

#### Defining a 'Change in Ownership': Is it Time to Reassess? A Parent's Quest to Understand California Property Taxes

Jennifer Bestor Menlo Park, San Mateo County, CA

# "Yo, PTO Treasurer:

- How will the budget cuts affect our school?
- Do we need to raise PTO membership fees?
- Why is our well-to-do area scrambling to raise less per pupil than entire states?
- How many widows and orphans can there be in California?
- Property taxes, parcel taxes, state taxes -- all this spending on education ... but education spending is dropping?
- How will the RDA thing affect us?
- Why is our school enrollment skyrocketing?
- Where are our taxes going?"

It's a hard job ....

## ... but someone had to do it

- Bought current local secured property tax rolls
- Bought oldest local electronic rolls (1985)
- Mapped old parcels to new parcels
- Bought unsecured property tax rolls to capture improvements that had migrated to the unsecured rolls
- Analyzed tax burden shifts and underlying causes
- Comparison shopped at competing businesses with widely different underlying tax burdens
- Correlated commercial rental rates on LoopNet with taxes paid
- Researched occupancy expense as a % of sales for small businesses
- Analyzed local Redevelopment Agency funds flows
- Beverly Hills first LA County basic-aid district! bought those rolls; analyzed them, too
- Dug into Tax Rate Areas and Tax Allocations
- Analyzed ERAF, negative ERAF, excess ERAF, VLF swap, Triple Flip for our county (San Mateo) ... and LA County, Monterey County ...

Finally, I could answer their questions ...

## ... and, in the process, I learned ...

- Significant entitlement to "owners of record"
  - Identical <u>rights</u> to local fire & police, roads, courts, schools, libraries, cities & county services
  - but ...
    - 1975 base year: paying ~20¢ on the dollar
    - 1985 base year: paying ~60¢ on the dollar
    - 1990 base year: paying ~95¢ on the dollar
    - 2000+ base yrs: paying ~\$1.25 on the dollar
- <u>50+%</u> of property owners ('new') heavily <u>subsidizing</u> 20-% of property owners ('old')
  - Commercial, commercial residential, and residential
  - Somewhat greater proportion of commercial & commercial residential than single-family owners
- Significant subsidy creates incentives for manipulating, obfuscating, and overlooking ownership changes
- And the latter is 'rocket science:' observer affects that which is observed -- supplemental assessments often follow ownership questions

## So The Problem, as I see it, is:

- The 1979 rules to define "change of ownership" created an entitlement to a now-significant subsidy ... but no one knows:
  - Where local property tax contribution is coming from now
  - Who the major beneficiaries of any civic welfare are:
    - Individuals? Small operating businesses? Heirs? Real-estate holding companies? Major corporations?
  - Whether this entitlement is increasing employment and reducing costs ...
  - Or has simply created trickle-up wealth to those who chose to and are able to hold real-estate assets
  - In which case, it discourages dynamic companies, educated young families, and new investors from investing in California
- There are many 'statements of fact' that actual analysis does not bear out.

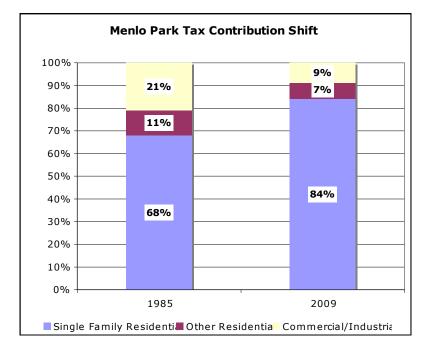
# Next Steps

- The Legislature implemented Prop 13, so ... the Legislature needs to analyze the results of its implementation decisions
  - Identify all major tax contribution shifts
  - Sample thoughtfully
  - Publicize basic findings
- And partner with counties to clear up errors of omission:
  - Pick three counties (including LA)
  - Send a questionnaire to every Owner of Record for properties with pre-1986 Dates of Record (DoRs)
    - Is 50%+ of your beneficial ownership the same as on your DoR?
  - Add a carrot: "Discovered it isn't?" File now, cite this questionnaire, and supplementals will be limited to X years
  - Add a stick: Failure to file is punishable by a \$10,000 fine or 3X existing penalties if change of ownership is found to have occurred, whichever is greater
  - Analyze the results to understand how prevalent errors of omission are and how they might skew the data

# My Research Findings

• A small, but representative, sampling of what I found follows ...

# Menlo Park City School District Tax Contribution Shift



- Homeowners are paying
  - 2 out of 3 tax dollars in '85
  - 6 out of 7 tax dollars by '09
- Why Commercial Drop?
- Half the change due to:
  - Reduction in value of homeowner's exemption
  - Small net shift to residential
- Other half:
  - Slower turnover
  - Less appreciation?
  - SRI International
    - 25% of commercial land
    - 33% of rolls in 1978;17% in 2009
    - ... and that's with improvements ...

#### 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



Highest Contribution... Lowest Price ...

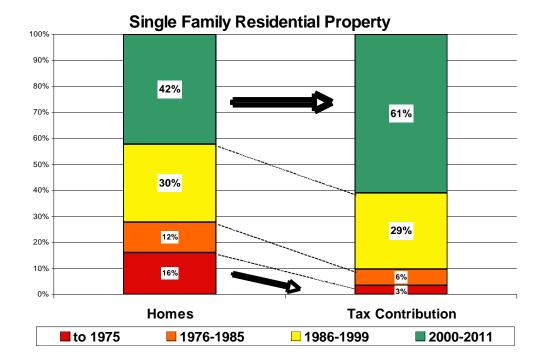


Tax Bill\*: \$30,100 Price/gal: \$4.37

\* Secured and unsecured; excludes sewer charges which vary with water usage.

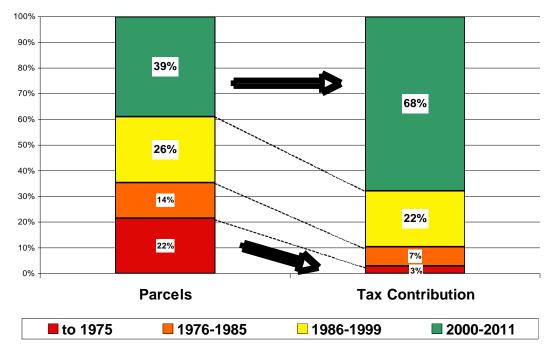
Tax Bill\*: \$17,200 Price/gal: \$4.39

Percentage of Property Owners vs. Percentage of Tax Contribution



**Base Years** 

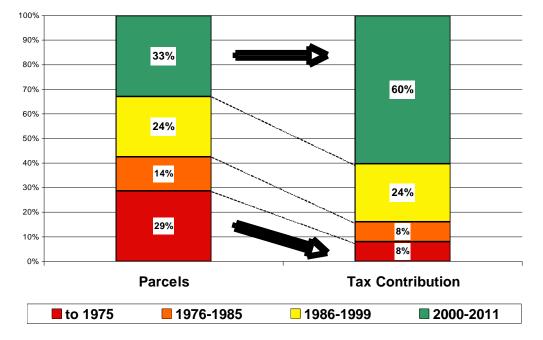
Percentage of Property Owners vs. Percentage of Tax Contribution



**Commercial Property** 

**Base Years** 

Percentage of Property Owners vs. Percentage of Tax Contribution



**Commercial Residential Property** 

**Base Years** 

#### 1975 Assessment Year? = Smaller Tax Payment than in 1977!



#### 1977 Tenant: Boucher's Appliances \$3,591.28 in taxes\*

2011 Tenant: Village Stationers \$3,502.10 in taxes\*

\* Secured Tax Bills less sewer charges Inflation from 1977-2011: 271% Owner of Record: Duca & Hanley Properties Inc.

#### Santa Clara County

QuickTime<sup>™</sup> and a decompressor are needed to see this picture.

• 52% of single family residences bear 70% of their local services contribution

• 48% of the other property owners bear 67% of the remainder

#### Death & Taxes Optional In Beverly Hills?



1967 Date 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

#### 143 commercial parcels show a 1975 base year

- 15 appear to be owned by corporations (Budget Rent a Car, Ford Motor Company, City National Bank, Phil Gersh Agency)
  - about half are no longer actively registered in California.
- 21 are held by real-estate holding companies and 32 by limited liability companies and partnerships.
  - Who owns these is not apparent.
- 10 are held by individuals, estates or trusts
  - though a number of these people seem to have passed away decades ago
    Academy Award-winning screenwriter Sonya Levien Hovey's ownership of 362 N.
    Camden hasn't been wrapped up, 51 years after her death.
- 59 are held by family trusts
  - at least ten, and probably the large majority, have been passed under Prop 58 (1986) to the heirs of the original property owners with no increase in basis.
- And six are held by miscellaneous owners ranging from the City (the Crate & Barrel/parking garage building on North Beverly) to the USPS to the Women's Club.

## Prop 58 Effects in Menlo Park

MPCSD Parcels with pre-1986 Base Years

- 15% of Single Family Residences inherited
   2% more in process (heirs added)
- 22% of Multifamily Residential inherited
   5% more in process
- 48% of main street Commercial parcels inherited

## ... and two lingering questions

- Why did a California parent have to spend thousands of dollars of her own money -- and hundreds of hours of personal time -- to learn all this?
- Who benefits from the dearth of reliable data on this topic?
  - California voters, who are asked to make ongoing decisions about taxes?
  - California residents, who live with a nearincomprehensible tax allocation structure?
  - California businesses, who rely on strong local services as much as residents?
  - Primarily, the folks with 1975 base years?