Prop 13: Fabulous at Forty?

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Let’s Look and See!
Acquisition-Value Based Property Tax

• A New Concept in 1978
• Rolled back assessed property values to 1975
• How is it working?
  – Is it making California’s economy more dynamic?
  – Does it strengthen civic bonds?
  – Is it anchoring good jobs and healthy businesses to California?
Look Around The Neighborhood ...
General Property Tax: $17,544
$25,708
$12,853

(A third smaller than the other lots)
$8,403
$7,076
... and next door to it ... $1,007
... and next door to them, $7,233
Rule of Thumb

“Ownership of Record” since 2000: 140% of average house’s tax contribution
“Ownership of Record” in the 1990’s: 85% of average house’s tax contribution
“Ownership of Record” in the 1980’s: 50% of average house’s tax contribution
“Ownership of Record” in the 1970’s: 20% of average house’s tax contribution
Over half of all properties have changed owners after 2000 ...

So, out of six single-family residence owners:

- We pay $1.40!
- We pay 85¢
- We pay 50¢
- We pay 20¢
Which means: **two** recent residential buyers must subsidize **every** owner with a 1970’s Ownership of Record.
19th Nationally in Per-capita Prop Tax? Or 8th highest for the Majority and 50th for A Few?

<table>
<thead>
<tr>
<th>State and Local Property Tax Collections Per Capita, Fiscal Year 2010 - Highest 25</th>
<th>State and Local Property Tax Collections Per Capita, Fiscal Year 2010 - Lowest 25</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State</strong></td>
<td><strong>Collections Per Capita</strong></td>
</tr>
<tr>
<td>U.S.</td>
<td>$1,434</td>
</tr>
<tr>
<td>N.J.</td>
<td>$2,819</td>
</tr>
<tr>
<td>Wyo.</td>
<td>$2,633</td>
</tr>
<tr>
<td>Conn.</td>
<td>$2,522</td>
</tr>
<tr>
<td>N.H.</td>
<td>$2,463</td>
</tr>
<tr>
<td>N.Y.</td>
<td>$2,280</td>
</tr>
<tr>
<td>Vt.</td>
<td>$2,166</td>
</tr>
<tr>
<td>R.I.</td>
<td>$2,083</td>
</tr>
<tr>
<td>Calif for Most Mass.</td>
<td>$2,030</td>
</tr>
<tr>
<td>Alaska</td>
<td>$1,865</td>
</tr>
<tr>
<td>Ill.</td>
<td>$1,827</td>
</tr>
<tr>
<td>Maine</td>
<td>$1,786</td>
</tr>
<tr>
<td>Wis.</td>
<td>$1,698</td>
</tr>
<tr>
<td>Colo.</td>
<td>$1,601</td>
</tr>
<tr>
<td>Tex.</td>
<td>$1,562</td>
</tr>
<tr>
<td>Fla.</td>
<td>$1,507</td>
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<tr>
<td>Nebr.</td>
<td>$1,487</td>
</tr>
<tr>
<td>Md.</td>
<td>$1,467</td>
</tr>
<tr>
<td>Mich.</td>
<td>$1,453</td>
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<tr>
<td>Calif.</td>
<td>$1,450</td>
</tr>
<tr>
<td>Minn.</td>
<td>$1,412</td>
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<tr>
<td>Va.</td>
<td>$1,410</td>
</tr>
<tr>
<td>Kans.</td>
<td>$1,381</td>
</tr>
<tr>
<td>Iowa</td>
<td>$1,367</td>
</tr>
<tr>
<td>Nev.</td>
<td>$1,297</td>
</tr>
<tr>
<td>Mont.</td>
<td>$1,296</td>
</tr>
</tbody>
</table>
| D.C. | $3,106 | (1) | Source: U.S. Census Bureau; Tax Foundation.
Single-family residential property owners who have bought in the past 15 years are:

• Heavily subsidizing their neighbors
  – Particularly those with 1975 bases

• Also subsidizing commercial property owners!
  – In 1978, the burden was 50:50
  – Now it’s at least 67:33 in my area
  – ... and estimated at 72:28 statewide
Apartments?
Fraternal Twins?
Not to the taxman...

$25,357 = $4200/unit

$7,286 = $1214/unit
Owners with recent bases own a majority of parcels – but a higher proportion of larger properties lie in the most-subsidized 1970’s category!
A Second Major Difference ...

Unlike single family residences, multiple commercial real estate properties are often held by a single owner – multiplying the benefits accruing from an acquisition-value based property tax system.

Donald Sterling, for example, owns 15% of the 1975-basis apartments in Beverly Hills.
Now Let’s Go Downtown
Increasingly rare for the name over the door to match the name on the deed

Since 1978, commercial property has increasingly been held by investor-owners, rather than operating businesses. Mr. Dolma, however, owns and operates the store in the middle.
Land – 5000 sf
2 stories
$5,612

Across the street from those stores.
And, at the end of that block

Land – 15,000 sf
$9,337

Six times the frontage, containing:
Walgreens, Unamas & Starbucks – whose $11,500 in tenant improvements still add to less than $20,000
And the 1975 “Ownership of Record” for this very tax-advantaged property?
Not just in the Bay Area:
Death & Taxes Also Optional In Beverly Hills

1967 Ownership of Record
Hugh Darling and William R. Ehni, Trustees
Facing Santa Monica Blvd. opposite the Police Station
$903,739 assessed value (land + building)
31,897 sf
Hugh Darling, dec. 1986; William R. Ehni, dec. 1974
Again, over half the parcels have changed hands since 2000, and are paying a heavy tax premium – but larger parcels are often held in a way that retains their 1975 basis and tax subsidies.
Bigger Business

62 Acres Downtown Menlo Park
3 blocks to CalTrain
6 blocks to Stanford
Five Contiguous Parcels of Land Assessed at $11.9 million ($195,000 an acre)
Compared to Mr. Dolma’s Storefront?

3000 sf
.07 acres valued at $1,256,704

One-thousandth the property for one-tenth the tax contribution
For local roads, courts, schools, city and county services?

Educate Our State!
Does SRI International “win” by this?

No. It struggles to fill its vacancies – needing skilled professionals with excellent scientific and technical skills – just the people who want excellent schools and public facilities for their families – and will be paying 140%.
Do Consumers Win?

Menlo Park Gas Stations
12 blocks - 5 stations - all operating in 1978

Tax Bill*: $14,200
Price/gal: $4.43

Tax Bill*: $15,900
Price/gal: $4.43

Tax Bill*: $20,388
Price/gal: $4.43

Tax Bill*: $17,200
Price/gal: $4.39

Tax Bill*: $30,100
Price/gal: $4.37

* Secured and unsecured; excludes sewer charges which vary with water usage.
Do Consumers Win?
Menlo Park Gas Stations
12 blocks - 4 stations - all operating in 1978

Out of business – despite lowest taxes

Price/gal: $3.99

Highest Contribution...
Lowest Price ...
Still

Price/gal: $3.99

Price/gal: $3.95

Price/gal: $3.99

Price/gal: $3.99
Do Tenant Businesses Win?

Check your local business property listings – ours confirm Econ 101: the market sets the price (=location, location, location). Costs determine profits.
Forty Years of Acquisition-Value Based Property Tax in Your Town

• Encouraging the dynamic or the sclerotic?
  – Is it really business vs. residential?

• Resulting in savings for all ... or welfare for the wealthy?

• Creating anchored local businesses or accidental landlords?

Why Has No Other State Followed Our Lead?
If You Don’t Have the Time to Look

• “Residential vs. Business” is the symptom, not the problem
  – Single family residences are subsidizing their elderly neighbors
  – And now paying for wealthy long-term commercial property owners, too

• New and expanding commercial buyers have to punch well over their weight ...
  – ... to subsidize real-estate investors, not even operating businesses

• Keep it simple? 25 years for commercial landlords
  – both fair and “predictable”
Thank you!