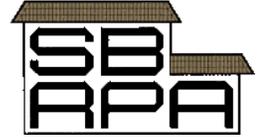


# AB 2372- OPPOSE



California Tank Lines, Inc.  
TANK TRUCK TRANSPORTATION



WEST COAST LEASING, LLC

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NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®





Date: May 5, 2014

To: Members, Assembly Revenue and Taxation Committee

From: Gina Rodriguez, CalTax Vice President of State Tax Policy

**Subject: OPPOSITION to AB 2372 (Ammiano), as amended April 1, 2014**

The California Taxpayers Association and the organizations listed in this letter oppose AB 2372, which seeks to impose a split roll by triggering more frequent reassessments of property owned by legal entities. The bill redefines change in ownership, so that reassessment of property occurs at market value when, cumulatively, 100% of ownership interests transfer in a rolling three-year period. The bill defines a “single transaction” as not just a single transaction – but includes cumulative transactions in a three-year period.

The idea of a split-roll property tax has been fully vetted and consistently rejected since the passage of Proposition 13 in 1978. While some believe that a split roll would raise revenue, it would, in fact, stifle the state’s economic growth in the long term. From what is known about the economic impacts of split roll, it remains an ill-advised idea.

The current acquisition-based value system has had a positive economic effect on California. If a split-roll system is enacted, a large share of California property no longer would be protected by the limitations on property tax assessments established by voters when they approved Proposition 13, creating a significant economic threat to California.

Contrary to what supporters of split roll claim, Proposition 13 does not shift the property tax burden to homeowners. The assessed value of business and non-homeowner property subject to Proposition 13 has grown an average of 7.5 percent per year, while homeowners' property tax has grown an average of 7.2 percent. Thus, the Proposition 13 property taxes paid by non-homeowners have outpaced homeowners' property tax burden. In fact, Proposition 13 has prevented a property tax shift to homeowners.

Consider these ill effects of a split roll:

**Bad for the Economy and Consumers.** The Legislative Analyst's Office found that a split roll would increase costs to businesses due to higher property taxes, which could result in higher product prices, reduction in employees' salaries and a reduction in overall economic activity. Higher prices on products and services would make California businesses less competitive in national and global markets.

**Some Residential Units Would Be Negatively Impacted by a Split Roll.** Proponents argue that a split roll would generate more revenue without directly taxing a large bloc of voters who own houses. This is based on the principle, "Don't tax you, don't tax thee, tax that fellow behind the tree." However, no matter how a split roll is drafted, there would be many residential units whose occupants would suffer an additional financial burden.

**Hurts Many Businesses.** A split roll would adversely impact businesses, particularly small businesses and minority-owned businesses, because their lease costs would increase with higher property taxes. Lease payments on commercial buildings, shopping centers and business parks would increase to reflect increased property taxes, as most commercial leases allow for such increases. Smaller businesses would be less able to absorb a sudden rent increase due to reassessment, and many would have to reduce their number of employees or close down completely.

**Hurts Retirees.** Retirees whose pension funds invest in California businesses and business properties would see the value of their funds reduced, as these businesses become less competitive and less profitable. For example, as of December 31, 2013, the California Public Employees' Retirement System (CalPERS) had \$24.2 billion invested in real estate, \$5.9 billion of which included California real estate. Since the effects of higher property taxes brought about by a split roll would be capitalized, the market price of these real estate holdings would decrease. The market value of CalPERS' California equity holdings also would go down if the issuing corporations and other legal entities were not able to pass along the increased tax burden to renters, employees, and consumers.

**Leads to Unfair and Subjective Tax Policy.** Prior to Proposition 13, assessors used the theory of "highest and best use," which meant that property value was estimated by considering the presumed "highest and best use" of the property, rather than the actual use. This forced many property owners to sell their property. A return to market-value assessments would bring back this undesirable assessment method, which was partly responsible for the property tax revolt that led to enactment of Proposition 13. It also was a key element in the assessors' scandals in the 1960s. Moreover, a return to assessments based on market value would shift taxes from an objective standard (sales price) to a subjective one (assessors' opinion of value), leading to arbitrary assessments and more appeals.

**Increases Revenue Volatility.** A split roll based on the market value of real property would increase volatility in property tax revenue, as revenue would be directly impacted by the fluctuation of property values from year to year. Proposition 13 stabilized the flow of property tax revenue by locking in acquisition values, and allowing these values to increase slowly from year to year. If taxes on locally assessed real property were based on market values, local government would not be able to absorb the enormity of the losses during downturns – for

example, locally assessed real property values fell \$86 billion during the 2009-10 fiscal year, and \$76 billion during the 2010-11 fiscal year. One of the unheralded benefits of Proposition 13 is that it serves as a circuit breaker to large fluctuations in market values, either upward or downward.

**Affects Any Type of Real Property Owned by a Legal Entity.** Split roll proposals that address ownership in a legal entity typically are viewed in the context of commercial properties, but any type of real property owned by a legal entity could be subject to a new change-in-ownership definition. Such a proposal could affect the assessment of single-family homes, multi-family properties (such as apartments, duplexes and mobile home parks), agricultural property, family farms, and small businesses whenever such properties are owned by a legal entity.

For the foregoing reasons, the organizations listed below strongly oppose AB 2372.

California Taxpayers Association	Construction Employers' Association
Air Conditioning Trade Association	Contra Costa Taxpayers Association
Air Logistics Corporation	Council on State Taxation
American Coatings Association	East Bay Rental Housing Association
American Resort Development Association	EastGroup Properties, Inc.
Apartment Association, California Southern Cities	Family Business Association
Apartment Association of Greater Los Angeles	Family Winemakers of California
Associated Builders and Contractors of California	General Growth Properties
Associated Builders and Contractors – San Diego Chapter	Greater San Fernando Valley Chamber of Commerce
Associated General Contractors	Howard Jarvis Taxpayers Association
BIOCOM	International Council of Shopping Centers
Boston Properties	LTC Properties, Inc.
Building Owners & Managers Association of California	NAIOP of California, the Commercial Real Estate
California Apartment Association	Development Association
California Association of Boutique & Breakfast Inns	National Association of Real Estate Investment Trusts
California Association of Realtors	National Federation of Independent Business
California Attractions and Parks Association	NorCal Rental Property Association
California Bankers Association	Orange County Business Council
California Beer and Beverage Distributors	Orange County Taxpayers Association
California Building Industry Association	Pacific Life Insurance Co.
California Business Properties Association	Plumbing-Heating-Cooling Contractors Association
California Chamber of Commerce	of California
California Grocers Association	San Diego County Apartment Association
California Healthcare Institute	San Francisco Chamber of Commerce
California Hotel & Lodging Association	San Jose Silicon Valley Chamber of Commerce
California Manufacturers & Technology Association	Santa Barbara Rental Property Association
California Mortgage Bankers Association	Silicon Valley Leadership Group
California New Car Dealers Association	Small Business Action Committee
California Railroad Industry	Sunstone Hotel Investors, Inc.
California Restaurant Association	Superior Tank Wash Inc.
California Retailers Association	TechAmerica
California Tank Lines, Inc.	West Coast Leasing, LLC
California Travel Association	West Coast Lumber & Building Material Association
Chambers of Commerce Alliance, Ventura & Santa	Western Electrical Contractors Association
Barbara Counties	Western Growers Association
Chemical Transfer Company, Inc.	Western States Petroleum Association

cc: The Honorable Tom Ammiano, California State Assembly