



Proposition 15

INCREASES FUNDING SOURCES FOR PUBLIC SCHOOLS, COMMUNITY COLLEGES, AND LOCAL GOVERNMENT SERVICES BY CHANGING TAX ASSESSMENT OF COMMERCIAL AND INDUSTRIAL PROPERTY. INITIATIVE CONSTITUTIONAL AMENDMENT.

ANALYSIS OF MEASURE

Background

Local Governments Tax Property. California cities, counties, schools, and special districts (such as a fire protection district) 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 percent of property taxes go to cities, counties, and special districts. The other 40 percent goes to schools and community colleges. These shares are different in different counties.

Property Includes Land, Buildings, Machinery, and Equipment. Property taxes apply to many kinds of property. Land and buildings are taxed. Businesses also pay property taxes on most other things they own. This includes equipment, machinery, computers, and furniture. We call these things “business equipment.”

How Is a Property Tax Bill Calculated? 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 percent.

Taxable Value of Land and Buildings Is Based on Original Purchase Price. 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 price most properties could be sold for grows faster than 2 percent per year.

Taxable Value of Business Equipment Is Based on How Much It Could Be Sold for. Unlike land and buildings, business equipment is taxed based on how much it could be sold for today.

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

Proposal

Tax Commercial and Industrial Land and Buildings Based on How Much They Could Be Sold for. The measure requires commercial and industrial (after this referred to simply as “commercial”) land and buildings to be taxed based on how much they could be sold for instead of their original

purchase price. This change is put in place over time starting in 2022. 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.

Some Lower Value Properties Not Included. This change does not apply if the owner has \$3 million or less worth of commercial land and buildings in California (adjusted for inflation every two years). These properties continue to be taxed based on original purchase price.

Reduce Taxes on Business Equipment. The measure reduces the taxable value of each business's equipment by \$500,000 starting in 2024. Businesses with less than \$500,000 of equipment pay no taxes on those items. All property taxes on business equipment are eliminated for California businesses that meet certain rules and have 50 or fewer employees.

Fiscal Effects

Increased Taxes on Commercial Land and Buildings. 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 probably would be \$8 billion to \$12.5 billion higher in most years. The value of commercial property can change a lot from year to year. This means the amount of increased property taxes also could change a lot from year to year.

Decreased Taxes on Business Equipment. Property taxes on business equipment probably would be several hundred million dollars lower each year.

Money Set Aside to Pay Costs of the Measure. 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. Counties could have costs from the measure before new money is available to cover these costs. The state would loan money to counties to cover these initial costs until new property tax revenue is available.

New Funding for Local Governments and Schools. Overall, \$6.5 billion to \$11.5 billion per year in new property taxes would go to local governments. 60 percent 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 percent would increase funding for schools and community colleges. Each school or community college's share of the money is mostly based on how many students they have.

YES/NO STATEMENT

A **YES** vote on this measure means: Property taxes on most commercial properties worth more than \$3 million would go up in order to provide new funding to local governments and schools.

A **NO** vote on this measure means: Property taxes on commercial properties would stay the same. Local governments and schools would not get new funding.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- Increased property taxes on commercial properties worth more than \$3 million providing \$6.5 billion to \$11.5 billion in new funding to local governments and schools.

BALLOT LABEL

Fiscal Impact: Increased property taxes on commercial properties worth more than \$3 million providing \$6.5 billion to \$11.5 billion in new funding to local governments and schools.