

# ****Prop. 13 Reform FAQs****

# What is Prop. 13? Proposition 13, or the People’s Initiative to Limit Property Taxation, was passed in 1978, stemming from concern over soaring property values and resulting in rising property taxes. It was championed by anti-tax activists Howard Jarvis and Paul Gann.  Proposition 13 ensures valuations of property may not grow by more than 2% annually, and market value reassessment may only occur with a change of ownership.  Additionally, Proposition 13 created the requirement that all state and local tax increases be approved by a two-thirds vote of the legislature or voting public.

**Isn't Prop. 13 just for homeowners?** No.  Most voters are unaware of this, but Prop. 13 applies to commercial property as well.  This aspect of the law has led to significant unintended consequences.  For example, Chevron alone is saving over $100 million a year by benefiting from Prop. 13's protections. Because homeowners move on average every ten years, and commercial property rarely, if ever, changes hands, the tax burden in California has shifted decisively onto residential property owners.  Before Prop.13, residential accounted for 55% of the property tax and commercial paid 45%.  Now residential pays 72% of the tax burden while commercial only pays 28%.

**Will reforming Prop. 13 affect homeowners?** No, not at all. Prop. 13 protections will remain in place for **all**residential property. Our reform will change Prop. 13 so that it will no longer apply to large, commercial property.

**What about apartments?** No, apartments will not be affected either, nor residential renters of any kind. In mixed-use buildings, only the large commercial property will lose Prop. 13 protections.

**What about farms?** All agricultural land will be exempt from this reform.

**Will this change for commercial property happen all at once?** No, this reform will be gradually phased in over 3 years.

**Won't this be bad for business in California?** No.  Most businesses (64%) in California already pay property taxes at or near fair market rate.  Under the current system, two identical businesses side-by-side may pay drastically different property taxes.  We are penalizing new businesses by making them subsidize their established competitors’ property tax.  By leveling the playing field and gradually bringing the minority of older businesses up to fair market rate, we will be creating a healthier and more competitive business climate.  Furthermore, as a result of some large commercial property owners not paying their fair share, Sacramento has been forced to raise other taxes on businesses.  Since 1978, business licenses, franchise taxes, real property transfer tax, and transient lodging taxes have been increased by over 450%.  There is clearly a reason why every other state in the country regularly reassesses their commercial property.

**Won't this cause businesses to leave California?** No.  We are the only state in the country that does not regularly reassess commercial property.  Most states actually tax their commercial property at a higher percentage than residential property.  Texas, for instance, taxes their commercial property at 2.5%.  Our property tax rate will remain capped at 1%.

**Won't businesses just pass the cost for goods and services down to consumers?  Won't rents go up?** Rents and prices for goods and services are not based on the property taxes businesses pay. Landlords charge rents based on what the market allows them to charge (a building that has not been reassessed since 1975 is not cheaper to rent than a building that was reassessed in 2000). Since 1978, Disneyland has been paying less than 5 cents/square foot on their property taxes and has still raised its ticket prices over 800%!

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### **Aren't there other loopholes that corporations exploit to avoid paying property tax?** Yes. Currently, commercial property owners can split up the purchase of a property amongst several parties in order to keep all ownership shares under 50%.  By ensuring that no one entity owns more than 50% of a property, no property tax reassessment is triggered. By instituting regular reassessment of large commercial property, these tax evasions will no longer be possible because reassessment will occur every year regardless of the circumstances of the purchase.

### **Where will the new revenue from this reform go?** The $9 billion annually generated from this reform will be distributed in accordance with current local property tax allocation for cities, counties and school districts.  At least $4.5 billion will go to directly to California public schools - which are currently ranked 44th in the nation in per-pupil funding and have the largest classroom sizes in the country. This will be local money that will stay local, and will not go to Sacramento.

References:

**Websites**: <http://www.lao.ca.gov/Publications/Detail/3497> Common Claims About Prop. 13 by Legislative Analyst’s Office;[http://dornsife.usc.edu/pere/getting-real-about-reform/May 2015 Research showing $9](http://dornsife.usc.edu/pere/getting-real-about-reform/May%202015%20Research%20showing%20$9) billion from State Constitutional Amendment; <http://calbudgetcenter.org/> California Budget and Policy Center; <https://www.youtube.com/watch?v=ICWx3I26An8>, Robert Reich Video

**Books**: 1) Guide to California Government, League of Women Voters of California Ed Fund, (2013), 2) Boom and Bust, Politics of the California Budget, Jeff Cummins, UC Press, (2015), 3) California Crackup, How Reform Broke the Golden State and How We can Fix It, Joe Mathews and Mark Paul, (2010), UC Press 4) After the Tax Revolt: California’s Proposition 13 Turns 30, edited by Jack Citrin and Isaac William Martin