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## Proposition 15 (2020): Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative

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To address the profound shortages in funding for California schools and local communities, Prop 15 would raise \$8-12 billion per year by assessing commercial property at its current market rate. On **October 6 at 7pm**, RAC-CA will hold an online [Forum on Prop 15](#) to answer questions, dispel misinformation about the proposition, share testimonials from our community, and host speakers for and against the measure. Register at [RAC.org/CAforum](https://rac.org/caforum).

### Jewish Values:

Providing proper public education is a bedrock of our tradition and Jewish life. Judaism's greatest rabbinic scholar, Maimonides, taught that "any city that does not have a school in it shall be cut off until they find suitable teachers for the children." (*Hilchot Talmud Torah* 2:1)

Access to quality public education has served as an essential building block for our communal success as a Jewish community in the United States. Making it available to all Californians ties directly to our history and arises out of both Jewish and American values.

The promise of equality is not sufficient if there are obstacles that make the reality of equality impossible. (A. Vorspan and D. Saperstein, *Tough Choices*, 1992)

Regarding the pursuit of good public policy, we take seriously the power of careful deliberation and dialogue in the search for justice. "Every dispute that is for the sake of Heaven will in the end endure; but one that is not for the sake of Heaven will not prevail." (*Pirkei Avot* 5:17)

### The Problem

- Prior to the passage of Proposition 13 in 1978, California's public schools were among the best in the country and its public university system was both world class and nearly tuition-free. At the same time, the State's public services and infrastructure were second to none. Much of this was funded by residential and commercial property taxes.
- With Prop 13 in place, our parks, libraries and community clinics, first responders, mental health services and road maintenance are underfunded and struggling to provide the quality that previously made California such a livable state. Our school classrooms are the most crowded in the entire country.
- While wealthier communities can fundraise locally, and wealthier families have the option of sending their kids to private schools, middle and lower income individuals and families bear the brunt of this failure to fund our public services.
- The underfunding disproportionately impacts people of color as individuals, families and communities, one of the many effects of structural racism.
- Many synagogue members struggle with the cost of housing in districts with "good" public schools, and many congregations find young families priced out of living nearby if property values are high but quality public schools are scarce.

- Contrary to common belief, California corporations are paying half of what they did in the 1980s as percent of their income<sup>1</sup>, giving California corporations the tenth lowest corporate share of tax burden of any state<sup>2</sup>. California is tied for 15th for the lowest local and state tax burden among all states as a share of total private sector economic production<sup>3</sup>. Our state is tied for sixth lowest tax burden when public spending that benefits corporations is taken into account<sup>4</sup>.

### **What Prop 15 Would Do:**

Prop 15 would assess commercial and industrial property at its current market value (and reassess each property every 3 years) for property tax purposes. It would not apply to residential (houses or apartments) or agricultural properties.

Once fully-implemented, Prop 15 would raise an estimated additional \$8-12 billion annually. Forty percent of that sum would be distributed to K-12 schools and community colleges, directing additional funds to all schools, with those in low-income communities benefitting more significantly. The remaining 60% would be distributed to counties, cities and special districts based on the commercial property in their jurisdiction. The Measure would require school districts and local governments to make clear annually how each dollar has been spent.

The change in property value assessment would not apply to commercial property owners who own less than a combined \$3 million in commercial property. For larger commercial property owners, the increased assessments and taxes would be phased in over a period of two or more years beginning in 2022 to reduce disruption, and properties that lease primarily to small businesses are granted an extra deferral (until at least 2025) for the effects of the measure, with the idea of protecting lessees with “triple net” leases from incurring large cost increases. Prop. 15 also includes an exemption on the first \$500,000 of business equipment and fixtures.

### **Arguments for Prop 15**

Prop 15, through fair taxation of commercial property according to its market value, will break the stranglehold on the ability for all Californians to share in the resources created throughout our state. It will raise teachers’ salaries and reduce the educational equity gap among districts; increase capacity of the community clinics that are the most accessible health care option for low income Californians; and increase funding for homeless and mental health services, as well as public library hours and resources for our parks. In other words, this measure will enable us to restore and grow the quality of the most important elements of our public life.

Prop 15 is the first serious opportunity in 42 years to undo some of the damage wrought by Prop 13, and it is not clear another such opportunity will arise again anytime soon. We have the chance to help bring about more justice and equity in California and should not hesitate to endorse it. Prop 15 is the highest priority of RAC-CA’s closest longtime social justice partners across the interfaith spectrum. Its passage would be the most significant victory for racial justice in recent memory.

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<sup>1</sup> <https://calbudgetcenter.org/resources/corporations-pay-far-less-of-their-california-income-in-state-taxes-compared-to-the-early-1980s/>

<sup>2</sup> [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_us/news/2019/10/ey-state-tax-2019.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/news/2019/10/ey-state-tax-2019.pdf) , p. 16

<sup>3</sup> [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_us/news/2019/10/ey-state-tax-2019.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/news/2019/10/ey-state-tax-2019.pdf) , p.14

<sup>4</sup> [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_us/news/2019/10/ey-state-tax-2019.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/news/2019/10/ey-state-tax-2019.pdf) , p.19

Over 90% of new revenue created by Prop 15 would come from 10% of the state's most expensive non-residential commercial properties. "We're asking for companies like Disneyland or Universal Studios that make huge amounts of money to pay property taxes based on fair market value" (Josh Pechthalt, President, California Federation of Teachers). As detailed above, there are extensive protections for small businesses and small commercial property owners, whose taxes are likely to decrease by this measure. Properties that lease to small businesses would have a longer phase in to protect their tenants from lease provisions that would automatically pass on tax increases. Homeowners, touted as the main parties in need of protection in the Prop 13 campaign, would continue to be protected under Prop 15.

With Prop 15, commercial property taxes in California would remain low by national standards. For example, the City of Los Angeles would still rank 42nd out of the 50 largest cities in terms of commercial property taxes.

Communities of color have borne the brunt of the disinvestment in schools and local communities over the last 40 years. Similarly, the impact of the cuts caused by the pandemic and the ensuing economic crisis fall hardest on these communities. While all schools and local services will benefit from the new dollars generated if Prop 15 passes, communities of color will benefit the most.

### **Arguments Against Prop 15**

California's economy is the worst it has been since the Great Depression of the 1930s. The California seasonally adjusted unemployment rate was 13.3 percent in July 2020<sup>5</sup>. The Prop 13 protections from tax increases should not be cut at a time when businesses in California are facing extreme stress. Property owners invested in commercial property based on long-term estimates of revenues and costs, including property taxes. Despite Prop 15's "phase-in" provisions, its adoption will force changes to those plans and make it riskier to invest in commercial property. This lack of investment has the potential to reduce employment and lengthen our current economic crisis.

Most commercial property leases include a provision that tax increases will be passed onto the commercial tenants automatically. Because most small businesses rent the property on which they operate, Prop 15's higher property taxes will mean soaring rents at a time when the federal and state government is trying to provide small businesses with rent relief to keep their doors open.<sup>6</sup> "So businesses will take the hit, and of course they will do what they can to adjust – that means less employees, less wages, higher prices, less rented space, etc. It could also tip the scales for some companies to relocate out of state."<sup>7</sup>

"California is experiencing a housing affordability crisis. Millions of families are recently unemployed and at risk of being homeless. Proposition 15 makes the current crisis worse by discouraging new home construction at the worst possible time"<sup>8</sup> (Dan Dunmoyer, President and CEO of California Building Industry Association).

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<sup>5</sup> [https://www.labormarketinfo.edd.ca.gov/file/lfmonth/la\\$pd.pdf](https://www.labormarketinfo.edd.ca.gov/file/lfmonth/la$pd.pdf)

<sup>6</sup> [https://noonprop15.org/?gclid=EAIaIQobChMI\\_Mny-Zvn6wIVtz6tBh0mAwhLEAAYASAAEgKXIPD\\_BwE](https://noonprop15.org/?gclid=EAIaIQobChMI_Mny-Zvn6wIVtz6tBh0mAwhLEAAYASAAEgKXIPD_BwE)

<sup>7</sup> <https://www.bizjournals.com/sacramento/news/2020/08/03/goodbye-prop-13-what-the-split-roll-would-mean.html>

<sup>8</sup> <https://www.blackvoiceneeds.com/2020/07/22/blacks-in-california-split-over-vote-that-could-raise-some-property-taxes/>

Prop 15's "phase-in" provisions are vague, leaving it to the Legislature to determine the length of the phase-in period, how often reassessments would occur and what provisions will govern appeals from new assessments.

It is not clear that Prop 15 will remedy the shortage of revenue in California public schools. If the additional taxes on commercial property are spent as directed by Prop 15, they would add only about 5% to current revenues in California schools. This would not move California up very far in the state rankings. It will help, just as the California lottery revenues help, but not nearly enough for voters to think the problem will be solved.

Prop 15 adds complicated new language to California's constitution in order to direct new revenues to schools and communities. In reality, the Governor's budget makers can almost always find a way to work around such restrictions when necessary. These provisions will invite litigation and more uncertainty about the state budget – the last thing schools and communities need.

**For More information:**

- [Text of the measure](#)
- [Yes on 15](#)
- [No on 15](#)