

SCA5 – Oppose



NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS*



WEST COAST LEASING, LLC



ASSOCIATED GENERAL
CONTRACTORS (AGC)



THE CALIFORNIA RAILROAD INDUSTRY



BIOCOM





Date: July 23, 2015 **(Updated with new coalition members)**
To: Members, Senate Governance and Finance Committee
From: Gina Rodriquez, CalTax Vice President of State Tax Policy
Subject: **OPPOSITION TO SCA 5 (Hancock and Mitchell), amended on July 16, 2015**

The listed organizations **oppose** SCA 5, which would remove the protections provided under Proposition 13 for commercial and industrial property owners and create a split-roll property tax system. Under the proposed constitutional amendment, commercial and industrial property owners would be singled out for tax increases, and property owners no longer would be treated uniformly.

Almost four decades ago, voters approved Proposition 13 to provide the framework for a fair and predictable property tax system; and public opinion polls show that Proposition 13 remains popular with Californians.

Why Is a Split Roll Property Tax System Bad for California?

Puts California Businesses at a Competitive Disadvantage. With a split roll, California businesses would be hit with a significant tax increase, putting them at a competitive disadvantage in a global market, especially in light of California's high income tax rates, sales and use tax rates, and gas tax rates. A report from Pepperdine University's Davenport Institute reveals that a split-roll property tax system — without Proposition 13's protections — would result in \$71.8 billion in reduced economic activity and a loss of almost 400,000 jobs over the first five years, with impacts increasing over time.

Tenants and Lessees Get Hurt. A split roll hurts small-business tenants and lessees, many of whom are thinly capitalized and have low cash flows. Many businesses lease their space, which is why they would be

most adversely impacted by a split roll. Tenants, for example, who sign "triple net leases," where they must pay for all improvements, utilities and taxes, would suffer a significant tax increase, as the tax increase from a split roll would pass through to them. One lessee from San Francisco, who has a "base-year lease," where the landlord takes on most of the property expenses, stated that his monthly lease payment would increase from \$70 per square foot to \$400 per square foot under a split roll.

Creates Fiscal Instability. Proposition 13 provides revenue stability to local governments. Property tax assessments prior to Proposition 13 showed wider divergences than assessment disparities under the current acquisition-value system. Local governments averaged almost 10 percent per year growth in property tax revenue between 1980 and 1992, before the severe downturn in real estate values.

Proposition 13 does not shift the property tax burden to homeowners. The assessed value of non-homeowner property subject to Proposition 13 has grown an average of 7.34 percent per year, while the assessed value of homeowners' property has grown an average of 6.82 percent. Thus, property taxes under Proposition 13 paid by non-homeowners have outpaced homeowners' property tax burden.

Leads to Unfair and Subjective Tax Policy. Prior to Proposition 13, assessors determined property values by considering the "highest and best use" of the property, rather than considering the property's actual use. A return to market value assessments would revert the state to this undesirable assessment theory, which was partly responsible for the property tax revolt that led to the enactment of Proposition 13. Under a market value assessment system, assessors would value many properties on the basis of highest and best use, with higher taxes forcing the taxpayer out of business.

Moreover, a return to market value assessments would shift California's property tax system from an objective standard (based on acquisition value) to a subjective standard (based on an assessor's opinion of the value), leading to arbitrary assessments and more appeals.

Damaging Tax Policy. A split-roll property tax system is an ill-advised idea that would imperil the state's economy, and likely be one of the single most damaging tax policy changes that could occur in California. The mere proposal of a split roll causes concern about the uncertainty of California's business climate, and has a chilling effect on businesses considering an operation or expansion in California. When businesses believe their property taxes could substantially increase over time, this adds one more nail to the coffin of California's business climate.

For the above-stated reasons, CalTax and its coalition oppose SCA 5.

Sincerely,



Gina Rodriguez, Vice President of State Tax Policy
California Taxpayers Association

Also on behalf of:

Ag Association Management Services, Inc.
Air Logistics Corporation
Associated Builders and Contractors – San Diego Chapter
Associated General Contractors
Association of California Egg Farmers
Auburn Chamber of Commerce

Biocom
Boston Properties
Building Owners and Managers Association
California Agricultural Irrigation Association
California Ambulance Association
California Apartment Association
California Association of Boutique &

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Breakfast Inns
California Association of Nurseries and
Garden Centers
California Bankers Association
California Bean Shippers Association
California Cotton Alliance
California Grain & Feed Association
California Hotels & Lodging Association
California Land Title Association
California Manufacturers & Technology
Association
California Mortgage Bankers Association
California New Car Dealers Association
California Planting Cotton Seed Distributors
California Railroad Industry
California Restaurant Association
California Retailers Association
California Seed Association
California State Floral Association
California Tank Lines Inc.
California Travel Association
California Warehouse Association
Chemical Transfer Co.
Computing Technology Industry Association
Family Business Association of California
Family Winemakers of California
General Growth Properties
Howard Jarvis Taxpayers Association
International Council of Shopping Centers
Kern County Taxpayers Association
NAIOP of California, the Commercial Real
Estate Development Association

California Building Industry Association
California Business Properties Association
California Cable & Telecommunications
Association
California Chamber of Commerce
National Association of Real Estate
Investment Trusts
National Federation of Independent Business
Official Police Garage Association of Los
Angeles
Orange County Business Council
Orange County Taxpayers Association
Pacific Egg & Poultry Association
Pharmaceutical Researchers and
Manufacturers of America
Plumbing-Heating-Cooling Contractors
Association of California
San Diego County Apartment Association
San Diego Regional Chamber of Commerce
Silicon Valley Leadership Group
Superior Tank Wash Inc.
TechNet
United Hospital Association
West Coast Leasing, LLC
West Coast Lumber & Building Material
Association
Western Electrical Contractors Association
Western Growers Association
Western Manufactured Housing
Communities Association
Wine Institute

cc: The Honorable Loni Hancock, California State Senate
The Honorable Holly Mitchell, California State Senate