



Office of the Mayor  
Mayor Tom Bates

CONSENT CALENDAR  
December 3, 2013

To: Honorable Members of the City Council  
From: Mayor Tom Bates  
Subject: Support Commercial Property Tax Reform

### RECOMMENDATION

Adopt a Resolution urging California state legislators to amend the state constitution to allow commercial property values to be reassessed regularly for tax purposes.

### FINANCIAL IMPLICATIONS

Minimal

### BACKGROUND

In 1978, California voters passed Proposition 13, which limited property taxes to no more than 1% of the “assessed value” of the property, which could increase by no more than 2% each year. By law the assessed value of the property was set at the value the property was last sold at (or the 1976 value, whichever is more recent), and could only be reassessed during a transfer of ownership. This applied to both residential and commercial property.

The new property tax structures under Proposition 13 gave corporate owners of commercial property an inherent advantage. Corporations do not die with the passing of owners and shareholders can maintain ownership of a property in perpetuity. This prevents the property from being reassessed as long as the corporate entity retains ownership, and keeps tax rates flat even as higher profits accompany higher real estate value. In addition, property can change management through mergers and buyouts but legally keep the same ownership, avoiding reassessment. Even when ownership does change, corporations have used legal loopholes to avoid reassessment. Commercial property is therefore much less likely to be reassessed as often as residential property, resulting in an increasing share of California’s property tax revenue falling on individual homeowners rather than corporations.

Commercial property tax reform has been recommended several times. The California Policy Seminar study in 1993 urged for such reform, as did the Senate Resolution 42 Study Commission and the California Tax Reform Association in 1991. However, the commercial property tax portion of Proposition 13 has not changed since 1978. The California Democratic Party passed a resolution calling for reform of commercial property taxes at its state convention on April 14, 2013, and state Assemblymembers Tom Ammiano, Phil Ting, Lois Wolk, and Mark Leno have all publically voiced their support for reform in Sacramento in recent months. As of May 2013, 56% of likely California voters support commercial property tax reform.

CONTACT PERSON

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Attachments:

1: Resolution

RESOLUTION NO. ##,###-N.S.

SUPPORT COMMERCIAL PROPERTY TAX REFORM

WHEREAS, Proposition 13, passed in 1978, unfairly allows commercial property owners to avoid paying their fair share of property taxes and has shifted the tax burden away from business and onto residential property, including everyday homeowners and working families, so that, instead of property taxes being made up from businesses and homeowners each paying about 50% of the total, businesses now pay 28% and homeowners 72%; and

WHEREAS, the state of California continues to face chronic budget crises in large part because Proposition 13 has forced the state to rely on revenue sources that are more volatile than the property tax, such as income taxes and sales taxes paid by working families, which rise and fall with economic cycles, causing deficits and requiring cuts to vital services that grow our economy, and thereby worsening economic downturns; and

WHEREAS, regularly reassessing nonresidential property would, according to an analysis of data provided by the California Board of Equalization, generate at least \$6 billion in additional revenue annually for California and would shift the tax burden from homeowners, renters, and working families back to corporations and commercial landholders once again, so that nonresidential property owners would pay a percentage of the total commensurate with the value of their property.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the Council supports commercial property tax reform that will require nonresidential properties to be reassessed regularly while maintaining residential property owners' protections under Proposition 13.

BE IT FURTHER RESOLVED that the Berkeley City Council will communicate this position to state elected officials and ask them to put a Constitutional Amendment on the California ballot to reassess commercial property periodically.

