



**Jesse Arreguín**  
Councilmember, District 4

CONSENT CALENDAR  
July 14, 2009

To: Honorable Mayor and Members of the City Council

From: Councilmember Jesse Arreguín

Subject: Resolution supporting a constitutional amendment to implement an equitable split-roll property tax

RECOMMENDATION:

Adopt a resolution supporting a constitutional amendment to implement an equitable split-roll property tax and urging Berkeley's representatives in the California Senate and Assembly to continue to work to modify the definition of a "change of ownership" for commercial property.

BACKGROUND:

California's catastrophic budget deficit demands immediate action by the people of California and the State Legislature to find new revenues to balance proposed budget cuts.

In 1978, California voters passes Proposition 13, which limited property taxes to 1% of the assessed value of the property, and limited potential future increases to the original assessed value to a maximum of 2% per year. Proposition 13 has resulted in a dramatic reduction in state revenues, contributing to the state's persistent structural deficits and exemplified by California's drop in per-pupil spending from 18<sup>th</sup> in the nation in 1977 to 47<sup>th</sup> today.

Proposition 13 specifies that property is to be reassessed at full market value when the property is sold. Many voters supported Proposition 13 to offer protection to homeowners on fixed incomes who were burdened by rapidly increasing property taxes as the value of their property increased in California's escalating housing market.

However, reassessment of commercial property occurs less frequently than residential property because, in California Revenue and Taxation Code Section 64 subsection (c), a "change of ownership" is defined narrowly to occur only when a single person or entity acquires more than 50% of a corporation.

This myopic difference in Proposition 13 has led to a substantial shift in the tax burden from commercial property owners to homeowners and has resulted in massive disparities in the amount of property tax paid by similar commercial properties.

A number of Fair-tax advocates have proposed a split roll tax, which would preserve the limit on reassessment of residential property while creating a separate tax roll for commercial property that would be reassessed at fair market value.

In 2003, the Board of Equalization estimated that a split-roll tax as proposed by then Assemblywoman Loni Hancock in ACA 16 would generate \$3 billion in revenue per year. The State Legislature can modify the definition of "change of ownership" of commercial property to generate new revenue before the next election.

FINANCIAL IMPLICATIONS:

NONE.

CONTACT PERSON:

Jesse Arreguín, Councilmember, District 4

981-7140

Attachments:

1. Resolution

RESOLUTION NO.—N.S.

RESOLUTION SUPPORTING A CONSTITUTIONAL AMENDMENT TO IMPLEMENT AN EQUITABLE SPLIT-ROLL PROPERTY TAX AND URGING BERKELEY'S REPRESENTATIVES IN THE CALIFORNIA SENATE AND ASSEMBLY TO CONTINUE TO WORK TO MODIFY THE DEFINITION OF A 'CHANGE OF OWNERSHIP' FOR COMMERCIAL PROPERTY

WHEREAS, In 1978, California voters passed Proposition 13, which limited property taxes to 1% of the assessed value of the property, and limited potential future increases to the original assessed value to a maximum of 2% per year; and,

WHEREAS, Proposition 13 has resulted in a dramatic reduction in state revenues, contributing to the state's persistent structural deficits and exemplified by California's drop in per-pupil spending from 18<sup>th</sup> in the nation in 1977 to 47<sup>th</sup> today; and

WHEREAS, Proposition 13 specifies that property is to be reassessed at full market value when the property is sold; and,

WHEREAS, Many voters supported Proposition 13 to offer protection to homeowners on fixed incomes who were burdened by rapidly increasing property taxes as the value of their property increased in California's escalating housing market; and,

WHEREAS, Reassessment of commercial property occurs less frequently than residential property because, in California Revenue and Taxation Code Section 64 subsection (c), a "change of ownership" is defined narrowly to occur only when a single person or entity acquires more than 50% of a corporation; and,

WHEREAS, Proposition 13 has led to a substantial shift in the tax burden from commercial property owners to homeowners; and,

WHEREAS, Proposition 13 has resulted in massive disparities in the amount of property tax paid by similar commercial properties; and,

WHEREAS, A 2004 report by the California Tax Reform Association found that San Francisco's Hilton Tower hotel paid \$0.80 per square foot in property tax while the Clift Hotel, located one-block away, paid \$16.55 per square foot; and,

WHEREAS, A number of fair tax advocates have proposed creating a "split-roll" tax that would preserve Proposition 13's limit on reassessment of residential

property while creating a separate tax roll for commercial property that would be reassessed at fair market value; and,

WHEREAS, Fair tax advocates are currently debating several models for equitable reform to California's property tax model, including a split-roll tax that would reassess commercial property to fair market value, a split-rate tax that would provide a separate tax rate for commercial property, and a split-CCPI (California Consumer Price Index) rate that would increase the cap on the inflation rate for commercial property above its current 2% ceiling; and,

WHEREAS, In 2003, the Board of Equalization estimated that a split-roll tax as proposed by then-Assemblywoman Loni Hancock in ACA 16 would generate \$3 billion in revenue per year; and,

WHEREAS, On May 7, 2009, the Board of Equalization issued a report stating that statewide commercial properties are assessed at 58% of fair market value; and,

WHEREAS, The State Legislature can modify the definition of "change of ownership" of commercial property to generate new revenue before the next election; and,

WHEREAS, Progressive representatives in the State Legislature have attempted to implement a split-roll tax to modify the definition of "change of ownership," but they have been repeatedly thwarted by either a gubernatorial veto or the lack of a two-thirds majority vote of the Legislature; and,

WHEREAS, California's catastrophic budget deficit demands immediate action by the people of California and the State Legislature to find new revenues to balance proposed budget cuts.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it hereby supports the creation of an equitable split-roll property tax; and,

BE IT FURTHER RESOLVED that the Berkeley City Council supports the fair-tax advocates who are evaluating the split-roll tax, split-rate tax, and split-CCPI rate models and urges them to develop a proposal for a viable and equitable property tax; and,

BE IT FURTHER RESOLVED that the Berkeley City Council urges our representatives in the State Senate and Assembly to continue to work to modify California Revenue and Taxation Code Section 64 subsection (c) to define that a "change of ownership" of a property owned by a business shall occur when a cumulative transfer of more than 50% of the ownership of a corporation occurs.