

# Proposition 15

## Commercial Property Tax Assessments: “Split Roll”

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### Purpose

Proposition 15 would create a “split roll” property tax system in California by requiring that owners of commercial and industrial properties worth more than \$3 million be taxed based on the properties’ current market value rather than based on their purchase price. The resulting increase in commercial property taxes would generate new funds for local governments and schools.

### Background

In California, property taxes provide most of the revenue for public schools and local governments, raising approximately \$65 billion each year for these purposes. Overall, about 60 percent of property taxes go to cities, counties, and special districts, with the other 40 percent going to K-12 schools and community colleges. These percentages vary somewhat by county.<sup>1</sup>

During the 1970s, California had higher property taxes in real terms than it does today, and rising property prices squeezed residents and businesses in California with increasing property tax bills. By the tax year of 1977-1978, California’s property taxes were 52 percent greater than the national norm, and its per capita burden from all state and local taxes was the third highest out of all fifty states. In response to this high tax burden, Howard Jarvis, a businessman from Los Angeles, partnered with Paul Gann to sponsor the state’s landmark tax limitation measure, Proposition 13.<sup>2</sup>

The system established by Proposition 13 has three main provisions that remain relevant today:

First, a property’s **assessed value** is based on its **purchase price**, increased by no more than two percent per year until the property is sold. Once sold, the property’s assessed value is reset at

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<sup>1</sup> California Legislative Analyst’s Office, “Ballot Analysis: Proposition 15,” <https://lao.ca.gov/BallotAnalysis/Proposition?number=15&year=2020>. See also Mac Taylor, “Understanding California’s Property Taxes,” Legislative Analyst’s Office, November 29, 2102: 17-22, <https://lao.ca.gov/reports/2012/tax/property-tax-primer-112912.pdf>; Legislative Analyst’s Office, “Overview of Initiative Measure to Change Tax Assessment of Commercial Property,” June 4, 2020, [https://lao.ca.gov/handouts/state\\_admin/2020/Commercial-Property-Tax-Initiative-Overview-060420.pdf](https://lao.ca.gov/handouts/state_admin/2020/Commercial-Property-Tax-Initiative-Overview-060420.pdf).

<sup>2</sup> Sears, David O, and Jack Citrin. *Tax Revolt: Something for Nothing in California*. Cambridge, Mass.: Harvard University Press, 1982.

the new purchase price—and, thereafter, can increase by no more than two percent per year until the next sale.

Second, the **tax rate** is capped at **one percent** of the property's assessed value.

Third, Proposition 13 **limits tax increases** by requiring a two-thirds approval of both houses of the California legislature for any new tax increase and two-thirds approval of voters for any new "special" local tax.<sup>3</sup>

Proposition 13's tax limitations apply to both **residential and commercial** properties.

Voters approved Proposition 13 in June 1978 by a 65-35 percent margin, embedding its limitations on taxes into the California Constitution.<sup>4</sup>

While Proposition 13 dramatically decreased property taxes on residential and business properties alike, it also shifted the majority of the tax burden to homeowners. In 1975, for example, Los Angeles County commercial-industrial property paid 46.6 percent of the total property tax roll while single-family residences paid 33.9 percent. By 2010, commercial-industrial property paid only 30.9 percent of the total property tax roll and single-family residences paid 55.8 percent.<sup>5</sup>

### Proposal

Proposition 15 would revise Proposition 13 to create a "split roll" property tax system. An owner with less than \$3 million in property would continue to enjoy the benefits of Proposition 13. Businesses with higher-value properties and rental units not occupied by the owner would now have to pay taxes based on the market value of the property starting in 2022. For businesses that meet certain rules and have 50 or fewer employees, the change does not begin before 2025.<sup>6</sup>

Proposition 15 would partially offset this new tax burden by reducing taxes on business equipment.

Aside from implementation costs, the new tax revenue would go to two places. Sixty percent of the tax revenue would go to local governments, while the other 40 percent would go to school districts and community colleges based on the Local Control Funding Formula.<sup>7</sup>

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<sup>3</sup> Ballotpedia, "California Proposition 13, Tax Limitations Initiative (1978)," [https://ballotpedia.org/California\\_Proposition\\_13,\\_Tax\\_Limitations\\_Initiative](https://ballotpedia.org/California_Proposition_13,_Tax_Limitations_Initiative) (1978).

<sup>4</sup> "Proposition 13: 40 Years Later," Public Policy Institute of California (blog), <https://www.ppic.org/publication/proposition-13-40-years-later>.

<sup>5</sup> Cohen, Donald, and Peter Dreier. "California in Crisis." *American Prospect* 21, no. 2 (March 2010): A16-17.

<sup>6</sup> Legislative Analyst's Office, "Proposition 15."

<sup>7</sup> Ibid.

**Fiscal Impact**

Proposition 15 would raise taxes on commercial land and buildings. The California Legislative Analyst's Office (LAO) projects that by 2025, commercial property taxes would increase by \$8 billion to \$12.5 billion in most years depending on changes in the property market.

Proposition 15 also would give several hundred million dollars per year to counties for implementation costs. The state would provide fiscal support to counties through loans until the new property tax revenue becomes available.

After paying for implementation of this new tax system, Proposition 15 would provide \$6.5 billion to \$11.5 billion per year in additional tax revenue to local governments and schools.

Not all local governments would be guaranteed new money. Some in rural areas could end up losing money because of the lower taxes on business equipment.<sup>8</sup>

**Supporters**

Proposition 15's supporters include:

- Governor Gavin Newsom (D)
- Other statewide elected officials
- Many school districts and other local governments
- California Democratic Party
- Organized labor

The Yes-on-15 funding effort has been led by The Communities First Political Action Committee, which raised more than \$42 million through September 19, 2020.

Public sector unions, including the California Teachers Association (CTA) (\$11.7 million) and the Service Employees International Union (SEIU) (\$7 million), are the largest donors to the Yes-on-15 effort. Chan-Zuckerberg Advocacy, funded by Facebook founder Mark Zuckerberg, also has contributed more than \$7 million to support the measure.<sup>9</sup>

**Arguments of Supporters**

Supporters say Proposition 15 would:

- Require wealthy corporations to pay their fair share of property taxes because big businesses hold onto property longer, and thus get a more generous tax break under current law.
- Raise new revenues for local governments and schools without raising taxes on homeowners and small business owners.

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<sup>8</sup> Ibid.

<sup>9</sup> Ballotpedia, "California Proposition 15."

- Raise new revenues at a time when California faces a major deficit due to declining revenues from income and sales taxes.<sup>10</sup>

### Opponents

No on Proposition 15 is primarily funded and supported by business and taxpayer groups.

Opponents include:

- California Business Roundtable
- California Chamber of Commerce
- California Taxpayers Association
- Howard Jarvis Taxpayers Association
- California Republican Party

The funding for the No-on-15 campaign has been led by committees called Stop Higher Property Taxes and Save Prop 13. Together, the two groups raised almost \$30 million through September 19, 2020.

Major donors include the California Business Roundtable (\$13 million) and the California Taxpayers Association (approximately \$832,000).<sup>11</sup>

### Arguments of Opponents

Opponents say Proposition 15 would:

- Weaken the protections that make property taxes affordable in California and lead to the eventual demise of all of Proposition 13's protections.
- Impose the largest tax increase in California's history during the middle of a recession.
- Increase the exodus of businesses and corporate investment from the state because corporations would have to worry about their property taxes rising over time.<sup>12</sup>

### Conclusion

A YES vote on Proposition 15 would, in most cases, increase property taxes for owners of commercial properties worth more than \$3 million in order to raise additional funds for local governments and schools.

A NO vote on Proposition 15 would continue to base commercial property taxes on the property's value at the time of purchase.

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<sup>10</sup> California Secretary of State, "Official Voter Information Guide: Proposition 15."

<sup>11</sup> Ballotpedia, "Proposition 15."

<sup>12</sup> California Secretary of State, "Official Voter Information Guide: Proposition 15;" California Self Storage Association, "Vote No on Prop. 15," n.d., <https://www.californiaselfstorage.org/page-18150>.