~~(b) (1) For the 2018–19 fiscal year only, the requirement that~~
15 ~~those commercial and industrial properties subject to reassessment~~
16 ~~under this section be assessed at fair market value shall apply only~~
17 ~~to the 50 percent of such properties that have not been brought to~~
18 ~~fair market value for any part of their property for the greatest~~
19 ~~number of years prior to the 2018–19 lien date.~~

20 ~~(2) For the 2019–20 and 2020–21 fiscal years only, the assessed~~
21 ~~value of properties assessed at full market value pursuant to~~
22 ~~paragraph (1) shall be increased by the rate of inflation, but not~~
23 ~~more than 2 percent. In no event, however, shall the assessed value~~
24 ~~of a property exceed the fair market value as of the lien date during~~
25 ~~this period.~~

26 ~~(3) Owners of property subject to this subdivision shall be~~
27 ~~required to pay one-third of the amount of any increase in property~~
28 ~~tax due and payable resulting from initial assessment to fair market~~
29 ~~value in the first year upon receiving the new valuation required~~
30 ~~by paragraph (1), two-thirds of the amount of any increase in~~
31 ~~property tax due and payable in the second year, and the full~~
32 ~~amount of any property tax due and payable in the third year after~~
33 ~~initial reassessment to fair market value and in subsequent years~~
34 ~~thereafter. The balance of the amounts due for the first and second~~
35 ~~years following initial assessment to full market value are hereby~~
36 ~~forgiven.~~

37 ~~(c) (1) All other commercial and industrial properties subject~~
38 ~~to reassessment under this section shall be assessed at fair market~~
39 ~~value by the 2019–20 lien date.~~

1 ~~(2) For the 2020-21 fiscal year only, the assessed value of~~
2 ~~properties assessed at full market value pursuant to paragraph (1)~~
3 ~~shall be increased by the rate of inflation, but not more than 2~~
4 ~~percent. In no event, however, shall the assessed value of a property~~
5 ~~exceed the fair market value as of the lien date during this period.~~

6 ~~(3) Owners of property subject to this subdivision shall be~~
7 ~~required to pay one-half of the amount of any increase in property~~
8 ~~tax due and payable resulting from initial assessment to fair market~~
9 ~~value in the first year upon receiving the new valuation required~~
10 ~~by paragraph (1) and the full amount of any property tax due and~~
11 ~~payable in the year following initial reassessment and in subsequent~~
12 ~~years thereafter. The balance of the amount due for the first year~~
13 ~~following initial assessment to full market value are hereby~~
14 ~~forgiven.~~

15 *(b) The Legislature shall provide by statute for the phase in of*
16 *the reassessment of commercial and industrial property as required*
17 *by this section over two or more lien dates commencing with the*
18 *lien date in 2018, in order to ensure a reasonable workload and*
19 *implementation period for county assessors and taxpayers.*

20 ~~(d)~~

21 *(c) For purposes of this section:*

22 *(1) "Commercial and industrial real property" means any real*
23 *property that is not residential property or not used for commercial*
24 *agricultural production.*

25 *(2) "Residential property" shall include both single-family and*
26 *multiunit structures, and the land on which such structures are*
27 *constructed or placed, that are intended to be used and are used*
28 *for long-term residential occupancy, but shall exclude hotels,*
29 *motels, and similar structures that are used primarily for transient*
30 *and nonpermanent residence.*

31 *(3) "Real property used for commercial agricultural production"*
32 *is real property that is used and zoned for producing commercial*
33 *agricultural commodities and the parcel does not contain a*
34 *single-family residence or a multifamily residence that was*
35 *subdivided in accordance with the Subdivision Map Act (Division*
36 *2 (commencing with Section 66410) of Title 7 of the Government*
37 *Code), or any successor to that law, or that was described and*
38 *conveyed in one or more deeds separating the parcel from all*
39 *adjoining property.*

1 (c) Notwithstanding subdivision (a), it is the intent of the voters
2 in this section to provide a transition to fair market value as
3 provided in subdivisions (b) and (c), for the purposes of ensuring
4 a reasonable workload and implementation period for county
5 assessors and taxpayers.

6 Fourth— That Section 8.8 is added to Article XIII A thereof,
7 to read:

8 SEC. 8.8. (a) All local education agencies, community
9 colleges, counties, cities and counties, cities, and special districts
10 that receive funds from the new revenues generated by Section
11 2.5 of Article XIII A shall publicly disclose each year, including
12 in their annual budgets, the amount of property tax revenues they
13 received for that fiscal year as the result of Section 2.5 of Article
14 XIII A and how those revenues were spent.

15 (b) All annual public audits required of local education agencies,
16 community colleges, counties, cities and counties, cities, and
17 special districts that receive funds from the new revenues generated
18 by Section 2.5 of Article XIII A shall disclose the amount of
19 property tax revenues received for that fiscal year as the result of
20 Section 2.5 of Article XIII A and confirm whether the use of those
21 revenues is consistent with the requirements of this measure.

22 (c) All local education agencies, community colleges, counties,
23 cities and counties, cities, and special districts receiving new
24 revenues generated by Section 2.5 of Article XIII A shall publish
25 online all public disclosures required by this section, with a copy
26 of each disclosure to the Controller.

27 (d) Expenses incurred by local education agencies receiving
28 new revenues generated by Section 2.5 of Article XIII A to comply
29 with the audit and disclosure requirement of this section may be
30 paid with funding from the Local School and Community College
31 Property Tax Fund, and shall not be considered administrative
32 costs for purposes of subdivision (b) of Section 8.7 of Article XVI.

33 Fifth— That Section 14 is added to Article XIII B thereof, to
34 read:

35 SEC. 14. (a) For purposes of this article, “proceeds of taxes”
36 shall not include the revenues generated by Section 2.5 of Article
37 XIII A.

38 (b) For purposes of this article, “appropriations subject to
39 limitation” of each entity of government shall not include

1 appropriations of revenues generated by Section 2.5 of Article
2 XIII A.

3 (c) The duty to collect the revenues generated by Section 2.5
4 of Article XIII A shall not be considered a new program or higher
5 level of service mandated by the State for purposes of this article.
6 The board of supervisors of a county or city and county, upon the
7 adoption of a method identifying the actual direct administrative
8 costs identified in Section 75.60 of the Revenue and Taxation
9 Code, as that section read on July 1, 2015, that are associated with
10 the implementation of Section 2.5 of Article XIII A, may direct
11 the county auditor to allocate to the county or city and county,
12 prior to any allocation of property tax revenues, an amount equal
13 to the actual direct administrative costs, but not to exceed 3 percent
14 of the revenues that have been collected as a result of the
15 implementation of Section 2.5 of Article XIII A. The amount
16 determined to provide reimbursement for the actual direct
17 administrative costs of implementing Section 2.5 of Article XIII A
18 shall be deducted proportionately from the allocations to be
19 provided to cities, the county, and special districts, but not deducted
20 from the school share of any increased allocation. The board of
21 supervisors shall identify the ongoing costs of implementing
22 Section 2.5 of Article XIII A annually.

23 Sixth— That Section 8.6 is added to Article XVI thereof, to
24 read:

25 SEC. 8.6. (a) For each fiscal year beginning with the 2018–19
26 fiscal year to the 2020–21 fiscal year, inclusive, county assessors
27 shall calculate the following:

28 (1) The total “baseline assessed value” of all commercial and
29 industrial property in the county subject to Section 2.5 of Article
30 XIII A. The total “baseline assessed value” shall be calculated as
31 follows:

32 (A) The county assessor shall identify the total assessed value
33 of commercial and industrial property as determined pursuant to
34 Chapter 1 (commencing with Section 50) of Part 0.5 of Division
35 1 of the Revenue and Taxation Code, as that chapter read on July
36 1, 2015, for the 2017–18 fiscal year.

37 (B) The amount in subparagraph (A) shall be increased by the
38 amount for that fiscal year determined pursuant to Section 51 of
39 the Revenue and Taxation Code, as that section read on July 1,
40 2015.

1 (C) The county assessor shall add to the amount determined
2 pursuant to subparagraph (B) the incremental increase in assessed
3 value of commercial and industrial property resulting from the
4 sale or transfer of properties for purposes of the respective January
5 1 lien dates beginning with the 2018–19 fiscal year to the 2020–21
6 fiscal year, inclusive, provided the sale or transfer would have
7 triggered reassessment pursuant to Chapter 2 (commencing with
8 Section 60) of Part 0.5 of Division 1 of the Revenue and Taxation
9 Code, as that chapter read on July 1, 2015.

10 (D) The county assessor shall add to the amount determined
11 pursuant to subparagraph (C) the incremental increase in assessed
12 value of commercial and industrial property resulting in new
13 construction for purposes of the respective January 1 lien dates
14 beginning with the 2018–19 fiscal year to the 2020–21 fiscal year,
15 inclusive, as determined pursuant to Chapter 3 (commencing with
16 Section 70) of Part 0.5 of Division 1 of the Revenue and Taxation
17 Code, as that chapter read on July 1, 2015.

18 (2) The county assessor shall identify the total “revised assessed
19 value” of all commercial and industrial property in the county as
20 determined following the reassessment required by Section 2.5 of
21 Article XIII A for each fiscal year beginning with the 2018–19
22 fiscal year to the 2020–21 fiscal year, inclusive, except that for
23 the 2018–19 and 2019–20 fiscal years, the amount of assessed
24 value shall be reduced to reflect the amounts actually due and
25 payable pursuant to subdivisions (b) and (c) of Section 2.5 of
26 Article XIII A.

27 (3) For each fiscal year beginning with the 2018–19 fiscal year
28 to the 2020–21 fiscal year, inclusive, the county assessor shall
29 subtract the amount determined pursuant to subparagraph (D) of
30 paragraph (1) from the amount determined pursuant to paragraph
31 (2).

32 (4) For each fiscal year beginning with the 2018–19 fiscal year
33 to the 2020–21 fiscal year, inclusive, the county assessor shall
34 divide the amount determined pursuant to paragraph (3) by the
35 amount determined pursuant to paragraph (2). The resulting
36 percentage shall be known as the “incremental assessed percentage”
37 of commercial and industrial property in the county subject to
38 Section 2.5 of Article XIII A.

39 (b) For each fiscal year beginning with the 2018–19 fiscal year
40 to the 2020–21 fiscal year, inclusive, county assessors shall

1 multiply the total revised assessed value by the incremental
2 assessed percentage and a tax rate of one percent to determine the
3 incremental revenues available for distribution as the result of
4 Section 2.5 of Article XIII A.

5 (c) For each fiscal year beginning with the 2018–19 fiscal year,
6 all of the following shall apply:

7 (1) An amount equal to the reduction in revenues derived from
8 the taxes imposed pursuant to the Personal Income Tax Law (Part
9 10 (commencing with Section 17001) of Division 2 of the Revenue
10 and Taxation Code) and the Corporation Tax Law (Part 11
11 (commencing with Section 23001) of Division 2 of the Revenue
12 and Taxation Code), as those laws read on July 1, 2015, for each
13 county resulting from the higher property taxes due to the
14 implementation of Section 2.5 of Article XIII A and the lower
15 property taxes due to the implementation of Section 3.1 of Article
16 XIII, as estimated by the Franchise Tax Board each year for that
17 fiscal year, shall be transferred by May 15 of each year beginning
18 with the 2018–19 fiscal year and each fiscal year thereafter by
19 each county auditor to the Controller for deposit in the General
20 Fund and the Mental Health Services Fund, respectively.

21 (2) An amount equal to the reduction in property taxes resulting
22 from the exemption provided pursuant to subdivision (a) of Section
23 3.1 of Article XIII shall be calculated by the county auditor
24 beginning with the 2019–20 fiscal year and each fiscal year
25 thereafter. For purposes of calculating the aggregate amount of
26 personal property taxes exempted under that subdivision for each
27 fiscal year, the auditor shall apply the average annual rate of growth
28 of tangible personal property used for business purposes for the
29 period from the 2012–13 fiscal year to the 2017–18 fiscal year,
30 inclusive, to the total tangible personal property used for business
31 purposes for the prior fiscal year and subtract the amount of
32 tangible personal property used for business purposes not exempted
33 for that fiscal year.

34 (3) An amount equal to the value of foregone property tax
35 revenues pursuant to subdivision (b) of Section 3.1 of Article XIII
36 shall be calculated by the county auditor.

37 (d) For each fiscal year beginning with the 2018–19 fiscal year
38 to the 2020–21 fiscal year, inclusive, the county auditor shall do
39 the following with the incremental revenues remaining after

1 deducting from those revenues the amounts determined pursuant
2 to subdivision (c):

3 (1) Determine the combined weighted average tax rate in each
4 county for K–12 school districts, county offices of education, and
5 community college districts. The weighted average tax rate in each
6 county for K–12 school districts, county offices of education, and
7 community college districts shall be calculated by the county
8 auditor by averaging the effective combined tax rate for all of the
9 K–12 school districts, the county office of education, and all
10 community college districts in each tax rate area using weights for
11 each tax rate area determined by calculating the share of the total
12 assessed value of commercial and industrial property for each tax
13 rate area of the total assessed value of commercial and industrial
14 property as determined pursuant to Chapter 1 (commencing with
15 Section 50) of Part 0.5 of Division 1 of the Revenue and Taxation
16 Code, as that chapter read on July 1, 2015, for the 2017–18 fiscal
17 year for all tax rate areas in the county.

18 (2) Multiply the incremental revenues remaining after deducting
19 the amounts determined pursuant to subdivision (c) by the
20 combined weighted average tax rate determined pursuant to
21 paragraph (1). One-half of the resulting amount of property tax
22 revenue shall be transferred by the county auditor to the Controller
23 on February 1 of each fiscal year and one-half of the resulting
24 amount of property tax revenue shall be transferred to the
25 Controller on June 1 of each fiscal year, and shall be deposited
26 into the Local School and Community College Property Tax Fund
27 for allocation and distribution as set forth in Section 8.7 of Article
28 XVI.

29 (3) The balance of the incremental revenues remaining after
30 deducting the amounts determined pursuant to subdivision (c) and
31 the amount transferred pursuant to paragraph (2) shall be allocated
32 to local agencies pursuant to Chapter 6 (commencing with Section
33 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code,
34 as that chapter read on July 1, 2015.

35 (4) Report the incremental revenues available for distribution
36 determined pursuant to subdivision (b), the deductions attributable
37 to subdivision (c), and the combined weighted average tax rate in
38 each county for K–12 school districts, county offices of education,
39 and community college districts determined pursuant to paragraph
40 (1), along with supporting documentation, to the Controller who

1 shall certify that the calculation was properly calculated and post
2 the percentage figure for each county on the Controller's Internet
3 Web site.

4 (e) (1) For the 2021–22 fiscal year, the county assessor shall
5 perform the calculations specified in paragraphs (1) to (4),
6 inclusive, of subdivision (a) for that fiscal year. The county auditor
7 shall report the resulting percentage figure to the Controller who
8 shall certify that the calculation was properly calculated and post
9 the percentage figure for each county on the Controller's Internet
10 Web site.

11 (2) (A) For the 2021–22 fiscal year and each fiscal year
12 thereafter, the county auditor shall perform the calculation specified
13 in paragraph (2) of subdivision (d) using the result of the
14 calculation in paragraph (1) and the percentage determined in
15 paragraph (1) of subdivision (d) and shall transfer one-half of the
16 resulting amount of property tax revenue to the Controller on
17 February 1 of each fiscal year and transfer one-half of the resulting
18 amount of property tax revenue to the Controller on June 1 of each
19 fiscal year, for deposit in the Local School and Community College
20 Property Tax Fund for allocation and distribution as set forth in
21 Section 8.7 of Article XVI.

22 (B) The balance of the incremental revenues remaining after
23 deducting the amounts determined pursuant to subdivision (c) and
24 the amount transferred pursuant to subparagraph (A) shall be
25 allocated to local agencies pursuant to Chapter 6 (commencing
26 with Section 95) of Part 0.5 of Division 1 of the Revenue and
27 Taxation Code as that chapter read on July 1, 2015.

28 (C) In making the calculation in subparagraph (A), the county
29 auditor shall calculate the amount of total revised assessed value
30 as if no exemption of property taxes were being provided pursuant
31 to subdivision (b) of Section 3.1 of Article XIII.

32 Seventh— That Section 8.7 is added to Article XVI thereof,
33 to read:

34 SEC. 8.7. (a) The Local School and Community College
35 Property Tax Fund is hereby created in the State Treasury to be
36 held in trust for the purposes set forth below and is continuously
37 appropriated for the support of school districts, charter schools,
38 schools operated by county offices of education, and community
39 college districts, as follows:

1 (1) Eleven percent to community colleges. Each year the
2 Controller shall allocate the funds to each community college
3 district based on an equal amount per unit of full-time equivalent
4 student receiving educational services.

5 (2) Eighty-nine percent to school districts, charter schools, and
6 county offices of education for schools operated by the county
7 superintendent of schools.

8 (3) Each year the Controller shall allocate the funds to school
9 districts, charter schools, and county offices of education based
10 on the following formula, to be calculated annually by the
11 Superintendent of Public Instruction:

12 (A) A base grant based on an equal amount per enrolled student
13 in each school district or charter school, provided, however, that
14 the base grant shall be adjusted by grade span, as follows: no grade
15 span adjustment per enrolled student in grades kindergarten to
16 grade 3, inclusive; 1.5 percent more per enrolled student in grades
17 4 to 6, inclusive; 4.5 percent more per enrolled student in grades
18 7 and 8; and 21 percent more per enrolled student in grades 9 to
19 12, inclusive. County offices of education shall receive a base
20 grant per student enrolled in schools operated by the county
21 superintendent of schools that is 33 percent more per enrolled
22 student than the base grant for school districts, but shall receive
23 no grade span adjustments to the base grant.

24 (B) A supplemental grant add-on for school districts and charter
25 schools equal to 20 percent of the base grant calculated pursuant
26 to subparagraph (A), multiplied by the percentage of unduplicated
27 pupils in that school district or charter school, and a supplemental
28 grant add-on for county offices of education equal to 35 percent
29 of the base grant calculated pursuant to subparagraph (A),
30 multiplied by the percentage of unduplicated pupils enrolled in
31 schools operated by the county superintendent of schools.

32 (C) A concentration grant add-on for school districts and charter
33 schools equal to 50 percent of the base grant calculated pursuant
34 to subparagraph (A), multiplied by the percentage of unduplicated
35 pupils in that school district or charter school in excess of 55
36 percent of the total enrollment in that school district or charter
37 school, and a concentration grant add-on for county offices of
38 education equal to 35 percent of the base grant calculated pursuant
39 to subparagraph (A), multiplied by the percentage of unduplicated
40 pupils enrolled in schools operated by the county superintendent

1 of schools in excess of 50 percent of the total enrollment in those
2 schools.

3 (D) An amount equal to 10.4 percent of the base grant per
4 enrolled student in kindergarten and grades 1 to 3, inclusive, for
5 school districts and charter schools that maintain an average class
6 enrollment of not more than 24 students for each schoolsite in
7 kindergarten and grades 1 to 3, inclusive, unless a collectively
8 bargained alternative annual average class enrollment for each
9 schoolsite in those grades is agreed to by the school district or
10 charter school.

11 (E) The Superintendent of Public Instruction shall subtract from
12 the total of the amounts computed pursuant to subparagraphs (A)
13 to (D), inclusive, the amount of property tax revenue received by
14 a basic aid school district or basic aid charter school that exceeds
15 the total amount of funding it would have been entitled to that
16 fiscal year pursuant to the local control funding formula established
17 pursuant to Article 2 (commencing with Section 42238) of Chapter
18 7 of Part 24 of Division 3 of Title 2 of the Education Code, as that
19 article read on July 1, 2015. For purposes of this section, a school
20 district or charter school that does not receive an apportionment
21 of state funds pursuant to the local control funding formula shall
22 be considered a basic aid school district or a basic aid charter
23 school.

24 (F) For purposes of this section, enrollment shall be measured
25 in units of average daily attendance or its equivalent, and
26 “unduplicated pupil” shall mean a student who is classified as
27 either an English learner, eligible for a free or reduced-price meal,
28 or a foster youth, as defined in Section 42238.01 of the Education
29 Code, provided that a student may only be counted once for
30 purposes of making supplemental and concentration grant
31 adjustments, regardless of whether she or he falls within more than
32 one of these student subgroups. Students shall not be counted as
33 enrolled in a school operated by a county superintendent of schools
34 if they are otherwise counted as enrolled in a school district for
35 purposes of calculating that school district’s local control funding
36 formula allocation.

37 (b) Moneys in the Local School and Community College
38 Property Tax Fund are dedicated to the support of the K–14
39 educational program for instructional improvement and
40 accountability, and shall not be used to pay administrative costs.

1 School districts, charter schools, and county offices of education
2 shall demonstrate through their local control and accountability
3 plans that they are increasing or improving services for
4 unduplicated pupils in proportion to the increase in funds allocated
5 pursuant to subparagraphs (B) and (C) of paragraph (3) of
6 subdivision (a).

7 (c) Notwithstanding any other law, the moneys deposited in the
8 Local School and Community College Property Tax Fund shall
9 not be subject to appropriation, reversion, or transfer by the
10 Legislature, the Governor, the Director of Finance, or the Controller
11 for any purpose other than those specified in this section, nor shall
12 such revenues be loaned to the General Fund or any other fund of
13 the State or any local government fund.

14 (d) Moneys allocated to community college districts, county
15 offices of education, school districts, or charter schools from the
16 Local School and Community College Property Tax Fund shall
17 supplement, and shall not replace, other funding for education.
18 Funds deposited into the Local School and Community College
19 Property Tax Fund and allocated from the Local School and
20 Community College Property Tax Fund shall not be deemed to be
21 part of “total allocations to school districts and community college
22 districts from General Fund proceeds of taxes appropriated pursuant
23 to Article XIII B and allocated local proceeds of taxes” for purposes
24 of paragraphs (2) and (3) of subdivision (b) of Section 8 or for
25 purposes of Section 21. Revenues generated by Section 2.5 of
26 Article XIII A shall not be deemed to be “General Fund revenues
27 which may be appropriated pursuant to Article XIII B” for purposes
28 of paragraph (1) of subdivision (b) of Section 8, Section 20, or
29 Section 21, nor shall they be considered in the determination of
30 “per capita General Fund revenues” for purposes of subdivisions
31 (b) and (e) of Section 8.

32 Eighth— This measure shall become operative on January 1,
33 2018, except that subdivision (a) of Section 3.1 of Article XIII
34 shall become operative on January 1, 2019.