

# SCA5 – Oppose



June 15, 2015

The Honorable Loni Hancock  
The Honorable Holly Mitchell  
California State Senate  
State Capitol, Room 2082 (Senator Hancock)  
State Capitol, Room 5080 (Senator Mitchell)  
Sacramento, CA 95814

**Subject: OPPOSITION TO SCA 5 (Hancock and Mitchell), as amended on June 9, 2015**

Dear Senators Hancock and Mitchell:

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 measure, commercial and industrial property owners would be singled out for tax increases, and property owners no longer would be treated uniformly.

More than 37 years 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 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 taxing commercial and industrial property without Proposition 13's protections would result in \$71.8 billion in reduced economic activity and a loss of 398,345 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:***

Air Logistics Corporation  
Associated General Contractors  
California Bankers Association  
California Building Industry Association  
California Business Properties Association  
California Chamber of Commerce  
California Manufacturers & Technology Association  
California Mortgage Bankers Association  
California New Car Dealers Association  
California Retailers Association  
California Tank Lines Inc.  
Chemical Transfer Co.  
CompTIA  
Family Business Association of California  
Howard Jarvis Taxpayers Association  
Kern County Taxpayers Association  
National Association of Real Estate Investment Trusts  
National Federation of Independent Business  
Orange County Business Council  
Orange County Taxpayers Association  
San Diego County Apartment Association  
San Diego Regional Chamber of Commerce  
Silicon Valley Leadership Group  
Superior Tank Wash Inc.  
TechNet  
West Coast Leasing, LLC  
West Coast Lumber & Building Material Association

cc: Colin Grinnell, Staff Director, Senate Governance & Finance Committee