

SCHOOLS & COMMUNITIES FIRST

FAQs

What is Schools & Communities First?

Schools & Communities First (SCF) is a measure that will appear on the November 2020 election ballot.

What will SCF do?

SCF will reclaim \$12B every year for California's schools and critical local services by closing a commercial property tax loophole that benefits a fraction of corporations and wealthy investors.

Who will be impacted by SCF?

A handful of the largest corporations and wealthy investors – like oil giant Chevron – that will no longer be able to take advantage of property tax loopholes to funnel money into their pockets and out of schools and local communities. **This ballot measure does not affect homeowners, renters, or agricultural land.** And it provides a small business tax incentive to spur new investment.

Where does the money go?

Roughly 40% of the funds will go to education (K-12 and Community Colleges) and 60% will go to our local communities (counties, cities, and special districts).

How do we know that the money will be spent on schools and local services?

The initiative requires annual public reporting of how the funds are distributed and spent, so the public can hold their elected officials accountable.

Why is SCF important?

For more than four decades, many wealthy investors and big corporations have not been paying their fair share, causing California's school funding to fall behind. California now has the most overcrowded classrooms in the U.S. and some of the worst ratios of counselors, librarians, and nurses per student. Meanwhile our local communities are on the front lines of big challenges like fire safety, housing and healthcare without the needed resources.

ALLOCATION

Why do we need the money?

Schools & Communities First ends decades of underinvestment by eliminating corporate tax loopholes that have been robbing our schools and local communities. Local government tax revenue per person has declined since 1978, despite years of economic growth, and lags behind the rest of the country in revenue growth. And schools now have less revenue per student than in most states.

How will the money be spent?

The funding for schools will be placed in a special education fund to supplement existing school funding guarantees and distributed based on LCFF (Local Control Funding Formula) guidelines to ensure the funding is distributed to school districts with students with the highest needs. The funding for local community services will be collected by the counties and distributed to local cities, counties, and special districts based on state law, and will fund critical local services such as fire services, parks, libraries, health clinics, housing and more.

Will giving more resources to schools actually make a difference in outcomes?

Absolutely. California's school funding has fallen behind due to devastating underinvestment: we're currently ranked 39th in the nation in per-pupil funding. The five states that are ranked the highest in educational performance spend, on average, nearly \$5,600 more per student.

Are there school districts that won't benefit from this investment?

No. This initiative will help every single school district throughout the state, especially those most in need.

Will SCF fund public safety?

Schools & Communities First will increase funding for critical services that cities, counties and special districts provide, like first responders such as firefighters and emergency medical services. It's up to local communities to ensure that funding is directed to community needs.

How will SCF incentivize investment in low income communities?

It will improve land use and housing, provide more resources for local services, including public safety, and allow local governments to invest in business improvement districts and economic development.

Will the funding be used for pensions & salaries... instead of services?

SCF revenue will go to local schools and local governments to meet the needs of the communities - based on the current formulas for allocation. All of the money would be subject to strict oversight and public accountability.

Why aren't the lottery, Prop 30, and local measures enough to fund schools?

The lottery provides very little funding for schools. Prop 30 was a help, but mostly made up for huge losses from the recession. Local measures such as parcel taxes only exist in a few communities and do not provide funding statewide for schools. We need large commercial property owners and wealthy investors to pay their fair share so we can make real improvements in our schools.

Why do we need this if Sacramento has a surplus?

Relying on Sacramento surpluses and other volatile or temporary revenues won't provide a stable source of revenue. Because of commercial property tax loopholes, for more than four decades schools and local services have lost billions of dollars every year in funding. On top of that, from 2002 – 2012 our schools and safety net were hit with \$20 billion in cuts. Our schools used to be 7th in per pupil spending, now we are 39th. Cities are struggling to build affordable housing. Health clinics and libraries have closed. Californians know that their local schools and neighborhoods are starved for funding. This initiative brings fairness to our tax code by making a small number of the wealthiest commercial property owners pay their fair share and creates a permanent, stable source of revenue.



PROPERTY & HOUSING IMPACTS

Does SCF affect homeowners or renters?

NO. Schools & Communities First completely exempts ALL residential property including homeowners, renters and hotels that have been converted into housing for low-income families, from any changes and maintains critical protections that are already in place.

Homeowners and renters will benefit greatly from increased investments in schools and vital local services.

How will SCF address the housing crisis?

The current system incentivizes commercial property owners to hold onto vacant properties instead of developing or selling it, adding to the housing crisis crunch. California has hundreds of miles of commercial sprawl which can be used for higher-density housing in our urban areas.

By closing this loophole, commercial property owners will have a reason to develop their land and create new housing, effectively driving prices down with the increase in supply. Additionally, local governments will have increased stable revenue to help fund affordable housing. It will also decrease the pressure on local governments to rely on development projects like auto malls and big box retail in order to generate sales tax revenue.

What qualifies as a "commercial" or "industrial" property?

The assessors have detailed categories for uses of property, specifically including commercial and industrial property of all types. The measure also defines commercial and industrial as distinct from residential, agricultural, or open space. It provides for using zoning as the way to classify vacant land as commercial or industrial.

How will SCF impact property values?

Investing in roads, schools, parks, and local services helps homeowners by increasing their property values, particularly in areas with diminished public services. It will also benefit new investors seeking land because more vacant land will be on the market, limiting current inflated costs for commercial land.

How will SCF impact mixed use property?

Mixed-use property is to be assessed based on the proportion of commercial to residential square footage in the overall property and is likely to be exempt if it is predominantly (75% or more) residential. The exemption for small properties valued at \$3 million or less applies to the entire property value.

How will SCF impact farms and agricultural lands?

The Schools & Communities First measure exempts all agricultural land from reassessment that is used for producing commercial commodities or for agricultural production. It also exempts open space, so that farmland which is held without production would also be exempt. The legislature will decide by statute, or the Board of Equalization by regulation, with regard to any issues which need to be resolved.

How will SCF impact triple-net-leases?

Rents are determined by the market, not property values. This measure will primarily impact just a fraction of the large companies that have owned their land for decades. A small fraction of corporate landowners with property valued over \$5 Million currently pocket nearly all of the revenue because of under-assessed property values. This simply levels the playing field for all businesses.

What about 2nd properties?

Properties which are residential in nature will be exempt from reassessment, whether used for short-term rentals, long-term rental, or owner-occupied.



BUSINESS IMPACTS

How will SCF impact small business?

Schools & Communities First exempts all small business commercial property owners whose property is worth \$3 million or less. And by closing the commercial property tax loopholes, SCF will level the playing field for businesses that pay their fair share in our communities.

SCF also provides tax relief on the first \$500,000 of business equipment and fixtures, which will significantly reduce or eliminate entirely the business personal property tax for California's small businesses. Overall, this presents a once in a generation opportunity to invest in and level the playing field for California's small businesses.

Will SCF cause small business rents to go up?

No. There is no relationship between rents and under-assessment. And the majority of properties are close to or at market value, so their taxes will not change by very much. Rents will be negotiated based on market conditions, as they always have.

Will this hurt small businesses?

Right now, California has a broken and anti-competitive property tax system where many small businesses are paying their fair share, while corporations benefit from property tax loopholes. Opponents will use small business as a cover for the large businesses that will be required to pay more. But small businesses will get tax relief on the business personal property tax and from the exclusion of commercial properties valued at under \$3 million.

Will this hurt large employers?

No. Many new employers and investors are already paying fair market value on their property while others just get a windfall. California's total property taxes for these businesses will still be among the lowest in the country.



ECONOMIC IMPACTS

Will SCF increase prices for consumers?

No. Taxing businesses equally based on fair market value will level the playing field of competition, not cause an increase in prices.

Currently, wealthy corporations who unfairly take advantage of the current loophole don't sell items at a discount or charge lower rents — they just pocket the extra money for themselves. Has Chevron been passing its massive property tax savings on to Californians with unusually low gas prices? Of course not. Prices at retailers like Wal-Mart and Target are exactly the same (and the same online) wherever they are located and whatever their property tax payments are.

Will businesses move to other states to avoid paying their fair share?

NO, and this is a deceptive argument by opponents. Schools & Communities First maintains California's low property tax rate — 1% of assessed value, one of the lowest in the nation. It's important to remember that many of California's most profitable and innovative companies already pay fair market value. This initiative levels the playing field.

California is already a high tax state. Why do we need this change?

This is inaccurate: California's state and local business taxes are lower than the national average, lower than New York and Texas, and 37th in the nation, according to the US Chamber of Commerce — and will stay that way when SCF is implemented. However, when corporations avoid property taxes, individuals and small businesses pay more. Local governments have been forced to shift the tax burden onto working people in the form of parcel taxes, bond measures, sales taxes and extra fees for all kinds of services. By broadening the tax base by closing the loophole, local communities will be able to pay off existing bonds more quickly and provide tax relief to homeowners.

In fact, according to the CA Budget and Policy Center, the share of corporate income paid in state taxes has been falling for decades. Corporate net income rose from \$24 billion in 1981 to \$203 billion in 2015. Yet, over this same period, the share of this income paid in state corporation taxes fell from nearly 10% to 4.4%.

On top of that, corporations just received a windfall from Trump's Tax Plan which was a huge tax give-away to large corporations and the wealthiest households. CEOs and shareholders are pocketing more money than ever while inequality grows and our communities suffer. This measure just asks a handful of California's wealthiest commercial property owners and investors to finally pay their fair share.

Will SCF lead to job loss?

Schools & Communities First will lead to job creation and a stronger economy. Dr. Chris Benner of UC Santa Cruz in a 2018 peer-reviewed study states that reform will lead to increased investment, better local land use decisions and increased funding for infrastructure in local communities, creating more high-paying jobs as a result. Investing in roads, schools, parks and local services helps homeowners by increasing their property values. Furthermore, the \$12 billion reclaimed for schools and communities only represents a tiny fraction of our state's economy — less than a half of a percent.

This is a scare tactic by a handful of the largest, most-profitable out-of-state corporations that have the most to lose. Most small and medium sized businesses are either exempt or already paying their fair share.



IMPLEMENTATION

Won't this be hard to implement?

Nearly every other state in the country regularly assesses commercial property based on fair market value, meaning the Schools & Communities First initiative will finally bring California into the 21st Century.

We carefully thought about implementation in consultation with the Assessors, the Board of Equalization, and local officials. Schools & Communities First allocates funding for implementation, provides flexibility in roll out and will phase in implementation over the number of years that a state Task Force deems necessary.

SCF explicitly provides an outline for the changes. Namely:

- The measure makes sure that assessors have sufficient resources to ensure the success of the measure.
- Flexibility for local assessors to prioritize the relatively few older, larger properties that account for the vast majority of lost revenue.

Additionally, vast improvements in software and other technology have made assessments more efficient and cost-effective. Again, nearly every other state in the country regularly assesses commercial property at fair market value, so there's no reason that California can't do the same.

How often will the property taxes be reassessed, and how is that different from now?

Every 3 years. Again, this won't affect homeowners. Currently, all property in the state is assessed for tax purposes at its market value at the time of ownership change, generally the purchase price, plus an increase for inflation that is capped at 2% per year.

Will this create lawsuits?

Corporations and special interests that will be affected by this measure, finally having to pay their fair share for our schools and local communities, could resort to desperate tactics such as lawsuits. SCF has built in an expedited appeals process.

What % will the tax increase be on reassessed properties?

Some larger properties, such as Intel, WalMart, Chevron and other major corporations, will see increases on their land values when they are reassessed at fair market value. However, for these large businesses, the increased property taxes will be a drop in the bucket, important for our schools and services but hardly noticeable for these large companies, since it still will be at the 1% rate.



POLITICAL TOPICS

Who is supporting the Schools & Communities First initiative?

Schools & Communities First is comprised of a broad and growing coalition that is uniting every sector and region of the state. Our coalition includes over 400 endorsers including educators, community organizations, labor unions, small business owners, technology leaders, philanthropic foundations, elected officials, the California PTA, the Democratic Party and the League of Women Voters.

Who opposes this initiative?

The opposition to Schools & Communities First is funded by deep-pocketed special interest groups, including the Business Roundtable, Howard Jarvis Taxpayers Association, and California Taxpayer Association. These groups are the vehicle through which a handful of the largest out-of-state corporations and wealthy investors funnel their money using shady schemes as the expense of everyday Californians.

What's the difference between SCF and the CSBA measure? Are there other education props on the ballot?

Schools & Communities First is currently the only statewide education funding measure on the November 2020 ballot. Supporters of SCF have been organizing across California for years, have secured significant financial resources to run a top-tier statewide campaign and have demonstrated an unparalleled list of endorsements. SCF is the only initiative that is set to finally fix California's corporate tax loopholes that have robbed our schools and local communities out of billions in revenue. Schools & Communities First remains the most significant statewide ballot initiative on the 2020 ballot.

How is the polling?

Polling has consistently shown that a majority of Californians favor the Schools & Communities First initiative. When voters find out that a handful of big corporations and the wealthiest investors are robbing our schools and communities, they support our common-sense reform.

A majority of California voters believe education and reinvestment in local communities are crucial issues facing the future of the state and this initiative ensures we invest in both.

The opposition is going to spend millions. Do you really think you can win?

Yes! The supporters backing the Schools & Communities First initiative is one of the strongest, most diverse, and powerful coalitions California has ever seen – and the statewide enthusiasm and organizational support has already been overwhelming the opposition. While the opposition and their corporate allies will spend millions against the initiative, Schools & Communities First will similarly spend millions in addition to outworking the opposition on the ground.

Why is this a Constitutional Amendment? Why can't this be passed by the Legislature?

Schools & Communities First would change the commercial property tax side of Proposition 13 which was a constitutional amendment passed in 1978. Constitutional amendments can only be changed by a majority vote of the people which is why it has to appear on the ballot.

Why did the campaign refile a new initiative when it was already qualified for the November 2020 ballot?

Schools & Communities First qualified early which gave the campaign time to get lots of feedback from stakeholders. After consideration, we re-filed with the following improvements in place:

- Improving the initiative for small businesses by increasing the exemption from reassessment on commercial property valued at \$2 to \$3 million
- Strengthening small business tax relief on fixtures and equipment
- Making sure this is something the Assessors can implement and that they have the funds to do so
- Tightening education finance language to ensure every school district receives funding equitably.
- Calibrating the implementation dates to adjust for November 2020 vs 2018 ballot.