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Staff Report for a City of San Leandro City Council Resolution Supporting Proposition 15, Otherwise Known as the "The California Schools and Local Communities Funding Act of 2020" that will appear on the November 2020 statewide ballot

SUMMARY & RECOMMENDATION

Per a request from the City Council at the September 8, 2020 City Council meeting, staff recommends that the City Council consider adopting a Resolution in support of Proposition 15, which will appear on the upcoming November 2020 statewide ballot.

BACKGROUND

California local public agencies, including cities, counties, schools, and special districts, levy property taxes on property owners based on the value of their property. Property taxes raise around \$65 billion annually for local governments, about \$2 billion of which is attributable to business personal property. Furthermore, about 60 percent of statewide property tax revenue is allocated to cities, counties, and special districts, while the remaining 40 percent is allocated to schools and community colleges. The taxable value of property throughout the state is determined by locally elected County Assessors, with County tax collectors billing property owners, and County auditors typically distributing the revenue to local government agencies. Each property owner's annual property tax bill is equal to the taxable value of their property multiplied by their property tax rate.

Since the passage of Proposition 13 in 1978, property tax rates are generally capped at 1 percent throughout California. The county assessor assigns an assessed value to the property, typically based on its purchase price. Each year thereafter, the property's taxable value may increase by 2 percent or the rate of inflation, whichever is lower. This process continues until the property is sold

and again is taxed at its purchase price. In most years, the market value of most properties grows faster than 2 percent per year. As a result, under this system the taxable value of most properties becomes less than their fair market value.

Proposition 15, also known as “The California Schools and Local Communities Funding Act of 2020”, which will appear on the November 2020 General Election ballot, would make changes to the above-outlined tax system. More specifically, according to the ballot measure sponsors, it would:

- Require the regular reassessment of some commercial and industrial properties at current fair market value for property tax purposes, while retaining the 1% cap on the overall property tax rate;
- Maintain all existing protections for homeowners, rental properties and agricultural land;
- Protect small business property owners by excluding from reassessment properties under \$3 million in market value when these properties are owned independently; and
- Generate up to approximately \$12.5 billion in total statewide increased funding for K-12 public schools, community colleges, and local governments.

Additionally, it is important to note that the proposed changes in property tax assessments would not apply to the following classifications of property:

- residential properties,
- agricultural properties, and
- commercial & industrial properties with combined value of \$3 million or less.

At the September 8, 2020 regular San Leandro City Council meeting, the City Council voted to place on a future City Council meeting agenda the adoption of a resolution in support of Proposition 15. A copy of such a draft resolution is attached to this staff report.

ANALYSIS

According to the non-partisan California State Legislative Analysts’ Office (LAO), if Proposition 15 were adopted, total property taxes from commercial land and buildings probably would be \$8 billion to \$12.5 billion higher in most years once the measure becomes fully effective around the year 2025. Schools and community colleges would receive 40% of the increased revenue yearly. According to ballot measure sponsors, this translates into between \$15,000-\$20,000 per classroom when fully implemented. Every school district would receive increased revenue for students in need based on the Local Control Funding Formula applied statewide, and Basic Aid districts that already meet their target funding level would also receive a minimum of \$100 per student in additional revenues.

All new revenue generated would be in addition to current revenue guaranteed by Proposition 98. Cities, counties, and special districts would continue to receive 60% of the increased revenues. Like all property taxes, those revenues could be spent at the discretion of local agency governing bodies, including for services such as parks, libraries, emergency response, capital improvements, social services, and most other municipal services.

According to the ballot initiative sponsors, the City of San Leandro could potentially receive up to \$8.8 million in new recurring annual revenue once the measure becomes fully effective. The implementation period is from 2022 to 2025, so the City would likely begin to see the additional funding beginning in the FY 2022-2023 fiscal year. The State Legislature also has the authority to lengthen the phase-in period to ensure counties have sufficient time to make the requisite adjustments in property tax rolls and associated collection functions.

As has been publicly discussed at numerous prior City Council meetings, the City of San Leandro is currently facing ongoing structural deficits that have been severely exacerbated by the coronavirus global pandemic. If passed, this ballot measure has the potential to significantly mitigate the depth of service level reductions that might otherwise be required to bring the City's budget back into long-term balance.

Fiscal Impacts

If adopted by voters, Proposition 15 has the potential to generate approximately \$8.8 million per year in new annually recurring revenue for the City of San Leandro, beginning in FY 2022-23.

ATTACHMENTS

Attachments to Staff Report

- Legislative Analyst's Office analysis
- Ballot measure sponsors' revenue estimates
- Resolution in Support of Proposition 15

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