

Note On Estimating Potential Losses To A School District Resulting From A Charitable Donation To An "Open Space" Trust

An interesting thread arose on the La Honda news group with regard to a recent \$1M donation to POST and the prospect of approaching the donor for money for the schools.

How much could such a donation end up "costing" the La Honda-Pescadero Unified School District? For those interested, here's a rough guess based on what I've learned this year. Let's see...

1. Will the \$1M all be used to buy land inside LHPUSD boundaries? That's a double assumption. First, some of the donation might go to POST "administrative" overhead. Second, the acquisition might be elsewhere on the South Coast. Let's assume for now the whole \$1M is relevant.

2. If land is purchased for \$1M and taken off the tax rolls, we might take the lost property taxes to be 1% of the value, or \$10K, per year. But there are several ways to think about the "value" of the land. Do we apply the 1% to: (a) the price POST paid for the land? (b) the assessed value at the time of purchase? (c) the last assessed value upon which taxes were based? (d) the fair market value at the time of purchase? (e) the assessed value at some hypothetical time in the future when the property has changed hands between private parties and the assessed value (perhaps previously suppressed by Prop 13?) is once again reasonably close to the market value? (Of course, it could be bought by a trust in the future, too.) One thoughtful approach would be to take "c" as a floor and try to calculate a formula including a hypothetical "e", adjusted by probabilistic guesses as to the various possible future kinds of purchasers (private, tax-exempt, other) and the resulting assessed values. There may be a thesis with such a formula in it today, so far as I know, but deriving it looks pretty daunting to me. For the purposes of this discussion I'm going to assume that the hypothetical purchase price by a land trust is 5 times value "c" above, yielding a net yearly potential property tax loss of \$2K on a \$1M purchase of land inside LHPUSD. This matches fairly well several sales over the past few years I have recently inquired about, though I have seen figures that would lead to much lower impacts.

2. LHPUSD sees roughly 47% of each property tax dollar relating to land within its boundaries. The arbitrary \$2K figure above thus translates to about \$940 yearly. Using the full \$10K figure yields \$4,700 yearly. So the range seems to be \$940 to \$4,700 yearly on a \$1M, though it could go lower if the purchase price is more than 5 times what the assessed value "would have been".

3. Now, would a decline in LHPUSD-related property taxes actually decrease LHPUSD revenues? In the near future, probably so. It depends on whether LHPUSD remains a "basic aid" district. Simply put, the State guarantees a certain level of money for the schools, which are mostly operated on property tax money. If property tax revenues for a school district exceed a so-called "revenue limit" set by the State each year, the district

gets to "keep" most of the "excess". So a decline in property taxes equates to an (approximately) equal fiscal loss at least down to the point where the taxes equal the revenue limit. This could all change if either (a) property values decline enough to lower LHPUSD's revenues below the State limit, (b) the State disposes of the "revenue limit idea", making the schools completely dependent on property taxes--this was seriously proposed this year--or, (c) the State decides to stop "allowing" schools to "keep" the "excess"--they came darn close to that change this year, too; or, (d) the State scraps the property tax element altogether, and goes to the use of sales tax to pay for schools--also proposed last year--making the schools relatively *immune* to tax-exemption issues (at the cost of using a "regressive" basis for school funding).

4. So if funding models remain pretty much the same, and LHPUSD's "basic aid" status is as it is now for most future years, what is the fiscal impact of a fully relevant \$1M purchase over, say, the first 20 years? Well, you might multiply your preferred figure out of that range from \$4,700 down towards \$940 (or below); multiply by 20; and factor in an uplift for annual inflation. That would yield a guess in the thousands, or tens of thousands. You can get over a hundred thousand, including the uplift, over 20 years if you assume that the property would have bought soon for substantially the same price by a private buyer, and that the property would stay on the tax rolls after that. On the other hand, we should drop the figure substantially if, as mentioned earlier, some of the donation goes to purchase land but rather for POST administrative costs.

5. My conclusion, based on my best assessment of the various assumptions I have outlined, is that such a \$1M donation could reasonably be expected to result in a net loss of school revenues of "thousands" of dollars--from a few to several--over a period of, say, 20 years.

6. Looking back (which is, in some ways, easier) it seems to me that such donations in the past may indeed have had a significant cumulative effect. But that would depend (mostly) on whether the additional hypothetical property taxes would have raised LHPUSD over the revenue limit earlier. (I think the first year this happened, in actual fact, was SY03-04.) It would take considerable homework to nail this down for sure.

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