Review of Schools & Communities First

November 2020 Ballot Initiative

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Schools and Local Communities Initiative

The California Schools and Local Communities Funding Act, known as Schools and Communities First (SCF), is a statewide ballot measure that seeks to make changes to some provisions of California's landmark 1978 property tax limitations, Proposition 13. Schools and Communities First is the first qualifying initiative that would make changes to Proposition 13 in over 40 years. The ballot initiative would raise additional local tax revenue for schools and local governments by changing how assessed values are determined for commercial and industrial properties.

Background on Proposition 13:

Proposition 13 passed in 1978 with 64 percent of voter approval which made three changes to California's property tax law:

- Limited the property tax rate for all properties, regardless of type, to 1 percent of the value at the time of purchase.
- Established a ceiling for assessed value of at most 2 percent per year unless a change in ownership occurred or the property is remodeled.
- Amended the state constitution to require that any statewide tax increase would require a two-thirds vote in the Legislature and local state increases or designations would require two-thirds voter approval.

- The SCF initiative seeks to constitutionally change the property tax law enacted under Proposition 13 as it applies to commercial and industrial properties.
- This ballot measure is often referred to as "split roll" since it would split how commercial properties are taxed from residential, agricultural, and small business properties.
- If enacted, commercial and industrial properties would be required to undergo regular and ongoing reassessments to bring the property to its current market value. The property owners would then be required to pay property taxes on the newly assessed value.
- As proposed, the ballot measure does not affect the value assessment of residential, agricultural, or small business properties.
- In addition, the measure does not change the property tax rate of 1 percent, regardless of property type.
- To protect small businesses, the measure includes an exemption for businesses with a combined property value of $3 million or less and also eliminates the business personal property taxes on business fixtures and equipment up to $500,000.

Small Business Exemptions include:

- Properties valued $3 million or less as adjusted for inflation by the California State Board of Equalization every two years starting 2025

- Commercial Industrial property valued over $3 million but occupied 50% or more by a small business, can receive a delay of Split Roll until 2025.

Small Business is defined as:

- 50 or fewer full-time equivalent employees
- independently owned and operated
- located in California
- owned by California residents
- no major statewide influence on the industry

How the Split Roll Revenue would be distributed

1. State General Fund

To backfill income tax losses coming from higher property tax deductions. Amount determined by Franchise Tax Board.

2. County Assessors to cover administrative costs

Each county will be annually compensated for the actual direct administrative costs of implementing Split Roll each fiscal year.

LAO estimates annual costs at $550 Million

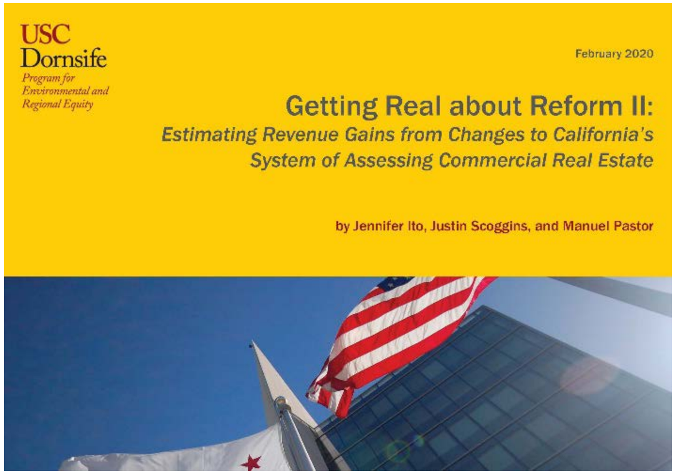
3. 40% to Local Schools and Community College Property Tax Fund

4. 60% to Cities, Counties, and Special Districts

What is the estimated impact to Valley District upon the passage of the "Split Roll" Initiative:

- Based on many assumptions and information obtained from the San Bernardino County Auditor Controllers Office, San Bernardino County Assessor Office and recent report from USC Dornsife Program for Environmental and Regional Equity dated February 2020, staff presents the following information.

- Based on the calculations, estimates and assumptions on the spreadsheet attached. Staff is estimating additional revenues to the General Fund at $1.5 million dollars.



- Based on estimated revenue information in the USC report for San Bernardino County, Assessed Values (AV) could increase by $43.5 Billion dollars. After applying estimated percentages for the District's service area, AV would increase by $10.2 Billion which based on the current State Water Contract tax rate of .1425 could generate additional tax revenue of $14.6 million dollars.

Additional information

- There are many assumptions made in calculating the estimated revenues to Valley District.
- County Assessors state concerns about
  - Additional costs of training employees, upgrading technology and administrative costs could range from $517 million to $639 million annually for the first decade.
  - As many as 900 new positions would be needed statewide
  - Difficulty in hiring qualified individuals.
  - Assessment Appeals will increase dramatically.
  - Counties would need to create new or expanded assessment appeals boards, along with staff to manage the significant increase in cases.
  - The number and complexity of appeals submitted will likely result in a major backlog requiring multiple years to resolve.

Additional information

- Many Statues still need determination by the Legislature which include:
  - Providing methodology for determining additional revenue generated in each county each fiscal year as a result of Split Roll.
    - Possible concerns include the amount of AV within Redevelopment Agencies. An estimated one third of the San Bernardino County AV is already allocated as RDA Increment.
  - Phase-in timeline of reassessments to be determined.
  - Create a "reasonable timeframe" when taxpayer has to pay taxes upon an increase due to reassessment.
  - Develop an expedited process for hearing appeals.
  - Define what constitutes as "Long-Term Residential Property" that sits on commercial and industrial property.
  - Clarify calculations to backfill the State General Fund for the decrease income tax and provide additional clarification on the approved direct costs for County Assessors.

Additional information

- As with all Ballot Initiatives there are always Supporters and Opponents. Just a few examples of concern:
    - Supporters feel that corporations should contribute fairly to public society as they continue to benefit from California's low property tax rate.
    - Opponents argue that by raising business and corporate property taxes, it will negatively impact businesses with higher costs and in turn, hurt consumers and California's economy.
- As reported in a very recent article, even with the state facing a potential record-high $54 billion deficit due to the COVID 19 pandemic effecting the State and bracing for sweeping cuts to education and social services, Gov. Gavin Newsom has refused to fully wade into the fight over the future of Proposition 13.

Questions ?