Understanding Mello-Roos

Mello-Roos district, also known as a Community Facilities District, is a term you will hear in your quest to find a home. What is it?. It is an additional tax that will be added to your tax bill and could increase your monthly payments. It is very prevalent in new home areas and is used primarily to finance the infrastructure of the development.

When the real estate market is hot, the Mello-Roos tax is easily sold to the public but when the market slows down, it is hard to sell to the public. Many times that extra Mello-Roos payment affects the resale of the property. There are some locations where the Mellos-Roos payments and Homeowners Association fees together are equal to a normal HOA fee. That can be tolerable to the resale market when the location is good. Some other areas will have Mello-Roos and HOA fees so high that the public will not see any value in paying them.

In purchasing your new home, your future monthly payments will be made up of principal, interest, real property taxes, insurance and if applicable, homeowners association fees. There can be special tax assessments added to your tax bill that can be as low as a library district for $50 a year or it can be a Mellos-Roos district at $5,000 a year. In the following, we have answered some of the questions most commonly asked about the Mello-Roos Community Facilities Act

What is a Mello-Roos District?

A Mello-Roos District is an area where 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 sale of bonds for the purpose of financing certain public improvements and services. These services may include streets, water, sewage and drainage, electricity, infrastructure, schools, parks and police protection to newly developing areas. The tax you pay is used to make the payments of principal and interest on the bonds.

Are the assessments included within the Proposition 13 tax limits?

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, while Mello-Roos taxes are equally and uniformly applies to all properties within a certain specific area.

What are my Mello-Roos taxes paying for?

Your taxes may be paying for both services and facilities. The services may be financed only to the extent of new growth, and services include: 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 Act 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.

When do I pay these taxes?

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.

How long does the tax stay in effect?

The tax will stay in effect as long as it is needed to pay the expenses of services or 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 services, but in no case shall exceed 40 years.

What happens if a general tax payment is not made on time?

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

What is the basis for the tax?

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 an entirely different method of levying the special tax against property in the district in question.

How much will the Mello-Roos payment be?

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.

How is the special tax reflected on the real property records?

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.

How are Mello-Roos taxes affected when the property is sold?

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 does not affect the amount of the tax when property is sold. The amount of the 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 since the unpaid amounts are a lien against the property.