

Menlo Park Fire Protection District

Property Values, Property Assessments, Property Taxes
and District Revenues

What has happened and what may happen?

So what?

Peter Carpenter 23 Feb 2009

Disclaimer

- The facts in this presentation are the best ones that I could find, however I would welcome documented corrections and additions.
(send to peterfcarpenter@gmail.com).
- The opinions expressed are my own and are not attributable to my fellow Fire Board Directors or to the Menlo Park Fire Protection District.

Impact of property tax changes on MPFPD

- Property Taxes are over 90% of MPFPD budget
- From 2003-8 we have had 6-10% annual increases in our property tax revenues
- We have allowed our expenses (including some recent and prudent allocations to reserves) to also increase by 6-10% each year
- Each +/-1% change in property taxes means a change of about +/- \$275,000 in MPFPD revenue

The four components of each year's property taxes

A - LAST YEAR'S TAXES PLUS 2% FOR ALL EXISTING PROPERTY WHICH DID NOT CHANGE HANDS

B - 1% OF THE SALE PRICE OF ALL NEW PROPERTY

C - 1% OF THE SALE PRICE OF OLD PROPERTY WHICH CHANGED HANDS

D - LESS 1% OF ANY REDUCTIONS IN ASSESSED BASE YEAR VALUE OF EXISTING PROPERTY

What will happen to our property tax revenue stream?

- New construction is slowing down
- New construction is slimming down
- Home sales are slowing down
- Housing prices are no longer climbing
- Instead housing prices are falling

What is happening to each of these four components?

- A - most properties (out of a total of about 18,000 parcels in the District) have not changed hands and so will contribute a 2% increase -
- IF they are not reassessed

What is happening to each of these four components? (continued)

- B and C - These two components have been the biggest contributors to the District's annual increase in tax revenues over the last 8 years
- B and C provide the difference between the historical 6-10% overall increase and the 2% increase for homes which don't change hands
- This has been 4-8% 'extra' each year

What is happening to each of these four components? (continued)

- In 2008 new single family housing starts in San Mateo County fell 52% from 2007
- In 2008 sales of existing and new homes in the District were \$172 million less than in 2007
- The B and C component has already started a significant decline

What is happening to each of these four components? (continued)

- D - In the past there have been practically no reassessments and therefore this had no impact on our property tax revenues
- However, the big drop in housing prices means that this will become an important factor
- How big the reassessment decrease will be is the big unknown !!
- But we have lots of data upon which to estimate the negative contribution of this component

Local property appreciation trends

Atherton

PERIOD	TOTAL APPRECIATION	AVG. ANNUAL RATE
Since 1990	259.96%	14.24%
Last 10 Years	194.16%	19.41%
Last 5 Years	66.51%	13.30%
Last 2 Years	5.62%	2.81%
Last 12 Months	0.11%	0.11%
Latest Quarter	-1.03%	-4.12%

Menlo Park Appreciation Rates (city-wide)

PERIOD	TOTAL APPRECIATION	AVG. ANNUAL RATE
Since 1990	209.96%	11.50%
Last 10 Years	166.76%	16.67%
Last 5 Years	52.81%	10.56%
Last 2 Years	0.14%	0.07%
Last 12 Months	-2.62%	-2.62%
Latest Quarter	-1.71%	-6.84%

Palo Alto Appreciation Rates – includes East Palo Alto because of overlapping ZIP code

PERIOD	TOTAL APPRECIATION	AVG. ANNUAL RATE
Since 1990	207.76%	11.38%
Last 10 Years	150.28%	15.02%
Last 5 Years	50.00%	10.00%
Last 2 Years	-1.81%	-0.90%
Last 12 Months	-5.47%	-5.47%
Latest Quarter	-2.75%	-11.00%

Current mortgage delinquency rates and foreclosures

- Mortgage delinquency rates are climbing (even in Atherton) :

94027	Nov 07	0.00%	Nov 08	0.20%	Atherton
94025	Nov 07	0.29%	Nov 08	1.02%	Menlo Park
94303	Nov 07	1.68%	Nov 08	4.16%	East Palo Alto and parts of Palo Alto which are in the same ZIP code

Foreclosures:

Atherton	pre foreclosures	24
Menlo Park	pre foreclosures	244 foreclosures 29
East Palo Alto/Palo Alto 94303	pre foreclosures	507 foreclosures 138 – share same ZIP

The reassessment component

- Home prices are dropping significantly
- Exact % for 2009 and later years is uncertain
- Foreclosure sales cause the drop in home prices to fall even faster and by a bigger amount
- For example, the 3rd qtr 2007 to 3rd qtr 2008 East Palo Alto median house sale price dropped by 47%

The reassessment component (cont.)

- Owners who purchased at market highs over the last 4-5 years are the ones most likely to request reassessment
- The big price drops from the peak prices will result in these high priced properties getting new and lower base year values and hence lower taxes
- One 'Below Market' sale is sufficient to trigger reassessment of all the neighboring properties
- Once a property is reassessed then that property's tax assessment can increase more than 2%/year but no faster than the valuation of newly purchased neighboring properties

The reassessment component (cont.)

- 8,600 people asked the County last year to review the value of their property
- That figure was up from 1,070 requests in 2007 and 770 in 2006
- About 5,200 of those homes were assigned a lower value
- The District has about 10% of the total San Mateo County parcels

What will happen to these four components?

- A - plus 2 % - same as last year
- B and C - probably 1/3 as much as last year or plus 2%
- D - unknown but certainly negative and could be as much as minus 5%
- Net = minus 1% to plus 3% increase this year ???
- compared to the historical annual increases of plus 6-10%

So what?

- Instead of seeing the historical increase of 6-10% in property tax revenues in 2010, this data suggests either a small or negative increase in property tax revenues for 2010 and probably even lower for 2011