

# "HOW DO MELLO- ROOS DISTRICTS WORK?"

In purchasing your new home, your future monthly payments will be made up of principal, interest, real property taxes and insurance. But what is the tax for the Community Facilities District?

The California Land Title Association has answered some of the most commonly asked questions about the Mello-Roos Community Facilities Act.

## **Q: What is a Mello-Roos District?**

A: A Mello-Roos District is an area in which a special tax is imposed on those real property owners within a Community Facilities District. This district has chosen to seek public financing through the sales of bonds for the purpose of financing certain public improvements and services. These services may include streets, water, sewage and drainage, parks and police protection to newly developed area. The tax you pay is used to make the payments of principal and interest on the bonds.

## **Q: What do Mello-Roos Taxes Pay for?**

A: Your taxes may be paying for both services and facilities. The services may be financed only to the extent of new growth, and services including: Police protection, fire protection, ambulance and paramedic services, recreation program services, library services, the operation and maintenance of parks, parkways and open space, museums, cultural facilities, flood and storm protection, and services for the removal of any threatening hazardous substance. Facilities which may be financed under the law include: Property with an estimated useful life of five years or longer, parks, recreation facilities, parkway facilities, open-space facilities, elementary and secondary school sites and structures, libraries, child care facilities, natural gas pipeline facilities, telephone lines, facilities to transmit and distribute electrical energy, cable television lines, and others.

## **Q: When are these taxes due?**

A: By purchasing an interest in a subdivision within a Community Facilities District you can expect to be assessed for a Mello-Roos tax which will typically be collected with your general property tax bill. These special tax payments are subject to the same penalties that apply to regular property taxes.

## **Q: What happens if my general tax payment is not made on time ?**

A: Because the Mello-Roos tax is typically collected with your general property tax bill, the Facilities District that obtain the lien may withdraw the assessment from the tax roll and commence judicial foreclosure.

## **Q: What is the basis for the tax?**

A: Most special taxes levied on properties within these districts have been structured on the basis of density of development, square footage of Construction, or flat acreage charges. The act, however, allows for considerable flexibility in the method of apportionment of taxes, and the local agencies may have established and entirely different method of levying the special tax against property in the district in question.

## **Q: How much will my Mello-Roos payment be?**

A: The amount of tax may vary from year to year, but may not exceed the maximum amount specified when the district was created. In the case of the purchase of a new house within a subdivision, the maximum amount of the tax will be specified in the public report. The Resolution of Formation must specify the rate, method of apportionment, and manner of collection of the special tax in sufficient detail to allow each landowner or resident within the proposed district to estimate the maximum amount that he or she will have to pay.

## **Q: How does the special tax reflect on the real property record?**

A: The special tax is a lien on your property, essentially like a regular tax lien. The lien is recorded as a "Notice of Special Tax Lien" which is a continuing lien to secure each levy of the special tax.

## **Q: Will the assessments be included within the Proposition 13 limits?**

A: No. The passage of Proposition 13 in 1978 severely restricted local government in its ability to finance public capital facilities and services by increasing real property taxes. The "Mello-Roos Community Facilities Act of 1982" provided local government with an additional financing tool. The Proposition 13 tax limits are on the value of the real property, which MelloRoos taxes are equally and uniformly applied to all properties.

## **Q: How long will the tax stay in effect?**

A: The tax will stay in effect until the principal and interest on the bonds are paid off along with any reasonable administrative costs incurred in collecting the special tax or so long as it is needed, to pay the expenses of the services.

## **Q: How will Mello-Roos taxes be affected when a property is sold?**

A: The Mello Roos tax is assessed against the land, but is not based upon the value of the property, therefore, the possible increased value of the property doesn't affect the amount of tax when the property is sold. The amount of tax may not exceed the original maximum amount stated in the Resolution of Formation. Any delinquent payments must be satisfied before the sale of the real property because the unpaid amounts are a lien against the property.



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