



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

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“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 rights 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
- 50+% of property owners (‘new’) heavily subsidizing 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.

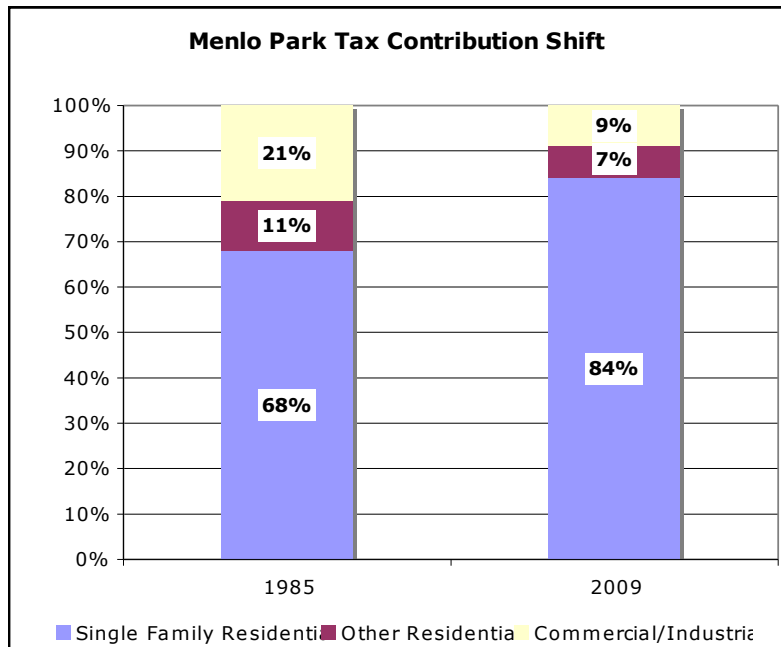
Next Steps

- 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



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

Highest
Contribution...
Lowest Price ...

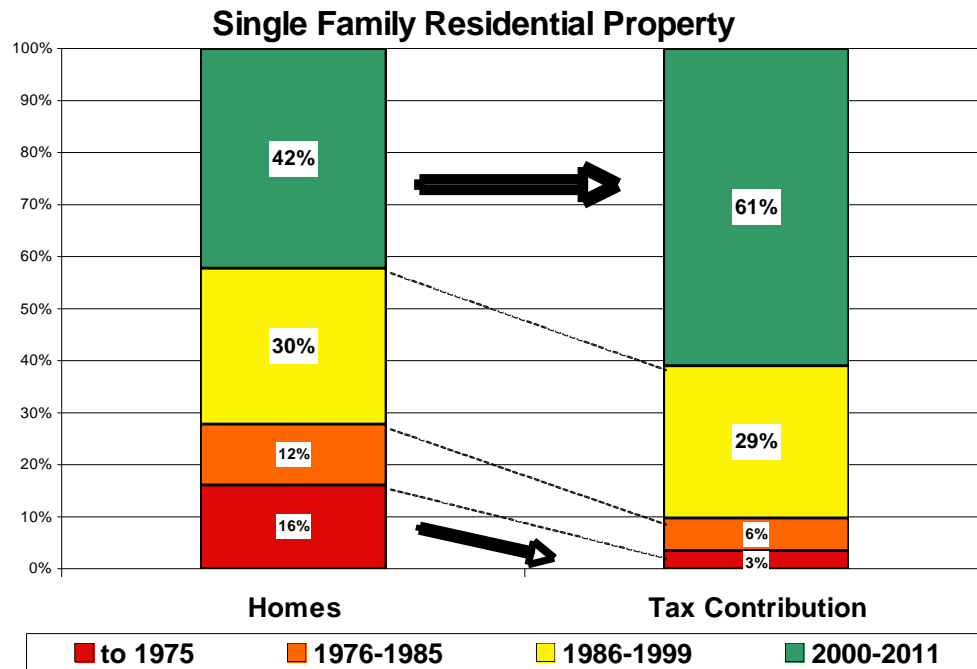


Tax Bill*: \$30,100
Price/gal: \$4.37

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

Beverly Hills

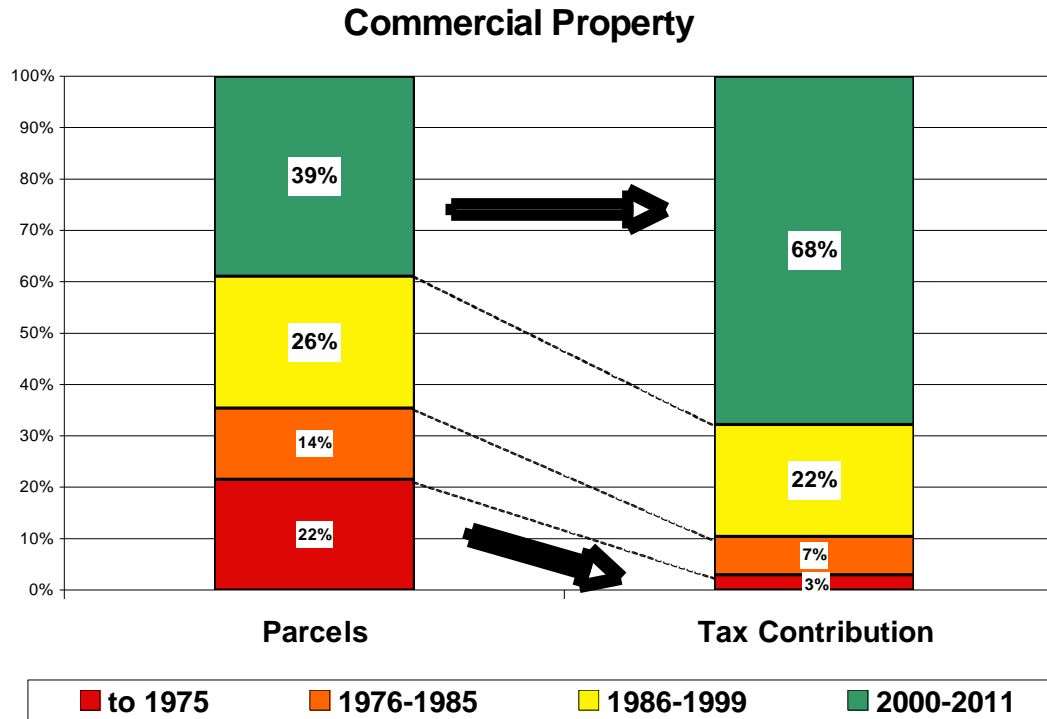
Percentage of Property Owners vs. Percentage of Tax Contribution



Base Years

Beverly Hills

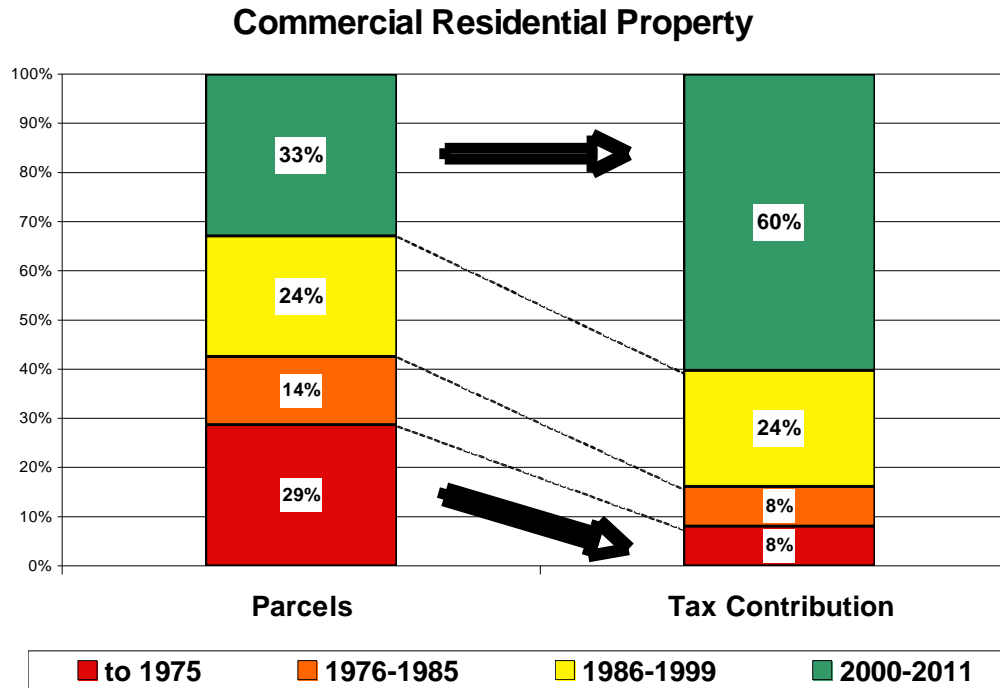
Percentage of Property Owners vs. Percentage of Tax Contribution



Base Years

Beverly Hills

Percentage of Property Owners vs. Percentage of Tax Contribution



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™ 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

Beverly Hills

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 near-incomprehensible tax allocation structure?
 - California businesses, who rely on strong local services as much as residents?
 - Primarily, the folks with 1975 base years?