How McDonald's Exploits California's Corporate Property Tax Loopholes

"We [McDonald's] are not basically in the food business. We are in the real estate business." – Harry Sonneborn, former McDonald's CEO[1]

McDonald's doesn't make most of its money selling hamburgers and fries. It makes most of its money charging rent to the franchisees[2] who actually run 95 percent of its U.S. stores.[3]

In fact, McDonald's took in $7 billion in rent from its franchisees in 2018 – and more than $21 billion in total revenue.[4] A lot of that came from our state: There were 1,281 McDonald's in California as of the end of 2019[5], nearly one of every ten McDonald's is in the Golden State.[6]

McDonald's built many of its California restaurants in the sixties and seventies[7]. So, under Prop. 13 – which was passed in 1978 – their California stores are typically taxed on prices that are way out of date. We estimate the typical McDonald's store is taxed on a value of less than $2 million.[8] But McDonald's stores in California sell for $4 million or more.[9]

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[1] John F. Love, *McDonald's: Behind the Arches, Revised Edition, New York: Bantam, 1995, p. 199.*

[2] McDonald's took in $7.1 billion in rent from franchisees in 2018. The related occupancy expenses for franchised restaurants were $2.0 billion, and the net rental income was thus $5.1 billion. McDonald's total operating income for 2018 was $8.8 billion. The net rental income of $5.1 billion thus represented 58% of the company's total operating income. See McDonald's SEC Form 10-K, FYE December 31, 2018, "Franchise Arrangements," p. 44 (rent), p. 20 (occupancy costs, operating income).
https://www.sec.gov/Archives/edgar/data/63908/000006390819000010/mcd-1231201810k.pdf

[3] According to McDonald's, there were 13,229 franchised McDonald's in the United States out of a total of 13,912. 13,229 divided by 13,912= 95 percent. See McDonalds Franchise Disclosure Document, 2018, "Item 20, Outlets & Franchisee Information, Table No. 1 Systemwide Outlet Summary," p. 37.

[4] McDonald's SEC Form 10-K, FYE December 31, 2018, "Franchise Arrangements," p. 44 (rent), p. 20 (total revenue).
https://www.sec.gov/Archives/edgar/data/63908/000006390819000010/mcd-1231201810k.pdf

[5] McDonald's Franchise Disclosure Document, there are 1,203 franchised stores and 78 Company-owned stores, Status of Franchised Outlets p. 42 and Status of Company-Owned outlets on p.46.

[6] SEIU analysis of McDonald's store list, there are a total of 13,844 McDonald's in the United States.

[7] During the 1960s, McDonald's founder Ray Kroc, based in California, led the chain's rapid expansion in the state (See John F. Love, *McDonald's: Behind the Arches, Revised Edition, New York: Bantam, 1995, p. 255).* McDonald's then expanded rapidly throughout the U.S. in the 1970s. (See Love, p. 277.)

[8] The average assessed value of a sample of 403 McDonald's California stores is $1.8 million, according to SEIU analysis of California property tax records.

[9] Based on analysis of listings of McDonald's stores for sale in California, McDonald's disclosures about its store development costs; and industry data.

The passage of Schools and Communities First (Prop 15) will mean that McDonald's and other commercial land owners will pay taxes on what their property is worth NOW, not the price they paid decades ago.[10]

This will about double the amount McDonald's restaurants pay[11] in property taxes.[12] It will bring in an estimated **$30 million more a year from McDonald's restaurants alone – $150 million over the next five years**.[13]

There are a number of examples of McDonald's in Los Angeles that are not paying their fair share in property taxes; below are just a few:[14]

- The McDonald's at 1716 Marengo, which has a number of health and employment complaints filed against it, is assessed at $7/square foot. The fifteen residential properties on the block behind the McDonald's are assessed at an average of $34/square foot and Maria's Bakery, a few doors down, is assessed at $22/square foot.

- The McDonald's at 6904 La Tijera Blvd. is assessed at $8/square foot, while the apartment building next door is assessed at $35 per square foot and the Goodwill Thrift Shop across the street is assessed at $73/square foot.

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[10] Schools and Communities First, fact sheet, retrieved Oct. 2, 2020. https://drive.google.com/file/d/1IdrZ0Y3CT5gWWZ0Rs2WJWycrMwgho5CY/view?usp=sharing

[11] McDonald's owns the real estate for over half of its U.S. stores (thus being obligated to pay property taxes) and for the remainder has leases that also require it to pay the property taxes. McDonald's, in turn, requires franchisees to pay the property taxes – both on sites McDonald's owns and sites it leases. The increased tax liability under Prop. 13 reform will thus be paid by McDonald's and/or its franchisees. As a matter of fairness, McDonald's should take responsibility for paying the increased taxes, as a profitable multi-billion dollar company, instead of its franchisees, who struggle with tight margins. (See, e.g. Brigid Sweeney, "McDonald's franchisees dump on delivery," Crain's Chicago Business, February 15, 2019, retrieved July 24, 2019. https://www.chicagobusiness.com/restaurants/mcdonalds-franchisees-dump-delivery) In fact, a UC-Santa Cruz analysis suggests that "in the long-term" even property owners like McDonald's, which use net leases to pass along property taxes, "would likely absorb most of the additional tax costs." See: Chris Benner & Gabriela Giusta, "Market Value: How fair assessment of California's commercial property values would likely affect land use, urban development and the economy," Everett Program, UC-Santa Cruz, June 2018, p. 4, retrieved July 23, 2019 http://www.everettprogram.org/main/wp-content/uploads/Market-Value_Final.pdf *Substantiation of McDonald's ownership, lease and property tax arrangements:* According to the financial statements for McDonald's USA, LLC, filed with McDonald's Franchise Disclosure Document, McDonald's leased 6,030 of its U.S. stores as of the end of 2018. The company had a total of 13,912 stores at the end of 2018, per the FDD, meaning that it owned the remaining 7,882 stores, or over half. The company reports: "For most [leased] locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance; however, for franchised sites, the Company requires the franchisees to pay these costs." See McDonalds Franchise Disclosure Document, 2018, "Item 20, Outlets & Franchisee Information, Table No. 1 Systemwide Outlet Summary," and Exhibit A, McDonald's USA, LLC Audited Financial Statements, p. 11. Even for stores it owns, McDonald's requires franchisees to pay the property taxes. (According to the financial statements for McDonald's USA, LLC, filed with McDonald's Franchise Disclosure Document: "...franchisees pay related occupancy costs including property taxes, insurance and maintenance." See McDonalds Franchise Disclosure Document, 2018, Exhibit A, McDonald's USA, LLC Audited Financial Statements, p. 11.)

[12] SEIU analysis of California property tax records for McDonald's restaurants.

[13] SEIU analysis of California property tax records for McDonald's restaurants and commercial real estate industry data.

[14] Los Angeles County Tax Assessor website, value of land for tax purposes is divided by square feet of property. https://portal.assessor.lacounty.gov/

- The McDonald's at 2810 S. Figueroa, near USC, is assessed at $7/square foot, while the motorcycle shop behind it is assessed at $52/square foot, the office building next door is assessed at $137/square foot and the independent 901 Bar and Grill across the street is assessed at $250/square foot.

With the passage of Schools and Communities First (Prop 15) commercial/industrial properties worth more than $3 million to fair market value means no more property tax loopholes for the richest corporate property owners to avoid paying their fair share, while protecting homeowners, renters, and small businesses. Altogether, Schools and Communities First will bring in an estimated $12 billion a year for improved public services in California.[15]

The additional $30 million a year McDonalds will pay under Schools and Communities First could pay for:

- More than doubling the City of Los Angeles' budget for parks improvements.[16]
- Doubling LA Metro's bus fare assistance program for low-income riders.[17]
- Child care for over 3,000 low-income children.[18]
- Restoring vision benefits for everyone in the state covered by Medi-Cal.[19]
- Providing help with heating and cooling bills to almost 100,000 Californians.[20]

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[15] Jennifer Ito, Justin Scoggins, Pamela Stephens, and Manuel Pastor, "Getting Real about Reform II: Estimating Revenue Gains from Changes to California's System of Assessing Commercial Real Estate," February 2020, p. 1, retrieved Oct 4, 2020.
https://dornsife.usc.edu/assets/sites/242/docs/Updated_2019_Rev_Est_memo_Design_v5.pdf

[16] The city's capital budget for Parks in the year ending June 30, 2018 was $12.7 million. Doubling that would be $25.4 million. See City of Los Angeles, CAFR, Supplemental Schedule of Appropriations, Expenditures and Other Financing Uses Budget and Actual (Non-GAAP Budgetary Basis) All Budgeted Capital Projects Funds For the Fiscal Year Ended June 30, 2018, p. 346. Retrieved July 23, 2019.
https://lacontroller.org/wp-content/uploads/2019/02/FY18_CAFR_Final_1.31.19_v3.pdf

[17] LA Metro fare assistance programs were budgeted for $14.7 million in the fiscal year ending June 30, 2019. Doubling that figure comes to $29.4 million. Los Angeles County Metropolitan Transportation Authority, "Adopted BudgetJuly 1, 2018 – June 30, 2019," p. 38, retrieved July 23, 2019.
http://media.metro.net/about_us/finance/images/fy19_adopted_budget.pdf#bb_fy19_Aug29.indd%3A.97746%3A85

[18] The California Child Care Resource & Referral Network and kidsdata.org lists the cost of family childcare for a preschooler in California at $9,984. $30 million divided by $9,984 = 3,005 slots. See "Annual Cost of Child Care, by Age Group and Facility Type, retrieved July 24, 2019.
https://www.kidsdata.org/topic/1849/child-care-cost-age-facility/table#fmt=2358&loc=2&tf=88&ch=984,985,222,223&sortColumnId=0&sortType=asc

[19] "Restoring vision coverage would cost the state about $22 million a year," according to an LA Times Editorial, "Medi-Cal benefits were cut in the Great Recession. It's time to restore them," Los Angeles Times, May 4, 2019, retrieved July 24, 2019.
https://www.latimes.com/opinion/editorials/la-ed-medi-cal-benefits-gavin-newsom-budget-20190504-story.html

[20] The average energy assistance benefit in California under the Low-Income Home Energy Assistance Program in 2016 was $303.11. $30 million divided by $303.11 = 98,974. See LIHEAP in California by the Numbers, retrieved July 24, 2019. https://liheaphelpscalifornia.org/liheap-in-california

In Los Angeles County, passing Schools and Communities First (Prop 15) will bring in an estimated $7.8 million more a year from McDonald's restaurants in property taxes – $38.8 million over the next five years.[21]

McDonald's has people whose *job* is to lower the company's property taxes. They file property tax appeals and apply for tax breaks, "saving" millions of dollars in tax payments that could be used for public services.[22]

While McDonald's doesn't pay its fair share of taxes, it does benefit from public services. Nationally, providing food stamps, Medicaid and other benefits to low-wage McDonald's employees costs taxpayers some $1.2 billion a year.[23]

McDonald's locations have donated at least $30,000 toward the defeat of Schools and Communities First (Prop 15) opposition.[24]

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[21] SEIU analysis of California property tax records for McDonald's restaurants and commercial real estate industry data.

[22] According to his LinkedIn profile, Frank Huck worked as a "Real and Personal Property Tax Manager" at McDonald's from 1997 to 2016. He claims to have reduced the company's property taxes by 12 percent and saved the company $4.2 million in 2015 alone. He oversaw a team of 14 who filed property tax appeals on hundreds of properties per year. See https://www.linkedin.com/in/frankjhuck/ , accessed September 4, 2019. See also LinkedIn profile of Jim McKinlay, https://www.linkedin.com/in/jim-mckinlay-97b18b72/?originalSubdomain=ca accessed September 4, 2019. In addition, McDonald's has advertised for a Real Estate Portfolio Manager, whose job includes seeking "RE [real estate] tax opportunities" and "understanding RE tax abatements." See McDonald's Linked In job posting, accessed December 12, 2019 https://www.linkedin.com/jobs/view/1616599443/?refId=110a24e2-f546-4d69-873c-62291a0c4a82&trk=d_flagship3_search_srp_top. McDonald's has also retained outside consultants and attorneys to minimize its property taxes. For example, McDonald's is a client of Carruthers & Associates, which claims to have saved its clients over $300 million on property taxes. See Carruthers & Associates, About Us and Our Clients, accessed September 4, 2019, https://www.caruthersinc.com/about-us/ and https://www.caruthersinc.com/our-clients/

[23] National Employment Law Project, "Supersizing Public Costs," October 2013, p. 2. https://s27147.pcdn.co/wp-content/uploads/2015/03/NELP-Super-Sizing-Public-Costs-Fast-Food-Report.pdf

[24] CalAccess, records for NO ON PROP 15 - STOP HIGHER PROPERTY TAXES AND SAVE PROP 13 - A COALITION OF CALIFORNIA HOMEOWNERS, TAXPAYERS, AND BUSINESSES, search for McDonald's. Some McDonald's locations may have used a corporate name that does not include the name McDonald's which is why the terminology "at least" is used.