

COLOMBIA

BOGOTA — BETTERMENT LEVY ON EXISTING REAL ESTATE

LAND VALUE CAPTURE

CV - Contribucion de Valorizacion

DESCRIPTION

Contribucion de Valorizacion (CV) is a levy on existing property, aimed at financing infrastructure investment benefitting to these properties. It may be calculated from the investment cost or from the value increment impact on the considered properties.

LEVEL OF GOVERNMENT INVOLVED

Municipal level

INSTITUTIONAL AND REGULATORY FRAMEWORK

Municipalities are in charge of many urban responsibilities, including urban planning and housing policies, and most urban services (water, electricity, transportation, etc.). Municipalities have a relative fiscal autonomy, with a property tax based on a modern and updated property evaluation system (although relying on individual assessors subject to influence), but with difficulties in coping with necessary expenditures. As other Municipalities, Bogota has had difficulties in providing infrastructure adequate to its rapid growth fueled by rural exodus due to economic and political reasons.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

CV in Colombia has a long history, leading back to 1921 (regulated for Bogota in 1936 and other cities in 1938), mainly to finance water access, and strengthened with increased local powers in 1943, in a context of weak central government. Its use has been progressively reduced in the 1980s and 1990s, because of technical difficulties in assessing the plus valia associated to each project and consequent debate, political and administrative cost and legal disputes on how to allocate the burden, and also because it translated into an heavy charge for those who didn't sell their property, including lesser off households. But it has revived from the end of 1990s on through more global investment programs with levies set according to general zones and other factors, and is now a key tool to finance urban infrastructure, mainly roads. Up to 1995 only financial plus valia was considered, then it also included social benefits (mobility,...), which has been questioned but also allowed for a broader impact. Initially, full recovery cost was charged (140% of cost in total, incl. 10% for miscellaneous and 30% for administrative costs), sometimes more than the actual value increase, due to an administrative computation of value increase disconnected from market reality, which led to countless legal disputes and negative image of the tool. It also led the municipality to systematically underestimate the cost of the works (and underfund it), and to direct works towards wealthier neighbourhood that could afford to pay.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

This led to a steep decline in its use. Bogota Municipality consequently changed the way it computed the levy, to make industrial and commercial uses pay more, and to take into account households ability to pay. It has evolved from a computation closely related to specific construction works, to an overall financing "package" of more global projects reaching most of the neighbourhoods in the city.

EVOLUTIONS AND OUTCOMES

In 1993 the CV accounted for 24% of all Bogota revenues. In 2013 it financed 2,4 billion USD of investments in 9 Colombian municipalities including Bogota. US\$1.0 billion were collected in 1997–2007, and US\$1.1 billion planned for 2008–15. It was used to finance city street and bridge improvement program: 50% of street and bridge improvements; other sources of financing were US\$50 million loan from the International Finance Corporation, and US\$300 million international peso-linked bond issue.

STAKEHOLDERS INVOLVED

Citizens at large (and mainly homeowners) were of course reluctant to pay more taxes, but they were also conscient of the necessity of investing in roads, and lack of means from the municipality to do so. The real estate sector has not been a key stakeholder, as this tool mainly targets existing urban structure. Regarding politicians, it is a very useful financial tool to realize infrastructure, as long as it suits their agenda and timing (elections,...), and doesn't create more criticism than approval.

PUBLIC MANAGEMENT AND ACCOUNTABILITY

Management of the whole process (from levy computation and collection to infrastructure design and construction) is performed by a single entity, the Instituto de Desarrollo Urbano (IDU).

ANALYSIS AND ASSESSMENT OF THE TOOL

- CV has been successfully adapted throughout the years to overcome critics from its opponents. Initially, 30% extra were charged for "works management" (+ 10% for miscellaneous), which was considered as exaggerated and exemplar of public management inefficiency. This amount was then reduced, but it allowed to set up a dedicated efficient management structure. CV has also been considered to be too high a burden on poor households, which led to taking into account "payment capacity" when computing the individual levy level. Challenge on the accuracy of plus valia computation method also led to a broader "social benefits" impact and to overall city-wide multi-year investment packages that would limit transaction costs. But the tool remained strongly legitimate (more than property tax and other local taxes, that have an higher inadimplency rate) because it is closely linked to visible investments, reducing the fear that more taxes would only fuel corruption and benefit to public officials.
- In 2013 the Mayor proposed to substitute CV to finance a 1 billion USD investment plan by external borrowing, and it was rejected by 60% of the citizens. Although it is allowed to spread the levy over a maximum of 5 years, a maximum of 2 years has proved more efficient.
- **Key success factors:** Flexibility and adaptation to political context evolution and citizens perceptions (answering (within the tools implementation and associated investment program) worries and demands of specific parts of the society, such as the poorer, inhabitants of specific areas with specific needs and demands,...). Unified and relatively autonomous management, that makes it easier to resist external pressures. Strong accountability and connexion between the levy and corresponding infrastructure, with great focus on communication and transparency (and a levy computation system as transparent and objective as possible).