# Special Taxing Jurisdictions

Many parts of the US use special taxing jurisdictions for specific items. Where your general property taxes may go to the city, county, state or community college to support those services, there are other taxing entities. These special purpose districts can be known as MUDs (Municipal Utility District), LIDs (Levee Improvement District), Flood Control District, Fire District, Mello-Roos (California), or other names.

These may have a fixed amount charged against you each year or an amount based on the value of the property. Either way, it's an additional tax that other nearby properties may not be paying. Would you rather purchase a $200,000 home with taxes of $4,000 per year or a $200,000 home with $4,000 of property taxes plus $1,000 for special taxing jurisdictions? Pay $4,000 per year or $5,000 per year? Not a difficult question.

Let's focus on a MUD or Mello-Roos. This entity might build roads or sewer lines or wastewater treatment plants outside a city's boundary. In doing so, the entity might issue bonds (debt) to fund building that infrastructure. The MUD or Mello-Roos would then set up a requirement that each home or business within that area served by the infrastructure would pay a portion of the cost over time, which would include interest on the bonds. A trade-off might be that some part of city taxes aren't being paid since that service is now provided by the MUD or Mello-Roos.

Be careful though. A city rarely takes bankruptcy (it has happened), but a MUD/Mello-Roos/special taxing jurisdiction can also take bankruptcy. If not all the homes are built within the planned development, it might be that the homeowners unlucky enough to have bought a home end up with a whopping tax bill. As an example, an actual MUD declared bankruptcy in the Houstonarea. It had been formed to build out water and sewer facilities, including a wasterwater treatment plant. Out of more than 1000 homes planned, less than 100 were built at the time development stopped. The developer of the land then declared bankruptcy, meaning the developer would no longer be paying for the taxes on the undeveloped lots (1000 lots – 100 homes = 900 unsold lots). The MUD had issued $25 million in bonds. Say the homes were planned to sell at $200,000 each. That's 1000 homes times $200,000, or $200 million of taxable value when built out. If the bonds were payable over 25 years, that would require about $1 million per year paid on the bonds plus interest. Say that total is $1.5 million per year. This equates to $1,500 per year per home once all 1000 homes are built, or 1500/200,000 = .75% of value per year. But only 100 homes were built and there is no one left to pay on the other 900 lots. The homes sold for $200,000, so the tax base is only $20 million ($200,000 x 100 homes). Now the $1.5 million per year payable on the bonds hits only 100 homes and becomes a tax bill of $15,000 per year for each home. Have you ever seen a home appraised at a negative value? All of these homes received a negative appraised value. From $200,000 paid to buy the home to less than $0 in value overnight!

There have been bankruptcies of MUDs, LIDs, Water/Sewer Districts, Mello-Roos and other special purpose districts. But those have been rare. The majority succeeded, but just required a higher tax burden on the homeowner. Just a word of caution.