

TO: Jim App, City Manager

FROM: Iris Yang, City Attorney  
Jim Throop, Director of Administrative Services

SUBJECT: Proposed SCA 5

DATE: September 25, 2015

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The City Council has received a request that the City send a letter to the State Legislature opposing proposed Senate Constitutional Amendment No. 5 (“SCA 5”), which would amend a portion of Proposition 13 (“Prop 13”). This report explains the basic provisions of SCA 5, as currently proposed.

### **Background – Proposition 13**

Proposition 13 (“Prop 13”) was enacted by the voters in 1978 and added article XIII A to the California Constitution.<sup>1</sup> Its main focus was to protect homeowners from unrestricted increases in property taxes, but it applies similar restrictions on commercial and industrial properties. The ad valorem tax on real property cannot exceed one percent (1%) of the full cash value of the property (Cal. Const. art XIII A, § 1(a)) and increases in assessed valuation due to inflation are limited to two percent (2%) annually. Properties are re-assessed upon sale, new construction or a change in ownership. This means adjacent properties may have very different assessed valuations, depending on when property is sold or changes ownership.

Because many commercial and industrial properties are owned by business entities, SCA 5 states that large corporations and wealthy individuals who own many of those properties have been able to avoid reassessment due to a change in ownership by using tax loopholes and complex stock transactions. As a result, residential properties now pay 72% of the total property taxes paid statewide, up from 55% in 1978, while commercial, industrial and agricultural properties now pay 28% of the total, down from 45% in 1978.

### **Proposed SCA 5**

As currently drafted<sup>2</sup>, SCA 5 seeks to have under-assessed commercial and industrial properties brought up to their actual market value; the increases would be phased in. The measure explicitly would not affect how residential (including rental residential) or commercial agricultural properties are assessed. It also would provide a \$500,000 exemption on business personal property tax on equipment and fixtures for small businesses, which the Legislature estimates would affect 90% of California businesses.

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<sup>1</sup> Since its enactment, Prop 13 has been amended 14 times – both technically and substantively - most recently in 2010.

<sup>2</sup> The full text of SCA 5, as well as any votes, history, and bill analysis, is available at: [http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=201520160SCA5](http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201520160SCA5)

The additional revenues generated by SCA 5 would be distributed in accordance with the normal property tax distribution, with the portion for school districts placed in a special Local School and Community College Property Tax Fund, maintained by the State Controller. Eleven percent would be allocated to community colleges, and 89% for school districts, charter schools and county offices of education for schools operated by the county superintendent of schools. Schools must spend the money for instructional improvement and accountability and not for administrative costs. This new revenue for school districts would not decrease the amounts they currently receive under Proposition 98 or other funding sources.

Finally, it should be noted that the language for SCA is not yet final. Each house of the Legislature must approve the amendment by a two-thirds vote before it can be placed on the November 2016 ballot.

**FISCAL**

**IMPACT:** There are approximately 1,200 commercial/industrial properties within the city limits. Of these parcels approximately 880 parcels have not been reassessed in more than five (5) years and over 700 parcels have not been reassessed in over 10 years. Total current valuation of these particular parcels is approximately \$523,000,000. Assuming an appreciation rate of 5%, per year over the last five (5) years, this amount would increase to approximately \$667,000,000.

Using the average amount the City receives from the 1% property tax rate (city receives approximately 14.5% of the total property taxes paid by a property owner) this incremental change in assessments could bring in approximately \$210,000 in new General Fund revenue to the City. However, a portion of that would be offset by the business personal property tax exemption for small businesses.

The impact on the Paso Robles School District would be more significant, as it could receive approximately \$750,000 in new revenue annually.

- Options:**
- a. Receive and file report; or
  - b. Amend, modify, or reject the above option