Bond Case Briefs

Municipal Finance Law Since 1971

WSJ: L.A. Fires Will Drain Public Coffers From Pasadena to Utah

Taxes and fees are taking a hit ahead of a costly rebuild

Fires have left parts of Los Angeles in ruins. They have also damaged local-government finances.

Recovering from the devastating wildfires will be lengthy and expensive. Property taxes are due for a hit because owners of destroyed properties only owe duties on the underlying land. Burned homes and evacuated residents won't be paying monthly water or electric bills.

The region's concentration of wealthy residents and booming businesses means money for infrastructure repairs and public-worker salaries will arrive eventually, analysts said. But the initial shortfalls are rippling across the state and even spreading to bond markets. Here's what to know:

Federal and state aid will cover a lot—but not the whole bill

Santa Rosa, a city of about 180,000 in Northern California wine country, is still finishing up repairs on its roads and parks seven years after wildfires destroyed about 5% of homes there. In the months following, the city budgeted conservatively and "drew down our reserves like crazy," said Santa Rosa finance chief, Alan Alton.

"Cities' budgets are built to perform a service to the community," Alton said. "It's not in our plan to completely rebuild infrastructure from the ground up."

Federal and state reimbursements ultimately covered more than 90% of the rebuild and cleanup, Alton said, and the state put $1.6 million toward a roughly $10 million shortfall in property taxes from destroyed areas. Santa Rosa got another $95 million from a lawsuit with PG&E.

In L.A., former President Joe Biden had said the Federal Emergency Management Agency would cover 100% of response costs over the next six months. After that, FEMA reimburses 75%, unless President Trump decides to increase it. Officials in Sacramento are still determining whether they plan to backfill L.A. area property taxes. Both the state and city have extensive financial reserves.

But public schools and community colleges around California could take a hit. California divides a pot of money among school districts to round out what they collect in property-tax revenues. Property-tax shortfalls in the Los Angeles and Pasadena school districts would mean less money for other schools and community colleges in California.

The bond market is rattled

Almost $60 billion of outstanding local-government bonds are backed by revenues that come at least in part from areas inside the wildfire boundaries, according to an analysis by ICE Data Services. Prices are falling on debt sold to finance L.A.'s sewers and renovate Altadena's public library.

One big concern for investors: lawsuits. Under California law, utilities can face strict liability for property damage caused by their power lines, regardless of fault. Ratings firms warned this week that the Los Angeles Department of Water and Power and Southern California Edison could face big payouts if they are found responsible. The cause of the L.A.-area fires is as yet undetermined.

L.A.'s power department, unlike others, doesn't proactively shut off parts of its system during windstorms to reduce the risk of sparks from power lines. The department says that it wants to avoid cutting power to critical services around the city and that it takes other fire-prevention measures. More than $3 billion worth of its bonds have changed hands since the fire, often at discounts of around 5%.

Municipal-bond prices have taken a hit even for regional power providers that sell energy to Los Angeles, including the Intermountain Power Agency, a coal-fired plant in Western Utah, according to ICE data.

Bond analysts, meanwhile, are poring over fire-impact maps to check on "dirt bonds": financing for community projects backed by fees from just a few neighborhoods. In one damaged patch of Altadena, 272 homes were partway through paying off $7 million in uninsured debt sold 12 years ago, bond filings show. It isn't clear how many of those houses are still standing.

L.A. property values could go up

Disasters can bump up some revenues such as taxes on hotel stays, restaurant meals and building materials. California's unusual property-tax laws could lead to a particular jump when homeowners choose to sell rather than rebuild from the fires.

To protect longtime residents from skyrocketing tax bills, the tax value of land can't increase by more than 2% a year. Only when properties change hands does the land reset to market value. If a lot of houses get sold, swaths of the city could end up paying significantly higher taxes.

Property-tax bills won't change much for people who stay and rebuild their houses as they were. But those who expand their homes will have the additional square footage reassessed at market value, further adding to local tax collections.

Larry Clark, a 66-year-old retired financial consultant, rebuilt his home in Oakland, Calif., after a 1991 wildfire destroyed it. When he and his wife were taxed only on the value of the land, he said, his yearly property-tax bill dropped to $1,500 from about $3,000. But it jumped to $4,500 less than two years later when the couple, ready to become parents, built a new, bigger home.

The Wall Street Journal

By Heather Gillers

Jan. 23, 2025