USA

CALIFORNIA— SPECIAL ASSESSMENT

LAND VALUE CAPTURE

Special assessment — Additional taxes on specific investments

DESCRIPTION

- The local government establishes an additional tax levied with the property tax to finance specific investments, within the sphere of operation of these investments, and in direct proportion to the profits that the owners will draw from them. An assessment bond to finance investments is guaranteed by the income generated from this tax. Non-payment entails the seizure and forced sale of the property.

LOCAL GOVERNMENT INVOLVED

- Municipalities and Counties

INSTITUTIONAL AND REGULATORY FRAMEWORK

- Property tax is one of the main sources of funding for US municipalities (and cadastral values are regularly updated). The adoption of "Proposal 13" in 1978 limits the levy of this tax to 1% of the value of the property, frames the increase in land values and real estate cadastral, and thereby gave a second wind to the "special assessments" , Which will afterwards be considered by the courts as different as "special taxes", subject to a majority of 2/3 of the voters after the proposal 13.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

- Special assessments have been used in California since the end of the nineteenth century, notably to finance irrigation projects, then urban infrastructure, until the 1930s crisis which led to a wave of unpaid payments. Proposition 13 revived them during the late 1970s as a means of financing the infrastructure needed for urban expansion, which the Municipality no longer had the means to finance from its general budget, and that the promoters did not want to be responsible for neither. Assessment bonds also had the advantage of being cheaper than bank loans (due to tax exemptions).
- However, as the extension of their investment scope remains limited and ambiguous, a new mechanism is created (Mello-Roos Act): ad hoc districts are created within which special taxes can be applied to finance investments, if 2/3 of the inhabitants or owners accept it, which could be assimilated to some extent to voluntary Neighborhood or Business Improvement District.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

- For uninhabited areas (in case of urban expansion), the agreement of initial landowners is required, yet it is the future inhabitants of the subdivisions who will have to pay for the tax, under penalty of forced sale of their property. The sharing of the tax is not explicitly fixed, and is also ad hoc. The scope of this tool has thus been considerably extended in relation to its initial use. But the developers (and first-time buyers) have shown resistance to being charged too much for infrastructure outside of the territory. Regarding urban schools or motorways, the pressure from developers and the goodwill of public opinion has made it possible to base part of their funding on the issuance of general specific obligations (or on the increase on road taxes). In 1985, the Los Angeles County Metropolitan Transportation Authority created two special assessments to help financing subway lines (unsuccessfully challenged in court). In 1992, the Los Angeles County passed a special assessment to fund a public park policy. In 1996, Proposition 218 imposed new restrictions on special assessments and similar instruments, in particular in terms of information with tax payers and explanation of profits.

EVOLUTIONS AND OUTCOMES

- Between 1985 and 2005, loans guaranteed by special assessments (Mello-Roos bonds) amounted to between $ 1 and $ 3.5 billion annually in California (compared to about $ 30 million before Proposal 13). The special assessment of LAMTA brought in USD 130 million compared to a cost of USD 1.45 billion for the subway line. The special assessment of the County of Los Angeles for public parks made it possible to collect USD 540 million for the first time, and then an additional 319 million in the 1990s.

STAKEHOLDERS INVOLVED

- Local governments have constantly sought new ways to finance their policies, faced with the resistance of taxpayers on the one hand, which has been exemplified by legislative initiatives and legal challenges, and the pressure of the developers on the other hand, in an attempt to minimize the costs they have to bear to finance urban infrastructure. The balance of forces between these actors has led to the pendulum development of the use of the special assessment.

ANALYSIS AND ASSESSMENT OF THE TOOL

- The use of this tool has evolved according to the possibilities and constraints of municipal financing. One of its main limitations is the relative and absolute assessment method of the "benefit" to be drawn by each of the taxpayers involved for the investments in question, and correlatively the limit of the area of application of the tax. This question arises even more for investments of general scope (public parks, fire brigade, major structuring artery, ...) than for those who are more localized (roads, sidewalks, networks, etc.). Another limitation is its collection via the property tax (which presupposes the existence and proper functioning of this tax), but other collection systems can be envisaged, although they can significantly increase transaction costs. This type of financing can generate considerable opposition from taxpayers, as tax collection is highly visible, and its purpose (infrastructure) may seem to fall under the scope of ordinary taxes.

Sources : Misczynski (2012)