

**PROPOSITION 15
"SPLIT ROLL" IMPACT REPORT
SAN LUIS OBISPO COUNTY**



**TOM J. BORDONARO, JR.
COUNTY ASSESSOR
SEPTEMBER 2020**

Executive Summary
Proposition 15 Impact Report
San Luis Obispo County
September, 2020

1. Proposition 15 would make major changes to the property tax system in California. The creation of a “Split Roll” which results from the Constitutional amendment is a dramatic change from Proposition 13, which has governed property tax for the past 42 years.
2. Although Proposition 15 states there is no change to tax laws affecting agriculture, the exact opposite is true. Dairies, wineries, feedlots, barns, methane digesters and even mature fruit and nut trees will be subject to big tax increases.
3. Property taxes are stable and predictable under the current Constitutional requirements of Proposition 13. With the passage of a Split Roll, property tax revenues will experience wild volatility similar to the state personal income tax.
4. Implementation of Proposition 15 in San Luis Obispo will be impossible within the time frame outlined in the measure. An initial first-year budgetary cost to the County Assessor’s Office of \$3.2 million and ongoing costs of \$2 million, exceed the new property tax revenue that can be expected from the change to market valuation for commercial and industrial properties.
5. To implement the measure, 11 additional employees will be required in the Assessor’s Office. Hiring and training of appraisers to perform the valuation commercial properties is extremely problematic, given the demand for appraisers that will result throughout the state.
6. A dramatic increase in the number of assessment appeals will result from the passage of Proposition 15. This will require additional staff and budgetary expense for other county departments involved in assessment appeals.
7. More than 3,000 individual commercial and industrial property appraisals will be required each year. The market value appraisals must be accomplished at least every three years, but can be more frequent.
8. The Split Roll does not pay for itself for San Luis Obispo County government. The three major parts of Proposition 15 require the following: A) Commercial and industrial property appraisal at least every three years; B) Exemption of Business Personal Property valued at \$500,000 and below; C) Additional cost to the County to implement the changes to the property tax valuation system. The net effect of these mandates can be approximated at \$398,000 tax revenue gain to the County. However, this will be offset by more than \$2 million of new costs. This results in a revenue loss of \$1.8 million per year to fund San Luis Obispo County government.
9. A thorough review of the impact of a Split Roll conducted by the California Assessors’ Association (CAA) and verified by Capital Matrix, concludes that Proposition 15 will increase costs between \$460 and \$560 million statewide. Based upon this analysis and near impossibility of meeting time-lines to implement Proposition 15, California’s 58 elected County Assessors are in opposition to the ballot measure.

PROPOSITION 15
“SPLIT ROLL” IMPACT REPORT
SAN LUIS OBISPO COUNTY

TOM J. BORDONARO, JR.
COUNTY ASSESSOR
September, 2020

Proposition 15

A sweeping change to the property tax system in California will result from the passage of Proposition 15. The ballot initiative will be voted upon at the November 3, 2020 General Election. It is a proposed amendment to the State Constitution that requires a change in the way commercial and industrial properties are assessed for property tax purposes. Proposition 15 creates a “Split Roll”—the split being the separation of property that is used or zoned as commercial and industrial from residential and agricultural properties. Once separated, commercial and industrial properties are subject to market valuation at least every three years.

The Property Tax System Today

For more than forty years, property taxes in California have been governed by the provisions of Proposition 13. All property types are currently treated equally under Proposition 13, which was the result of a taxpayer revolt against rapidly increasing property taxes in California. The citizens’ initiative known as “*The People’s Initiative to Limit Property Taxation*” was approved by voters in June, 1978. The measure placed into the California Constitution strict limits on the valuation and taxation of real and business personal property.

Proposition 13 limits property taxes to 1% of a property’s **assessed value**. The property’s assessed value equals the property’s **base value** (the property’s appraised value at the time of the change in ownership), plus an inflation factor (limited to no more than 2% per year) as determined by California’s Consumer Price Index (CPI). For example: If a homeowner has held a property since Proposition 13 was adopted, then their home is taxed based on its assessed value in **1975**, plus an inflation factor.

Property tax assessment increases on all properties are limited to no more than 2% per year as long as the property does not have a **change in ownership** or any **new construction**. The sale of property results in a change in ownership. Once ownership changes or new construction is completed, the property is **reassessed** at the market value, or the value of the new construction added to the existing assessment. The reforms under Proposition 13 have provided property owners the ability to estimate their future property taxes, and to determine the maximum amount their taxes can increase as long as they continue to own the property.

How Does Proposition 15 Change Proposition 13?

Under Proposition 15 all property types will no longer be treated equally. The initiative mandates that property taxes for commercial and industrial properties, including vacant land, shall be based on their appraised **market value**. An appraisal will be required at a minimum of every three years, but could occur more frequently. If approved by voters, the “**California Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative**” would phase-in the change to market-based valuations beginning on January 1, 2022. Later start dates will apply to commercial and industrial properties with occupants that are 50 percent or

more small businesses. Those properties would be taxed based on their market value beginning in fiscal year (FY) 2025-2026. Businesses whose California property holdings are valued at less \$3 million and companies with 50 or fewer full-time employees are excluded from the Split Roll initiative. The proposal also creates a new exemption for business personal property with a value of \$500,000 or less.

How does Proposition 15 impact agriculture?

Proposition 15 will have a very big impact on agricultural operations in California. Language contained within the ballot measure indicates that the change to market value for commercial and industrial properties will not affect agricultural properties. Specifically, Section 3, h (2), states the following: *This measure makes no change to existing laws affecting the taxation or preservation of agricultural land.* While the measure promises “protections” for agriculture, the truth is that improvements on farm and ranch land—like dairies, wineries, feedlots, barns, methane digesters, and even mature fruit and nut trees—will be subject to much higher taxes. The increase in taxes will result from reassessment of improvements on agricultural properties at market value at least every three years. This measure creates a new disincentive for agricultural investment in alternative energy technology and improvements.

What are the impacts of a Split Roll?

Proposition 13 currently provides all property types the same property tax treatment and protection. One of the most significant benefits of Proposition 13 is the stability and predictability of property taxes. For homeowners who maintain ownership of their property for many years, they benefit from a below market assessed value and from the limitation of no greater than 2 percent per year in value increases, regardless of changes in property values, the cost of living, or increases in inflation. This same stability applies to business property owners. This is a big advantage for those who rent or lease business property and ultimately provides a great benefit to consumers. With predictable and limited property taxes, consumers and the public are better served. Those who shop in businesses or access goods or services at business locations, greatly benefit from lower and stable property taxes.

Most businesses in San Luis Obispo are small businesses, owned or operated by local people. These entrepreneurial endeavors employ thousands of residents who live in our neighborhoods. Hundreds more are Cuesta College or Cal Poly students who work part-time jobs in small businesses. Local residents shop in the stores and business enterprises. Whether it is the shop owner or the shopper from down the street, everyone benefits from low and predictable property taxes.

Many businesses are located in commercial or industrial buildings owned by someone else. These business owners pay the property tax and benefit from lower assessed values and capped annual increases. If the lid is blown off property taxes, and that’s exactly what the split roll will do, business owners will pass along much higher costs to consumers and some businesses will cut jobs to keep ahead of their property tax burden.

While the impact of the split roll cannot be completely anticipated, there are some outcomes that are certain:

1. The stability and predictability of property taxation that results from the Proposition 13 limitation on assessed value increases and the 1 percent cap on taxation will be replaced by volatile fluctuations in both assessments and property tax revenues due to the frequent reassessment of commercial and industrial properties;

2. The ability of business owners to reasonably predict their property taxes will be replaced with fluctuating tax impacts. Increases in taxes will be passed along to occupants of commercial and industrial buildings. Tenants will be faced with fluctuating rental and lease costs which may impact their ability to continue in business or force them to pass increased costs on to the public;
3. Revenues to some schools and local governments from property taxes which are stable under Proposition 13, will instead become unpredictable. Commercial and industrial assessments based upon the ups and downs of the commercial real estate market will require the maintenance of greater reserves to offset revenue shortfalls. That will in turn, will take away from education and public service funding;
4. Consumers will pay higher prices for goods and services as businesses subject to the new method of market rate assessment pass along higher property tax expenses along to those purchasing products or services from those businesses;
5. Owners of commercial and industrial properties will take action to avoid paying higher property taxes, including filing assessment appeals;
6. County assessors will not be able to implement the Split Roll requirements within the designated time frame. With a short implementation period, it will be impossible to recruit and train the additional professional appraisers needed to execute a three year cycle of market value reassessment of commercial and industrial properties;
7. There will be a significant cost increase for recruiting and hiring additional staff, including salaries, benefits and training. There will also be significant new costs for preparation of an increased number of assessment appeal cases that will result from the split roll.

CORONAVIRUS PANDEMIC

The unprecedented health and economic impacts of the Coronavirus will result in changes in the value of taxable properties. Values for residential property in San Luis Obispo County appear to be holding steady, with increases occurring due to low interest rates, limited inventory and consumer demand for homes. The situation with commercial and industrial properties is very different. There may be a significant loss in value for commercial and industrial properties. As business activity has been negatively impacted by restrictions related to the pandemic, rents and leases are going unpaid, vacant properties are not occupied, and sales of commercial buildings are limited.

A decline in value of commercial and industrial property will result in less revenue for local government and schools. Property taxes generated from commercial property values will be severely impacted by the Coronavirus Pandemic. If Proposition 15 is approved, volatility of property tax revenues to taxing agencies will result.

Given the unprecedented impact of restrictions related to the Coronavirus, the concern over property tax unpredictability is highlighted in a remarkable way. Taxpayers subjected to the proposed Split Roll are already experiencing instability and unpredictability on a daily basis. These new conditions raise additional concerns about the advisability of adding a huge new tax burden to property owners already dealing with disruption of life, school, and employment.

Under Proposition 13 Property Tax Revenues are Stable:

Only one of California's major taxes has experienced sustained stability and predictability. State Income Tax, Sales Tax, Corporate Tax and Property Tax are major funding sources for education and state and local governments. All, except the Property Tax, are subject to great volatility and wild swings depending on the economic conditions in California. This boom or bust

cycle of tax revenue produces dramatic deficits in down times and budget surpluses during times of economic growth. Only the Property Tax has remained steady and reliable. This consistency will be replaced with volatility if the split of commercial and industrial properties is approved and the balance of Proposition 13 is replaced.

The Chart below depicts the volatility of revenue generated by the California Personal Income Tax (PIT) in comparison with the Property Tax. Property Tax revenues have been stable and predictable, while the PIT has experienced wild swings depending upon economic conditions. With the Split Roll, Property Tax revenues will join the Personal Income Tax in experiencing wild revenue fluctuations.



How does the Split Roll impact San Luis Obispo County?

Implementing market value appraisals for commercial and industrial properties in San Luis Obispo County will increase appraisal workload by 88 percent and result in an ongoing annual budget increase of over \$2 million. The required increase in the number of assessment personnel will total 11 full time employees. The first year budget increase is estimated to be \$3.2 million. Recruitment and hiring of additional employees will take an undetermined period of time, as county assessors across California will be competing for qualified employees to implement the initiative. Professional appraisers will also be sought for employment by property owners or agents that represent business property owners in tax assessment appeals. It is anticipated there will be a significant shortage of professionally trained and experienced appraisers. Once hired, it will take 2 to 3 years to fully train appraisal staff. Training will require both additional instructional time and classroom space. Additional work space will be permanently needed to accommodate 11 additional employees. A one-time expense of \$850,000 will be necessary to purchase the computer technology necessary for a commercial and industrial appraisal program. There will be ongoing costs for updating and maintaining appraisal technology. Those costs are reflected in the analysis of the fiscal issues associated with implementing the initiative.

Proposition 15 Positions and Budget SLO County			
POSITION TITLE	NUMBER OF POSITIONS	FIRST YEAR	ONGOING
Assessment Manager	1	161,129	161,129
Appraiser III	1	131,478	131,478
Appraiser III Appeals	1	165,000	165,000
Auditor Appraiser III Appeals	1	152,000	152,000
Assessment Analyst II Appeals and HR	2	330,000	330,000
Assessment Technician (Tech Crew)	1	85,000	85,000
Programmer (IT)	1	165,000	165,000
Assessment Technician	2	185,000	185,000
Property Transfer Technician	1	98,500	98,500
Total Personnel	11	\$1,473,107	\$1,473,107
Office Space (Lease)		396,000	396,000
Work Stations/Computers	11	75,000	
Commercial/Industrial Appraisal IT Program (One-time)	1	850,000	
Build system to automatically import zoning changes to Assessor databases	1	100,000	
Build new process to track and exclude mixed use residential portion of commercial zoned property	1	100,000	
Create databases-audit for statewide tracking of ownership	1	100,000	
Direct accounting: Administrative costs to Assessor	1	20,000	20,000
County overhead	1	90,000	90,000
Total Other Expenses		1,731,000	506,000
Total Cost		\$3,204,107	\$1,979,107

The chart above reflects the anticipated personnel and budget impact to the San Luis Obispo County Assessor's Office to implement Proposition 15. Appraisals of all commercial and industrial property are required. Business Personal Property exemptions must be tracked and a method of identifying and monitoring businesses with less than fifty employees must be provided.

A significant increase in the number of Assessment Appeals will result from the proposed change to a market based appraisal system. It is anticipated that the number of appeals will increase from approximately 200 in 2018-19 to 500 per year following implementation of the split roll.

Business and industrial property owners will be significantly impacted by assessments on their property mandated by the Split Roll Initiative. While my office will always work cooperatively with taxpayers to resolve differences regarding assessed value, owners of business and industrial properties will have every incentive to file assessment appeals. California law provides taxpayers the right to appeal assessed values established by the assessor through the quasi-judicial assessment appeals process. There is a nominal fee for filing an assessment appeal in San Luis Obispo County.

Unlike the preparation of a typical property assessment, appeal cases are presented in a formal court-like proceeding with witnesses and documentary evidence. Each appeal case will require a significant number of staff hours for review and preparation prior to presentation before the Assessment Appeals Board. The Board of Supervisors can anticipate a significant increase in costs to conduct appeal hearings. The new costs added to county budget will include: Assessment Appeals Board time and expense for conducting a significantly larger number of hearings. Other costs include: Legal and administrative staff to conduct the hearings; hearing room space to accommodate the hearings and technology upgrades to process the proceedings. The County cost increase estimates made earlier in this report do not include the additional costs to the County Auditor-Controller, Clerk-Recorder, Assessment Appeals Board and County Counsel.

Under the provisions of the proposed split roll, thresholds are established for businesses subject to the new market value approach. For example, businesses with a property value of \$3 million or less are exempt. However, measurement of the \$3 million value exclusion and determinations such as ownership of a "majority of real property" are going to require greatly increased reporting by businesses and auditing by the assessor to assure compliance with the measure. In addition, commercial and industrial property must be assessed at least every three years. A change in ownership will reset the three year cycle for a property. Tracking of these items greatly increases the work of the assessor in monitoring the timeliness of appraisals and tracking of properties subject to the cycle versus those undergoing changes in ownership.

New Exemption: Business Personal Property

The Split Roll initiative would create a new exemption for Business Personal Property. For tangible personal property used for business purposes and all personal property used for certain small businesses, an exemption of \$500,000 is established. Aircraft and boats are not included in this exemption. Exempting business personal property for those assessed at less than \$500,000 will result in smaller taxpayers paying far less in taxes. This new exemption seeks to soften the impact of the massive real property tax increase on commercial and industrial property. There are, however, new responsibilities for assessors, such as processing taxpayer statements of exempted values and auditing to verify the accuracy of the Business Personal Property statements provided by taxpayers.

In San Luis Obispo County there are 12,871 Business Personal Property accounts. 6,963 of these accounts, with a value of \$9,162,465, receive an exemption under the "low value ordinance" already in place. There are 563 accounts that exceed the \$500,000 exemption, with a value of more than \$1.6 Billion. 5,345 of these accounts are valued at less than \$500,000 representing a total assessment of \$441,719,026. Assuming a 1% tax rate, that equates to total revenues of approximately \$4.5 million. The County government share of revenue is \$1.1 million (Approximately 24% of property tax accrues to County government).

The proposed \$500,000 exemption would lower the total taxable business personal property roll by more than \$450 million.

Even with the new exemption, taxpayers will still be required to file Business Property Statements and the assessor's office will still have to verify and track exemptions on an ongoing basis. There will be no administrative cost savings by exempting the first \$500,000 of business property. Auditor-Appraisers will be more important than ever in order to verify the accuracy and fairness of Business Personal Property statements (571-L and F) to ensure that the new exemption is being applied fairly and consistently.

Split Roll in San Luis Obispo County—By the Numbers

To meet the requirements of the Split Roll initiative, more than 3,000 appraisals will be required each year on business properties. There are 7,517 properties developed as commercial/industrial properties in San Luis Obispo County, and an additional 1,595 vacant parcels are zoned commercial. This means that more than 9,000 parcels will be subject to the Split Roll. The measure requires an appraisal of these properties at least once every three years, which requires 3,057 properties being reappraised each year. This analysis is based upon current codes, regulations and rules governing the appraisal of property by county assessors.

To accomplish the required annual commercial and industrial property reassessments, four appraisers will need to be added to the existing staff of the San Luis Obispo County Assessor's Office. If the Split Roll measure passes, additional support staff, computer programming, office space, and training will add \$2 million in additional costs to the budget requirements of the Assessor.

Split Roll Does Not Pay for Itself

There are three parts to the impact of Proposition 15: 1) Increase in Property Taxes from commercial and industrial properties by changing to market valuation; 2) Decrease in Property Taxes from a new exemption on business personal property; 3) Cost increases to accomplish required appraisals, hiring and training additional appraisers, and a rising number of assessment appeals. The net effect of these is less revenue to San Luis Obispo County government.

The following chart depicts an estimate of the financial impact of Proposition 15 in San Luis Obispo County. Values reflected in this analysis are estimates. Commercial and Industrial properties are required to be appraised at market value. This will produce additional assessed value. Business Personal Property valued at \$500,000 and less will be exempted. This results in decrease in assessed value. The SLO County government share of property tax revenues is approximately 24 percent. Costs to the Assessor's Office only is \$2.2 million ongoing which results in a net property tax loss to San Luis Obispo County of \$1.8 million per year.

Proposition 15 Implementation SLO County

Commercial and Industrial Value	+	\$704 million
Business Property Value Exempt	-	\$538 million
County share of new revenue	=	\$165 million
SLO County revenue gain	+	\$398,000
Cost to implement Split Roll	-	\$2.2 million
SLO County Loss	=	\$1.8 million

For example, in order to cover the increased costs to implement the proposed Split Roll, the increase in assessed value will need to exceed approximately \$12 billion per year. (\$12 billion assessed valuation x 1 percent property tax (Proposition 13) = \$12 million revenue x 24% of revenue to SLO County = \$2.8 million). In other words, in order for the proposal to pay for itself, more than \$12 billion of new assessed value would need to come from the change to market valuation of Commercial and Industrial properties. Within San Luis Obispo County, there are an insufficient number of properties used or zoned as commercial or industrial to even come close to generating the increased assessments necessary for the Split Roll to pay for itself. As a result, there will be insufficient additional revenues created to provide the funding for schools and local governments promised by proponents of the initiative.

California Assessors' Association Opposes Proposition 15

California's elected assessors have been studying potential "Split Roll" impacts for many years. The California Assessors' Association (CAA) voted to oppose Proposition 15, based upon the many major and minor problems with "Split Roll" and Proposition 15. These have been documented in the surveys and analysis prepared by the California Assessors' Association (CAA). In 2015, the CAA conducted a survey of county assessors' regarding the potential impact of a Split Roll. That survey analyzed results from counties representing 2/3 of the assessed value in California, showing an increased annual cost to assessors' of approximately \$169 million per year. This report was critically reviewed by the respected, independent consulting firm Capital Matrix. The April 2018 Capital Matrix report, sanctioned by CAA, produced a revised estimate of annual cost increases of

between \$380 million and \$470 million per year for the first 5 to 10 years for county assessors to implement the split roll initiative.

In the latest analysis conducted by Capital Matrix, validation of cost estimates have been updated to reflect county costs to comply with Proposition 15. The current review reflects cost increases of between \$460 and \$560 million each year for county assessors' to implement the Split Roll. In addition, Capital Matrix believes there will be a onetime \$50 million expense to counties, primarily for computer upgrades to accomplish the assessment and tracking of the commercial and industrial properties mandated by the change to the California Constitution.

Conclusion

Proposition 15 is the proposal to create a "Split Roll". This will be voted upon at the November 3, 2020, General Election. This is the most significant change to Proposition 13 in over forty years. If the change to the State Constitution is approved by voters, commercial and industrial property will be split from residential property for property tax assessment. Under the ballot initiative, properties used or zoned Commercial and Industrial must receive a market based appraisal at least every 3 years, if they are valued \$3 million or greater. A new exemption is created for business personal property valued at less than \$500,000.

The combination of these changes will have a dramatic impact on the work of our office. There will be an 88 percent workload increase for the assessment of commercial and industrial properties in San Luis Obispo County and 11 new staff will be required to accomplish the Split Roll mandates. It will be challenging, if not impossible, to implement within the time frame of the initiative, our analysis suggests that the additional revenue generated by the Split Roll will not cover the cost to the county. Without state financial support, the county General Fund would experience an annual loss in the millions of dollars.