A "Split-Roll" Property Tax System and San Diego's Economy

May 2014

Prepared by:

San Diego County Taxpayers Association

Taxpayers watchdog since 1945

707 Broadway, Suite 905
San Diego, CA 92101
P: (619) 234-6423
F: (619) 234-7403
www.sdcta.org

With Support from:

Applied Development Economics

255 Ygnacio Valley Road, Suite 200
Walnut Creek, CA 94596
www.ADEUSA.com

Sponsors include:

SDAR
GREATER SAN DIEGO ASSOCIATION OF REALTORS®
The Trusted Voice of San Diego Real Estate

CRA SD
Commercial Real Estate Alliance of San Diego
Integrity, Networking, Cooperation, & Mutual Trust

Additional Sponsors include:

established 1983
30th ANNIVERSARY
the LINCOLN CLUB
of san diego county

SDCAA
SAN DIEGO COUNTY APARTMENT ASSOCIATION®

San Diego County
PROSPERITY
INSTITUTE

Support Provided by:

Cambra Realty
Hamann Companies
Oakwood Escrow
Pacific Coast Commercial
Progress Management
San Diego State University Real Estate Society
Sperry Van Ness
South Coast Commercial

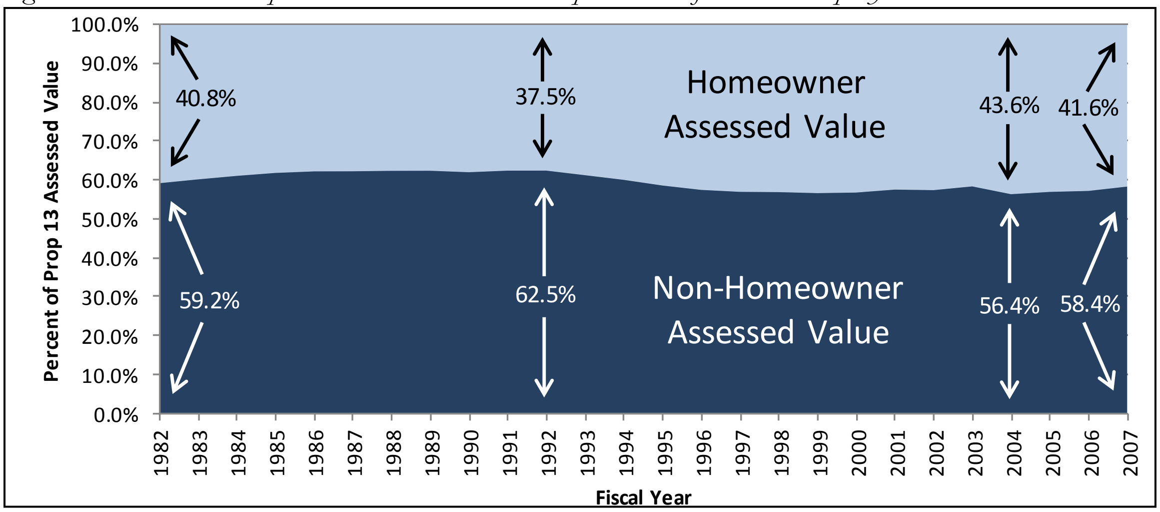
Contents

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Section I – Findings

Finding #1 - The data, both statewide and in San Diego, does not support the claim of Split-Roll advocates - that there has been an unintended shift of the tax burden to residential taxpayers. Prop 13 has not shifted a substantial tax burden onto homeowners. The share of the tax burden paid by homeowners and other property tax payers has varied by under three percent of total Prop 13 assessed values since 1982, the period for which all data sources are available and consistent assessment practices were followed.

Figure 1: Homeowner Occupied and Non-homeowner Occupied Share of Assessed Property Value



Sources: SDCTA, California Taxpayers Association

What is Prop 13?

Proposition 13 (Prop 13), the "People's Initiative to Limit Property Taxation" was a ballot initiative approved by 65 percent of California voters in 1978. Prop 13 limits the amount of property taxes that can be collected by local governments and mandates that any local "special tax" must be approved by a supermajority of voters. The revenue from these "special taxes" must be earmarked for specific uses as detailed in the language of the ballot measure.

What is "Split-Roll"?

Since the passage of Prop 13, there has been concern that commercial property changes ownership less frequently than residential property, and because of this, there is now an unintended shift of the tax burden to residential taxpayers. To deal with this assumed shift of tax burden, it has been proposed to either alter the definition of "change of ownership" and, in doing so, the interpretation of Prop 13, or reassess commercial properties at predetermined intervals. Both of these approaches have been referred to as a "split-roll" property tax system. The belief is that non-residential property in either "split-roll" property tax system will bring in a substantial amount of tax revenue.

Finding #2 – Adopting a "Split-Roll" property assessment system that raises assessed values to match market values would result in a tax increase estimated at $173.5 million annually in San Diego alone. In recent years, assessed value of commercial/industrial properties were estimated by the California Board of Equalization to be at 85.7 percent of market value. SDCTA applied the average tax rate to the increased assessed value to estimate the additional property taxes that would be paid by San Diego County Taxpayers.

Finding #3 –The tax increase is ongoing disinvestment from the regional economy. A tax increase on non-residential properties acts as a tax increase on businesses. Many businesses own the property they operate out of and nearly all commercial/industrial renters have leases that require the renter to pay all property tax increases. Following a tax increase, businesses are faced with a modified cost structure that they must respond to.

Finding #4 – After accounting for supplier relationships and employee spending, the tax increase's estimated initial economic impact is potentially as high as $355.4 million annually equating to 2,240 jobs in San Diego alone. The number and type of jobs lost will ultimately be determined by economic forces just as the estimated economic activity figures may be offset by decreased saving rates in the face of higher consumer prices. The degree to which these impacts will be passed on to consumers will be determined by how businesses react to the tax increase.

Finding #5 – Businesses will respond to the tax increase by increasing prices, downsizing, and relocating. The economic impacts estimated in this study have been relatively static in nature in that they do not attempt to predict how businesses will vary their operations in response. However, we do know that taxes serve as disincentives that businesses respond to in several ways including:

- **A. Passing Cost on to Consumers:** Most businesses will prefer to increase prices to reflect the higher marginal cost of providing goods and services. While inflation will strain consumers, it will also help to offset some of the initial economic impact including decreased revenues and job losses.
- **B. Downsizing:** Local-serving businesses will make adjustments to the size of their operation and staffing levels to match the new equilibrium of consumer demand and increased marginal costs.
- **C. Relocating:** Non-local-serving industries such as tourism, innovation and manufacturing will consider relocating if the increased tax burden makes other locations preferable to San Diego and California as a whole.

Finding #6 – Increased government spending may not have a substantial positive economic impact. Potential positive economic impacts have not been quantified in this report as creating a "split-roll" property taxation system has not been commonly linked with any specific government spending program. The economic effects of increased spending vary greatly depending on program specifics. The most economically impactful programs include targeted investment while waste and inefficiency do not have positive economic impacts past maintaining taxpayer-funded government positions.

Finding #7 – The housing market could be impacted as well. Depending on how the proposal is crafted, apartment owners could also be impacted, in which case a typical mid-sized apartment complex owner could see a $4,000 annual tax increase. Some of the typical mid-sized apartment complex owners will annually pass on the $333 per apartment to renters. The tax increase would be a direct increase to the ongoing costs incurred by rental property owners and could ultimately make rental housing less affordable. Compounding economic forces associated with a "split-roll" system could also negatively affect the owner-occupied housing market over the mid-to-long term, further harming housing affordability..

Section II – Background

Proposition 13

Proposition 13 (Prop 13), the "People's Initiative to Limit Property Taxation" was a ballot initiative approved by 65 percent of California voters in 1978. Prop 13 limits the amount of property taxes that can be collected by local governments and mandates that any local "special tax" must be approved by a two-thirds vote. The revenue from these "special taxes" must be earmarked for specific uses as detailed in the language of the ballot measure.

Figure 2: Vocabulary of Proposition 13

TAX	A charge on an individual or business that pays for government services and facilities that benefit the general public
Ad valorem tax	A tax based on the value of real estate or personal property
Property tax	A tax imposed by municipalities upon owners of property within their jurisdiction based on the value of such property
Special tax	A charge whose revenues are used for a specific purpose
ASSESSMENT	An official valuation of property for the purposes of taxation
Acquisition-value assessment	An official valuation of property that takes place when the property is acquired through a change in ownership or when the property experiences new construction
Market-value assessment	An official valuation of property in which the assessor's opinion of the market value of the property is the basis of the assessment
Best-use assessment	An official valuation of property based on the perceived best-use of the property
MARKET VALUE	The estimated amount for which a property should exchange between a buyer and a seller

The Impetus Behind Prop 13

Prior to Prop 13, property assessments were conducted under a market-value system, which gave assessors a large amount of freedom to determine levels of taxation. This subjective system led to a series of assessment abuses in the 1960s, with assessors setting artificially low assessments. These scandals prompted the California Legislature to enact the Tax Assessment Reform Law (Assembly Bill 80) in 1966, which functioned to keep assessments at a uniform percentage of market value. However, this reform caused home assessments to escalate rapidly when real estate values rose in the 1970s. At the local level, this led to "gentrification" of neighborhoods, often pricing out individuals (especially senior citizens) from their homes. This caused a "tax revolt" spearheaded by taxpayer advocates Howard Jarvis and Paul Gann, leading to the passage of Prop 13 in 1978.

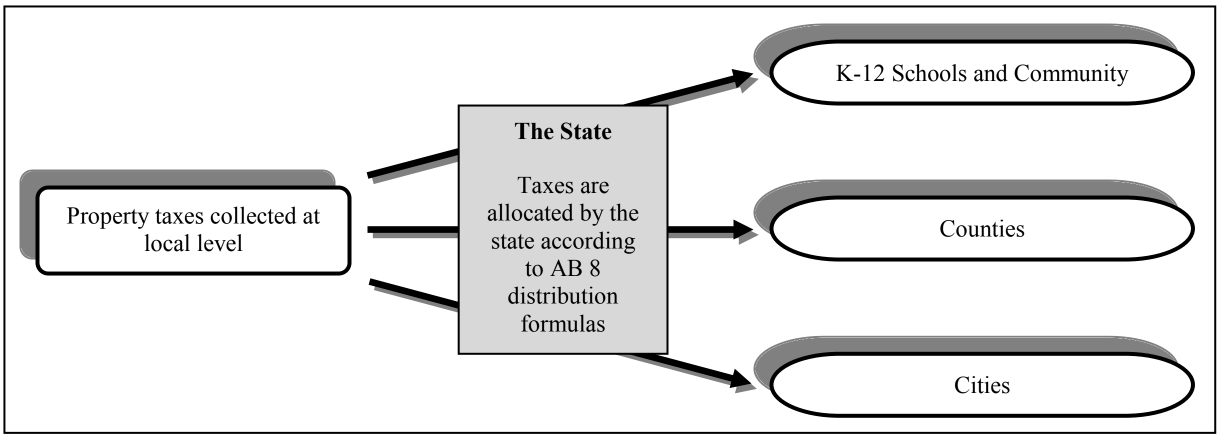
Main Provisions

Prop 13 has four (4) main provisions that affect property taxes and voting requirements.

1) Property tax limit

Prop 13 limits the amount of property taxes that can be collected by local and state governments to one percent of the property's full cash value at first assessment. According to the allocation formulas in Assembly Bill 8 (AB 8), the State distributes the property tax revenue raised in each county to local governments within that county.

Figure 3: Allocation of Property Taxes



2) Restrict growth in the assessed value of property subject to taxation

Prop 13 restricts the growth of the assessed value of property that is subject to taxation. The assessed value of a newly constructed building is also set at the assessed value at the time of construction. Under Prop 13, as long as the property is owned by the same taxpayer, the assessed value of a property subject to taxation can only increase annually by no more than the rate of inflation or two percent (whichever is less). Once a property is sold to a different taxpayer, the property is reassessed at the fair market value at the time of the sale. However, Prop 13 does allow commercial property (such as shopping malls) to be sold or merged without reassessment to the resale value, as long as the property remains deeded to the original corporate owner.

The acquisition-value assessment system is more predictable for homeowners, eliminates some of the danger associated with subjective assessments, and protects property owners from extreme property tax increases during periods of rapidly rising property values.

The exceptions to the acquisition-value assessment system established by Prop 13 are described in the following figure.

Figure 4: Exceptions to Prop 13 Acquisition-value Assessment System

Market value	If market value is lower than the acquisition value, then property can be temporarily reassessed at market value for tax purposes.
Property transfers	If a property is transferred to a spouse or between children and parents, the property value is not reassessed.
State Board of Equalization	If a property (such as the property of state-regulated utilities) is assessed by the State Board of Equalization, then that property is not subject to the Prop 13 acquisition value limitation.

3) Increases in state taxes

Prop 13 requires that increases in state taxes can only be imposed with a two-thirds vote of the State Legislature. Prior to the enactment of Prop 13, state taxes could be increased with a majority vote in both houses of the Legislature and Gubernatorial approval. This two-thirds requirement has inhibited the ability of recent Legislatures to pass budgets without bipartisan cooperation. Furthermore, Prop 13 prohibits the Legislature from enacting new taxes based on the sale or value of real property.

4) Alternative local taxes

Prior to the passage of Prop 13, a larger share of local government revenue came from the collection of property taxes. Under Prop 13, local governments continue to collect revenue from property taxes as detailed above; additional revenue also comes from Prop 13 fees, special taxes and Vehicle Licensing Fees (VLF). Prop 13 also states that counties, special districts and school districts can impose “special taxes” as an alternative revenue source. However, these taxes can only be imposed with a two-thirds public vote. This requirement has limited the ability of local governments to impose new taxes in order to replace property tax revenues.

What is “Split-Roll”?

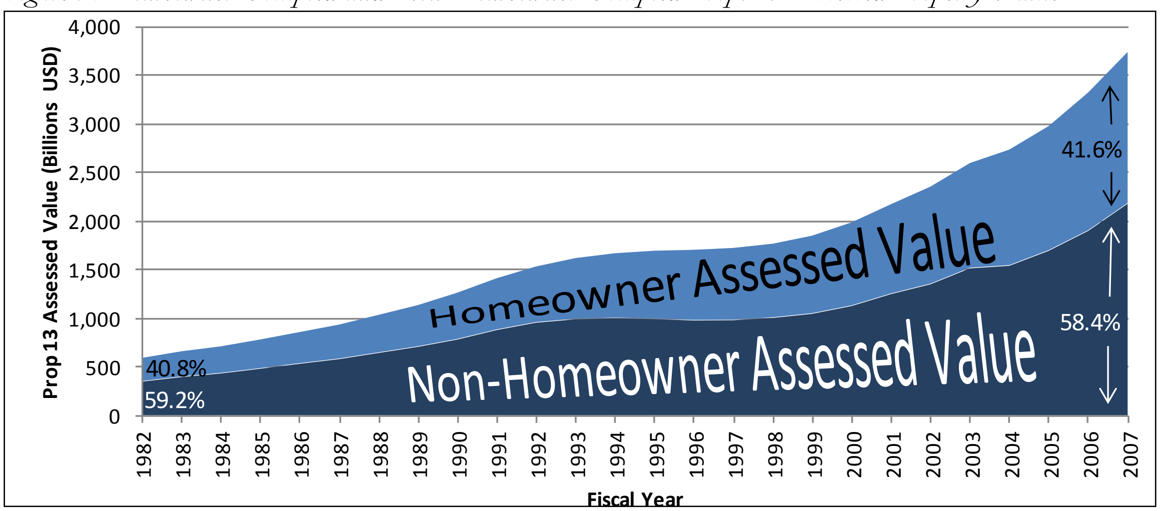
Since the passage of Prop 13 in 1978, there has been concern that commercial property changes ownership less frequently than residential property, and because of this, there is now an unintended shift of the tax burden to residential taxpayers. To deal with this assumed shift of tax burden, it has been proposed to either alter the definition of “change of ownership” and, in doing so, the interpretation of Prop 13, or reassess commercial properties at predetermined intervals. Both of these approaches have been referred to as a “split-roll” property tax system, however they significantly differ. The belief is that non-residential property in either “split-roll” property tax system will bring in a significant amount of tax revenue.

Purported Shift in Tax Burden

A commonly discussed fiscal impact of Prop 13 is that the taxation system it implements shifts a tax burden from commercial to residential properties. Since Prop 13's passage, there have been several allegations that such a shift exists. The California Taxpayers Association produced an analysis[1] in 2009 using data from the Board of Equalization. It concludes that Prop 13 has not resulted in a tax burden shift to residential property owners.

The following figure demonstrates that assessed residential and commercial property values increased at similar rates under Prop 13, maintaining a similar balance. The balance in Fiscal Year 2007 (41.6%) is less than one percent of Assessed Value different than it was in 1982 (40.1%).

Figure 5: Homeowner Occupied and Non-Homeowner Occupied Prop. 13 Assessed Property Value



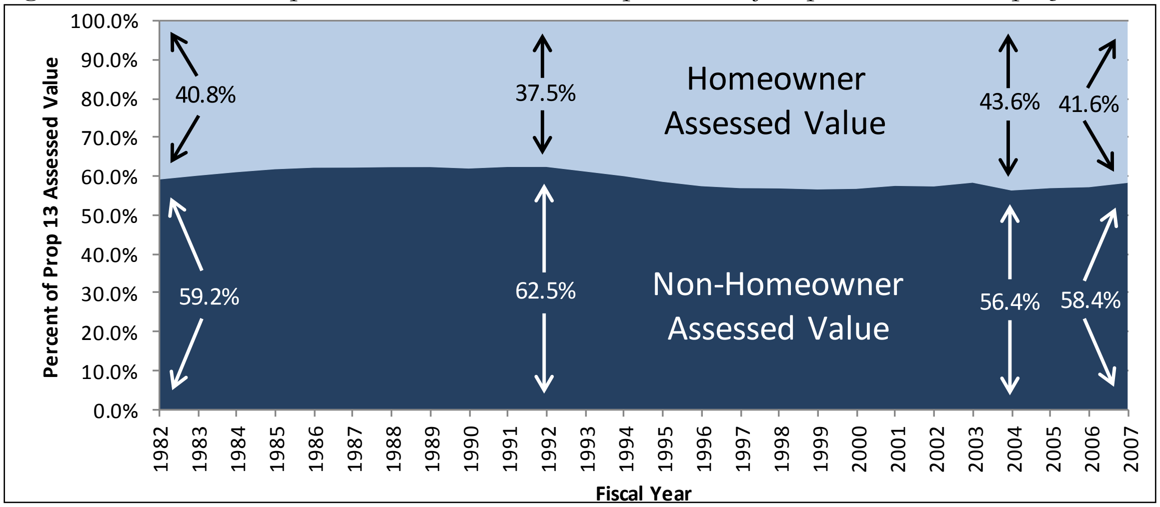
Sources: SDCTA, California Taxpayers Association

Comparing the change in the assessed value of residential and commercial property under Prop 13 suggests that Prop 13 has not shifted a substantial tax burden onto homeowners.

As seen in the following figure that directly focuses on the share of the property tax burden, the share of the tax burden between homeowners and other property tax payers has varied by under three percent of total Prop 13 assessed values since 1982, the period for which all data sources are available and consistent assessment practices were followed.

[1] California Taxpayers Association. "Proposition 13 Revisited."December 2009.

Figure 6: Homeowner Occupied and Non-homeowner Occupied Share of Prop. 13 Assessed Property Value



Sources: SDCTA, California Taxpayers Association

Attempts to Amend Prop 13

"Change in Ownership"

Since Prop 13's passage, there have been many proposed variations of a "split-roll" property tax system. Most recently, Assemblymember Tom Ammiano (D-SF) has introduced amendments to Prop 13 multiple times. His most recent legislative push has been an amendment to the definition of "ownership change"[2] so that non-residential property would be reassessed any time one entity or person acquires at least 50 percent ownership interests or 90 percent of the corporate shares change hands over a three-year period. Assemblymember Ammiano addressed the notion that non-residential property owners, especially businesses, in the state avoid reporting and mask changing of ownership.

The following figure outlines various transactional scenarios and the impacts the proposed legislation would have on potential reassessments versus current law.

Figure 7: Comparison of Current Language and Proposed Amendments

Scenario	Transaction	Current Reassessment?	Proposed Reassessment?
Scenario 1	Established Company buys 100% of stock in Startup Company & owns 5 properties in CA	Yes	Yes
Scenario 2	Three Venture Capitalists buy 100% of stock in Startup Company in equal shares	No	Yes
Scenario 3	100% of total amount of shares transferred over three year period	No	Yes

Source: SDCTA

[2] Currently "ownership change" occurs when a single corporation, partnership, limited liability company, legal entity, or person acquires 50% or more ownership interests through transfer or purchase.

Assembly Bill 2372 (AB 2372) is current legislation authored by Assembly Members Ammiano and Bocanegra that is being billed as a compromise to address the supposed "change in ownership" issue. AB 2372 has yet to be voted on by the full Assembly.

"Change in Ownership" Amendment as Revenue Generator

In 2012, the State Board of Equalization (BOE) released an analysis of Ammiano's legislation intending to make this change. The analysis notes the bill would subject real property owned by legal entities to reassessment more often than would otherwise be allowed under current law, resulting in an increase in assessed valuation and an increase in property tax revenue. They further state that they do not know the current assessed value of real property owned by legal entities, nor its current market value. However the BOE did make a set of assumptions to obtain an estimate as to the amount in potential revenue gain.

While the assessed value of Fiscal Year 2010 real property was $4.1 trillion, the BOE estimates the portion of assessed value that is owned by legal entities to be 23 percent, or $943 billion (based on information from property tax roll files from a small sample of counties). The latest BOE study of effective assessment level[3] for commercial/industrial property is about 80 percent. Based on these assumptions, it is estimated the current market value of property owned by legal entities at $1.2 trillion ($943 billion / 80%).

To further describe the increase in revenue, the BOE estimated three percent of property owned by legal entities will be subject to reassessment under the proposed bill each year. The BOE states:

> *"It is not possible to predict which properties owned by legal entities would be reassessed to current market value each year as a result of this bill. The legal entity change in control statements processed by the BOE do not capture this information that would indicate the number of such transactions that have occurred in the past, nor are such transactions required to be reported."*

Based off this assumption, the BOE estimates an increase in the assessed value of $257 billion and a revenue gain of $77 million annually.

A May 21, 2014 Assembly Committee on Appropriations Analysis of AB 2372 estimated annual increases in property tax revenue "of up to $73 million, though estimating the revenue impact with any precision is difficult."

---

[3] The percentage difference between assessed value and market value.

Signature Gathering Attempts to Introduce "Split-Roll"

In November of 2011, an initiative was filed with the Office of the Attorney General entitled, "Protect Homeowners and Close Corporate Tax Loopholes Act." The measure was intended to begin reassessing non-residential, non-agricultural real property to market value at least once every three years beginning immediately following the lien date for Fiscal Year 2015. In addition, the Homeowner Property Tax exemption would double from $7,000 to $14,000, and would exempt the first $1,000,000 of tangible personal property from taxation beginning in Fiscal Year 2016.

The "Findings and Declarations" section of the measure states:

> *"California's property tax system contains a gigantic loophole that allows corporations and commercial property owners to avoid paying their fair share. That loophole often allows businesses to change ownership without being reassessed, which homeowners cannot do. As a result, the burden of paying for things like police and fire services now falls more heavily on homeowners."*

The signature gathering effort to place this measure on the ballot failed, but this does not preclude future signature gathering efforts or a vote of the state legislature to directly put a ballot measure before the voters.

How Much Revenue Would a "Split-Roll" Measure Generate?

When the "Protect Homeowners and Close Corporate Tax Loopholes Act" was submitted to the state, the California Legislative Analyst's Office (LAO) prepared a fiscal analysis[4] estimating the total revenue that could be generated should the measure qualify for the ballot and the voters approve. The LAO estimated the measure would generate an additional $4 billion in state general fund revenues and $450 million in annual local government revenues .

The LAO further stated:

> *"The reduction in after-tax incomes (of owners of nonresidential real property) could result in state and local revenue reductions to the extent it reduces business activity, due to such factors as less investment, fewer business expansions, and reduced operations. Some businesses would avoid absorbing these costs by "passing them along" to consumers through higher product prices or to employees by cutting back on hours or wages compared to what they otherwise would be."*

The LAO estimated that the measure would also result in a general fund revenue loss of up to a few hundred million dollars annually due to the higher renter's tax credit and the loss of personal income tax and corporate tax revenues caused by individuals and businesses deducting the higher business property tax payments from their state tax liabilities.

[4] LAO Analysis of A.G. File No. 11-0087

Section III – Assessed Value in San Diego

Property Values

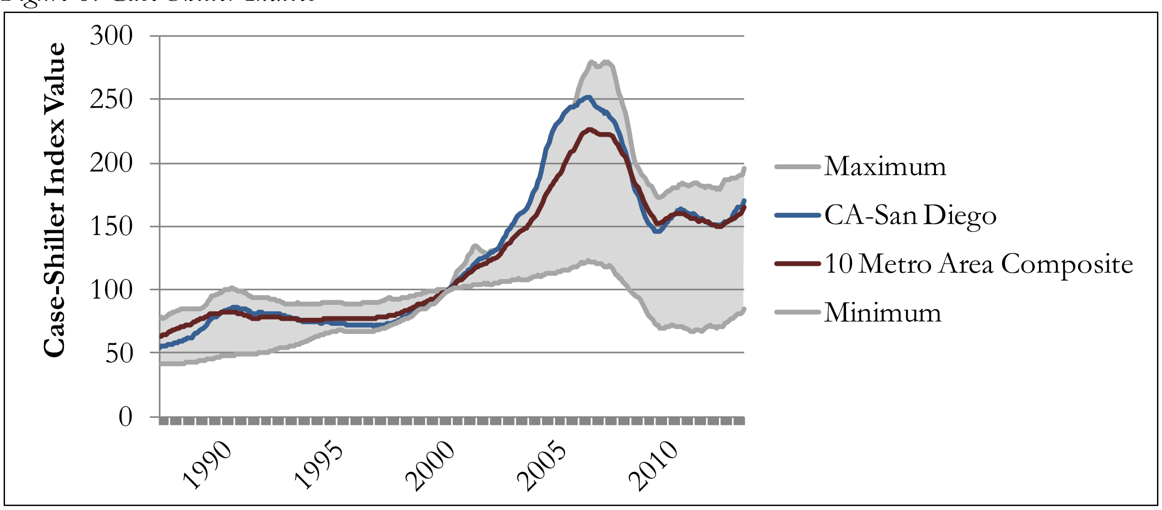
The bubble and burst of the United States real estate market was arguably the key culprit in causing the international Great Recession. These extraordinary circumstances should be the context in which recent property values in San Diego County are analyzed and interpreted.

Residential Property

The Case-Shiller index is the leading measure of home prices in the United States. The index tracks single-family detached homes and is calculated for major metropolitan areas which are also aggregated into a ten metropolitan area composite. The first quarter of 2000 is set at 100 and other values reflect change in comparison to this data point.

Comparing the Case-Shiller index for the San Diego metropolitan area with other metropolitan areas illustrates San Diego's place through the bubble and burst. San Diego property values were dramatically impacted with few metropolitan areas seeing larger index increases.

Figure 8: Case-Shiller Indices



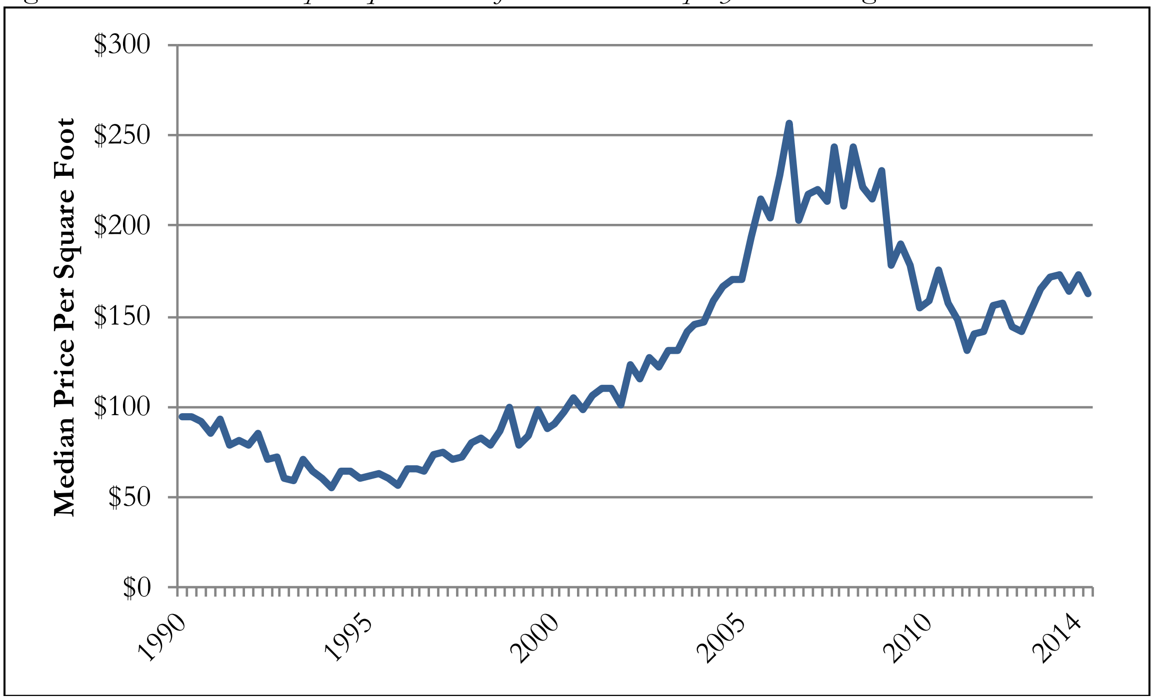
Sources: SDCTA, S&P/Case-Shiller Home Price Indicies

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Commercial Property

Commercial property values can be measured over time in several ways. The most commonly used data are designed to measure investing performance. Median price per square foot is one measure that can be interpreted similarly to the above residential index. The data plotted since 1990 in the following figure demonstrates a commercial real estate market that largely mirrors the residential real estate market.

Figure 9: The Median Price per Square Foot of Commercial Property in San Diego

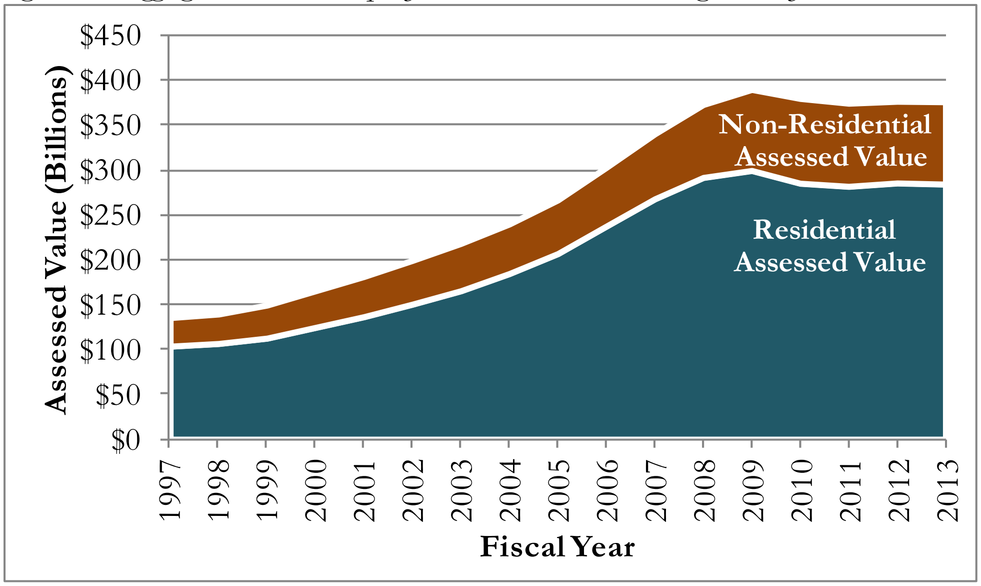


Sources: SDCTA, CoStar, McKinney Advisors

Assessed Value

Assessed value can take a substantial amount of time to reflect changes in market value. This lag creates a different trend for assessed property values than market property values. Assessed value county-wide increased substantially and consistently during the real estate bubble for both residential and non-residential property. After the burst of the bubble, and through the subsequent recession, aggregate assessed value did not see the same decline as market values, however the predicted growth did not come to fruition.

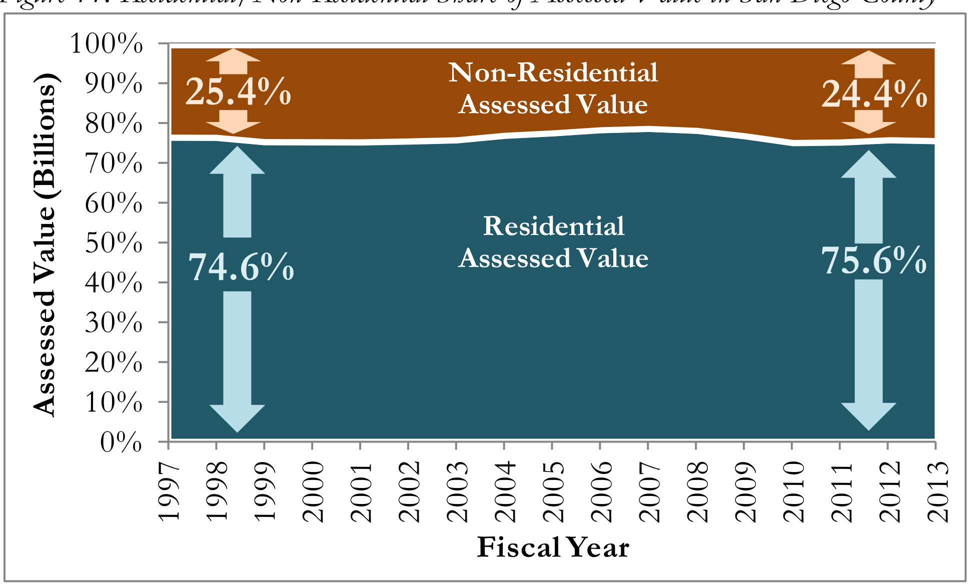
Figure 10: Aggregate Assessed Property Value Trend in San Diego County



Sources: SDCTA, County of San Diego

Through the same time period, the portion of assessed value, and by extension the property tax burden, has stayed relatively consistent despite dramatic changes in the market value of real estate.

Figure 11: Residential/Non-Residential Share of Assessed Value in San Diego County



Sources: SDCTA, County of San Diego

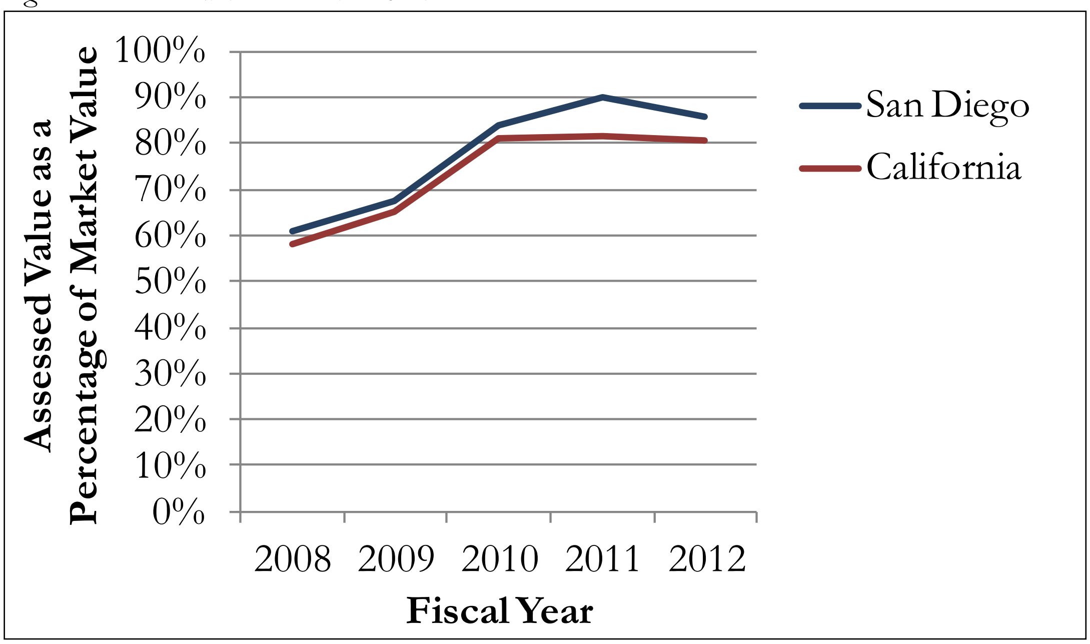
Section IV – Financial Impact Estimates to San Diego Non-Residential Tenants and Property Owners

Assessed-Value-to-Market-Value Ratio

Each year, the Legislative Research Division of the State of California Board of Equalization produces an analysis to estimate the "assessment level" of non-residential tax roll. The estimates are produced by looking at new sales of properties.

The resulting ratio is reported by county and enables SDCTA to estimate the additional property taxes that would be paid by non-residential properties should they be reassessed at market value. Quickly increasing property values results in a lower assessed-value-to-market-value ratio as Proposition 13 protects assessed values from increasing at the same rates. In recent years, the ratio of assessed-value-to-market-value has risen to 85.7 percent as property values decreased through the recession. The three most recent years of available data average to 86.6 percent for San Diego County compared to 81.1 percent for the state as a whole.

Figure 12: Assessed Value to Market Value Ratio



Sources: SDCTA, California Board of Equalization

Additional Taxes

Regularly assessing non-residential real estate would essentially raise assessed values to match market values- resulting in tax increases. To estimate the size of this tax increase on San Diego County taxpayers, the increase in assessed value was first estimated by applying the most recent assessed-value-to-market-value ratio of 85.7 percent to the corresponding year of assessed values.

Figure 13: Estimated Increase in Assessed Value (in Millions)

Property Type	Assessed Value	Estimated Market Value	Estimated Increase in Assessed Value
Industrial	$ 21,927.8	$ 25,598.7	$ 3,670.8
Commercial	$ 57,440.5	$ 67,056.4	$ 9,615.9
Irrigated Farm	$ 1,176.9	$ 1,374.0	$ 197.0
Rural Land	$ 1,587.9	$ 1,853.7	$ 265.8
Institutional	$ 6,311.7	$ 7,368.3	$ 1,056.6
Recreational	$ 2,949.8	$ 3,443.6	$ 493.8
Misc.	$ 34.1	$ 39.8	$ 5.7
Total	$ 91,428.8	$ 106,734.6	$ 15,305.7

Sources: SDCTA, California Board of Equalization, County of San Diego Auditor and Controller

The average tax rate[5] can then be applied to the increased assessed value to estimate $173.5 million in additional property taxes that would be paid by San Diego County taxpayers.

Figure 14: Estimated Increase in Non-Residential Property Taxes

Property Type	Estimated Increase in Assessed Value	Estimated Increase in Property Taxes Paid
Industrial	$ 3,670.8	$ 41.6
Commercial	$ 9,615.9	$ 109.0
Irrigated Farm	$ 197.0	$ 2.2
Rural Land	$ 265.8	$ 3.0
Institutional	$ 1,056.6	$ 12.0
Recreational	$ 493.8	$ 5.6
Misc.	$ 5.7	$ 0.1
Total	$ 15,305.7	$ 173.5

Sources: SDCTA, California Board of Equalization, County of San Diego Auditor and Controller

[5] The average marginal tax rate used of 1.13% is the average of all Tax Rate Areas (TRA) weighted by net assessed value as provided by the County of San Diego Property Tax Services.

Section V – Economic Impact Estimates

As estimated in the previous section, a tax increase on non-residential properties is a tax increase on property owners. Many businesses own the property they operate out of and according to the Commercial Real Estate Alliance of San Diego, nearly all commercial/industrial renters have leases that require the renter to pay all property tax increases. Following a tax increase, businesses are faced with a modified cost structure that they must respond to.

Below, the estimates of potential initial economic impacts use the tax increases as reduced business activity and translate those figures into jobs lost. This is appropriate because the tax increase is essentially an ongoing disinvestment in our region. Economic impacts can be made given existing supplier relationships and employee spending patterns that can be interpreted as potential initial impacts.

Altogether, a $173.5 million increase in property taxes potentially creates a direct employment impact of 1,003 lost jobs. In addition to the employment loss, the potential direct impact on labor income totals $60.3 million. The multiplier effects account for the ancillary reductions in business-to-business spending and household income. With the multipliers, the total employment impact is a loss of 2,240 positions, with a total potential reduction in industry output of $355.4 million, and labor income reductions of $228.7 million.

Figure 15: Overall Initial Economic Impact Estimates

Impact Summary	Jobs	Labor Income	Total Value Added	Industry Output
Direct Effect	1,003	$60,300,000	$106,400,000	$173,500,000
Indirect Effect	337	$19,300,000	$35,100,000	$55,400,000
Induced Effect	899	$56,300,000	$87,200,000	$126,500,000
Total Effect	2,240	$135,900,000	$228,700,000	$355,400,000

Source: SDCTA, Applied Development Economics, IMPLAN

The number and type of jobs lost will ultimately be determined by economic forces just as the estimated economic activity figures may be offset by decreased saving rates in the face of higher consumer prices. The allocation of the ongoing disinvestment throughout the regional economy will be felt both by households through increased prices, and in the form of reduced employment and business activity because of slimmer profit margins.

The degree to which these impacts will be passed on to consumers will be determined by elasticities throughout the local economy and the ability for businesses to relocate outside of the state. Consumers will experience weakened purchasing power caused by inflation which will result in fewer purchases (diminished economic activity) supporting fewer jobs.

Initial Direct Economic Impacts

The direct effects account for those activities affected by the increase in assessed valuation and property taxes paid. As shown in Figure 16, the largest potential impact would occur with those businesses located in commercial buildings. Commercial tenants/owners would account for over 648 of the 1,003 direct jobs potentially lost. Industrial and institutional tenants/owners would also each face over 100 potential job losses.

Figure 16: Initial Direct Economic Impact Estimates

Property Type	Jobs	Labor Income	Value Added	Industry Output
Industrial	135	$12,200,000	$21,800,000	$41,600,000
Commercial	649	$38,100,000	$72,300,000	$109,000,000
Irrigated Farm	12	$1,200,000	$1,600,000	$2,200,000
Rural Land	24	$600,000	$1,600,000	$3,000,000
Institutional	116	$6,000,000	$6,000,000	$12,000,000
Recreational	68	$2,100,000	$3,200,000	$5,600,000
Misc.	1	$40,000	$48,000	$100,000
Total	1,003	$60,300,000	$106,400,000	$173,500,000

Source: SDCTA, Applied Development Economics, IMPLAN

Initial Indirect and Induced Economic Impacts

Indirect effects are caused when businesses make fewer supplier purchases as a result of reduced business activity. The estimated indirect activity reduction totals $55.4 million, with $38.0 million of the impact resulting from spending reductions made by commercial tenants/owners. The indirect job losses total 337 positions, with an indirect labor income impact of $19.2 million.

Induced economic impacts result from reductions in demand for local services, such as retail, personal services, education and health care. The induced economic activity (industry output) would potentially decrease by $126.5 million. The induced economic impacts also include a potential reduction of 899 jobs and $126.5 million in labor income.

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Figure 17: Total Initial Indirect and Induced Economic Impacts

Indirect Effect by Property Type

	Jobs	Labor Income	Industry Output
Industrial	55	$3,400,000	$10,100,000
Commercial	238	$13,400,000	$38,000,000
Irrigated Farm	3	$200,000	$500,000
Rural Land	4	$200,000	$600,000
Institutional	27	$1,500,000	$4,400,000
Recreational	11	$600,000	$1,700,000
Misc.	0	$0	$0
Total	337	$19,300,000	$55,400,000

Induced Effect by Property Type

	Jobs	Labor Income	Industry Output
Industrial	183	$11,500,000	$25,600,000
Commercial	588	$36,800,000	$82,500,000
Irrigated Farm	14	$900,000	$2,000,000
Rural Land	12	$800,000	$1,700,000
Institutional	70	$4,300,000	$10,200,000
Recreational	32	$2,000,000	$4,400,000
Misc.	0	$0	$100,000
Total	899	$56,300,000	$126,500,000

Total Multiplier Effect by Property Type

	Jobs	Labor Income	Industry Output
Industrial	239	$14,900,000	$35,800,000
Commercial	826	$50,200,000	$120,500,000
Irrigated Farm	17	$1,000,000	$2,500,000
Rural Land	16	$1,000,000	$2,300,000
Institutional	97	$5,900,000	$14,600,000
Recreational	42	$2,600,000	$6,100,000
Misc.	1	$0	$100,000
Total	1,237	$75,600,000	$181,900,000

Sources: SDCTA, Applied Development Economics, IMPLAN

Dynamic Effects

The tax increase and economic impacts estimated in this study have been relatively static in nature in that they do not attempt to predict how businesses will vary their operations in response. We do however know that taxes serve as disincentives that businesses respond to in several ways including:

A. **Passing Cost on to Consumers:** Most businesses will prefer to increase prices to reflect the higher marginal cost of providing goods and services. The more competitive the market, the more closely the existing prices will reflect the marginal cost of delivering the good or service, and the more of the increased cost will be passed along to the consumer. While inflation will strain consumers, it will also help to offset some of the initial economic impact including decreased revenues and job losses.

B. **Downsizing:** Local-serving businesses will make adjustments to the size of their operation and staffing levels to match the new equilibrium of consumer demand and increased marginal costs.

C. **Relocating:** Non-local-serving industries such as tourism, innovation and manufacturing will consider relocating if the increased tax burden makes other locations preferable to San Diego and California as a whole.

The Economic Effects of State Spending

The economic effects of increased spending vary greatly depending on program specifics. The most economically impactful programs include targeted investment while waste and inefficiency do not have positive economic impacts past maintaining taxpayer-funded government positions.

Potential positive economic impacts have not been quantified in this report as creating a "split-roll" property taxation system has not been commonly linked with a specific government spending program.

Section VII – Apartments and the Housing Market

Previous calculations in this study do not make a distinction between owner-occupied and rental homes. "Split-roll" proposals often do make this distinction and recommend treating rental properties with the proposed non-residential reassessment rules. To further understand the financial impacts of moving to a "split-roll" property assessment system, SDCTA estimated the impacts on a typical mid-sized apartment owner and residents as well as the broader potential economic impacts on the housing market.

A Typical Mid-Sized Apartment Complex

A typical mid-sized apartment complex owner could see a significant tax increase. The tax increase would be a direct increase to the ongoing costs of rental property owners.

The typical mid-sized apartment complex used to illustrate the impact of a "split-roll" policy in this section is a twelve-unit apartment complex in La Mesa with a market value of $1.8 million currently assessed at $1.4 million.

If our typical mid-sized apartment complex was reassessed at market value, the increase in taxes would effectively be an increase in expenses of $4,000 per year. The apartment owner has to then determine if raising the rent would increase or decrease profitability. If the market was known to have sustained higher rents before the change, a rational apartment owner would have increased the rent at that point.

Some owners would choose to attempt to pass on the additional $333 annually to renters immediately. Some would be successful, while others would push out their tenants.

Potential Housing Market Impacts

There is no reason to believe that an increase in property taxes directly affects demand for apartments – there are still just as many people looking for housing. If the ultimate result is an increase in rents, the option to cohabitate with more people or even purchase a property for those with the financial means to do so, will become comparatively more attractive.

These potential results describe movement along an existing demand curve rather than a fundamental shift of the demand curve. An increase in property taxes' direct affects are supply based, and mid-to-long term in nature as on average, the housing market acts as if there is a fixed supply in the short term.

For some apartment owners, the increase in taxes will make continuing the venture less profitable than other ventures. Many of these apartment owners will sell the property. The sale price will reflect the same decreased investment value of ownership that will result in fewer apartment buildings being built (supporting fewer construction jobs) and subsequently faster increases in rent across the market.

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

The increased rent signal will incentivize renters to consider alternatives to paying more such as cohabitating to a greater extent or purchasing a home if they have the financial means. To the degree renters leave the renters' market and enter the purchasers' market, there will be upward pressure on the price of typically owner-occupied homes.

This increase in property taxes would negatively affect housing affordability in the renters market over the mid-to-long term and to some degree in the owners' market as well.