

Everything You Need to Know About Split Roll

There is a ballot initiative being proposed in California that seeks to repeal Proposition 13 protections for property owners. Prop. 13 was originally created in 1978 and ensures properties are reassessed for tax purposes only after a change in ownership or completion of new construction. It allows minimal increases for inflation. The new measure being proposed for the November 2020 ballot would replace Prop. 13 protections with a “Split Roll” property tax. This system would require commercial real estate to be reassessed at least every three years and taxed according to its current market price.

Since Prop. 13 protects homeowners from paying higher taxes, it is generally popular among constituents. Past efforts to repeal it have been unsuccessful. The newest version of Split Roll effectively separates commercial properties from residential ones, meaning owners of residential real estate would maintain their Prop. 13 protections. This distinction could make the current version of Split Roll more appealing to voters, who might perceive it as a tax on businesses as opposed to homeowners.

Detractors of Split Roll claim its supporters are promoting the measure despite being aware of its considerable shortcomings. The initiative has undergone multiple rewrites in the last few months alone. This August, Split Roll lobbyists decided to scrap the initial version of the measure to write a second draft that aims to “substantively strengthen the measure” and “widen the path to victory.”¹ In order for the new version of the measure to qualify for the November 2020 ballot, Split Roll and its supporters will need to collect almost one million signatures by May 1. This figure is a considerable increase from the 585,407 signatures required for its original passing last year.

Since then, a *third* version of the ballot initiative was created to amend the one submitted a month prior. Split Roll’s critics question why its supporters are keeping the initial draft on the ballot while acknowledging it is flawed and executing numerous, successive rewrites. One critic bemoans “Unfortunately, these special interests are so intent on destroying Proposition 13 that they’ll leave the first poorly written measure on the ballot as a backup just in case they can’t qualify the new measure.”²

Split Roll purports to “reclaim over \$12 billion per year for K-12 schools, community colleges and local communities.”³ While this bill is being touted as the “Local Schools and Communities Funding Act,” its name is misleading. A Fiscal Impact Estimate released by the State Attorney General admits 60% of tax revenue generated by the measure would be “allocated to cities, counties, and special districts.”⁴ Some portion of the remainder will be given to schools and local communities.

¹ Marinucci, Carla. “Split-Roll’ Backers Will Refile Tax Initiative in Expensive Rewrite.” *Politico PRO*, 13 Aug. 2019, www.politico.com/states/california/story/2019/08/13/split-roll-backers-will-refile-tax-initiative-in-expensive-rewrite-1139166.

² Lapsley, Rob, and Allan Zarembeg. “Commentary: Prop. 13 Works and Remains Popular. So Why Are Special Interests Attacking It?” *CalMatters*, 25 Sept. 2019, calmatters.org/commentary/split-roll-2/.

³ *Schools and Communities First Fact Sheet*. Schools and Communities First, 2019, schoolsandcommunitiesfirst.org/wp-content/uploads/2019/10/SCF_FactSheet_OCT_Final-1.pdf.

⁴ Petek, Gabriel, and Keely Martin Bosler. “Legislative Analyst’s Office .” Received by Attorney General Xavier Becerra, 2 Oct. 2019.

Moreover, it is unclear whether county assessors' offices have the resources to meet this tremendous increase in workload throughout the state. If passed, the ballot measure suggests a three-year transition phase in which assessors' offices prepare for Split Roll's implementation. However, Los Angeles County Assessor, Jeffrey Prang insists "it's physically not possible."⁵

Prang, a self-described liberal Democrat⁶ outlined "his office's \$180 million annual budget would have to be augmented by \$130 million in the first year of implementation, plus \$80 million per year going forward, to pay for an additional 400 appraisers. Statewide, about 1,000 additional appraisers would be needed to implement the measure."⁷ Additionally, Prang mentions it takes five years to train a commercial appraiser—more time than is allotted by the three-year transition period.

The practical and financial concerns of implementing Split Roll seem to have been an afterthought to the measure's drafters, as earlier forms of the initiative fail to mention the heavier burden placed on county assessors. Later versions of the document, however, casually suggest local government should take out loans from the state government, whose total would be "possibly in the hundreds of millions of dollars."⁸

Other critics question how Split Roll will alter development in California. Under its proposed system, commercial properties will yield a relatively higher tax revenue when compared to residential properties. One study conducted at Pepperdine University warns this could "exacerbate the current tendency of local communities to favor sales tax-generating and hotel tax-generating properties over other forms of development" in what is dubbed the "fiscalization of land use."⁹

The paper explains that there is a paucity of research on how Split Roll will affect property values. According to the authors, "Conceptually, the increase in property taxes will force land owners to pay more annually for the land they own, thereby making it less attractive and reducing prices. Proponents of the Split Roll tout this as making land "more affordable." The decreasing desirability of holding land is partially offset by the implicit incentive to make the land more productive by developing it while simultaneously making the risks associated with developing it greater through higher uncertainty about the future cost of holding the land (the uncertainty of paying property taxes on fair market value)."¹⁰

⁵ Prosser, Gregory. "Prop 13 Ballot Measure to Reassess Commercial Properties Gets Pushback." *The Real Deal Los Angeles*, 1 Apr. 2019, therealdeal.com/la/2019/04/01/prop-13-ballot-measure-to-reassess-commercial-properties-gets-pushback/.

⁶ Fox, Joel. "L.A. County Assessor on Implementing a Split Roll." *Fox & Hounds*, 2 Oct. 2019, www.foxandhoundsdaily.com/2019/10/l-a-county-assessor-on-implementing-a-split-roll/.

⁷ "The High Cost of Split Roll Implementation." *Los Angeles Daily News*, 11 Aug. 2019, www.dailynews.com/2019/08/11/the-high-cost-of-split-roll-implementation/.

⁸ Petek, Gabriel, and Keely Martin Bosler. "Legislative Analyst's Office." Received by Attorney General Xavier Becerra, 2 Oct. 2019, oag.ca.gov/system/files/initiatives/pdfs/fiscal-impact-estimate-report%2819-0008%29.pdf.

⁹ Frates, Steven B, and Michael A. Shires. *An Analysis of Split Roll Property Tax: Issues and Impact*. Pepperdine University Davenport Institute, Mar. 2012, publicpolicy.pepperdine.edu/davenport-institute/content/research/archived-reports/split-roll.pdf.

¹⁰ Ibid.

Critics also point out that California Governor Gavin Newsom recently signed a budget with a \$20 billion surplus that is projected to continue growing.¹¹ It is unclear why a state with a thriving surplus might need an additional \$12 billion in tax revenue annually.

Even to those who believe the state government needs more funding, linking government revenue to the real estate market might not be wise. The Pepperdine University study gives the example of 2008-2009 when property values crashed following the sub-prime crisis. During this time, commercial real estate values fell almost 7%, while property taxes collected from these same properties rose 5%.¹² This illustrates that making a substantial portion of government revenue contingent upon the cyclical nature of the real estate market might not be prudent. For the government to effectively plan its budget considering the revenue earned from the proposed Split Roll tax, it would have to accurately foresee and quantify shifts in the real estate market and predict their timing.

The final decision on Split Roll will not be made for another year. A PPIC poll shows that despite majority support for Prop. 13, likely voters are divided over a Split Roll system that would repeal Prop. 13 protections for commercial properties, with only 46% of voters supporting it.¹³ Other studies indicate this percentage may be as high as 54%.¹⁴ That said, a majority of adults (61%) and likely voters (53%) polled said they would support the new *measure if the tax revenue were to be directed towards education*.¹⁵ Only time will tell whether this prediction proves to be accurate.

¹¹ Bollag, Sophia. "California Tax Collections Soared Last Year, Giving the State an Extra \$1 Billion." *Sacbee*, The Sacramento Bee, 19 July 2019, www.sacbee.com/news/politics-government/capitol-alert/article232908867.html.

¹² Frates, Steven B, and Michael A. Shires. *An Analysis of Split Roll Property Tax: Issues and Impact*. Pepperdine University Davenport Institute, Mar. 2012, publicpolicy.pepperdine.edu/davenport-institute/content/research/archived-reports/split-roll.pdf.

¹³ "Proposition 13: 40 Years Later." *Public Policy Institute of California*, www.ppic.org/publication/proposition-13-40-years-later/.

¹⁴ Marinucci, Carla. "'Split-Roll' Backers Will Refile Tax Initiative in Expensive Rewrite." *Politico PRO*, 13 Aug. 2019, www.politico.com/states/california/story/2019/08/13/split-roll-backers-will-refile-tax-initiative-in-expensive-rewrite-1139166.

¹⁵ "Proposition 13: 40 Years Later." *Public Policy Institute of California*, www.ppic.org/publication/proposition-13-40-years-later/.