Office of Supervisor Patricia C. Bates
5th District, County of Orange

**August 2012 Editorial**

## What is a Mello-Roos Tax?

The Orange County Board of Supervisors is the legislative body for 23 Mello-Roos Community Facilities Districts (CFDs) in south Orange County. As a resident of Ladera Ranch, you are no doubt familiar with Mello-Roos taxes…but you may not know why and how they are assessed. As your County Supervisor, I'll provide some background that will help you understand exactly what these assessments are.

The Mello-Roos Community Facilities Act of 1982 allows any county, city, special district, joint powers authority or school district the authority to establish a Mello-Roos Community Facilities District (a "CFD") in order to provide financing for public improvements and services including such things as streets, sewer systems, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities.

CFDs are often created in undeveloped areas and are used to build the necessary infrastructure so that new homes or commercial space can be built. They can also be created in older areas to finance new schools or other additions to the community. The boundary of a particular CFD includes all properties that will benefit from the improvements. A CFD cannot be formed without a two-thirds majority vote of residents living within the proposed boundary. If there are fewer than 12 residents, a vote is instead conducted of current landowners, which in many cases, may be a single owner or developer. This was the case in the 1980s when many of our south Orange County communities were being developed and the CFDs were formed.

Once a CFD is approved by the legislative body, municipal bonds are sold to provide the large amount of money initially needed to build the improvements and a Special Tax Lien is placed against each property within the CFD. All CFD's in Orange County are for a period of 30 years and property owners pay the special tax each year to make payments toward the principal and interest on the bonds.

A question I often get asked is why Mello-Roos taxes change every year. While fairly constant, the tax assessed to each parcel is calculated annually and includes a small variance depending on the income earned on the bond reserve funds held by the CFD. It is important to note, the tax is based on the required debt service rather than the current value of one's property. Specifically, the tax for each property is based on a mathematical formula that takes into account property characteristics such as use of the property, square footage of the structure and lot size. The formula is defined at the time of CDF formation and includes a maximum special tax amount and a percentage maximum annual increase. The debt service on the bonds also escalates by approximately 2% each year so the taxes for each CFD fluctuates accordingly. In addition, loss of interest earnings may cause the tax levy to increase by a greater percentage.

The Board of Supervisors is required to approve resolutions authorizing the levy of these special taxes for each fiscal year. Due to the timing of the calculation by the County's special tax consultant, the Board authorizes an "up to" amount equivalent to the maximum rate allowed for in the "Rate and Method of Apportionment of Special Tax" which was approved for each of CFD at the time of bond issuance.

Subsequent to approval of these annual resolutions, the County's Tax Consultant completes the calculations and includes the special tax amounts for all taxable properties in a certified parcel list which the County Executive Office files with the Auditor-Controller in August of each year. After the filing of the parcel list with the Auditor-Controller, a report containing detailed information regarding the actual amount of taxes levied is distributed to the Board. Lastly, the special taxes are billed and collected in the same manner as ad valorem property taxes, and are included in the property tax bills mailed to property owners beginning in September of each year.

To date, the principal amount of the bonds issued for the 23 CFDs in south Orange County totals approximately $852 million, of which approximately $446 million is currently outstanding. This year's estimated total of $60 million for all of the CFDs is an increase of approximately $3,195,499, or 5.62%, of the total tax levy over FY 2011/12. By contrast, the FY 2011/12 assessment had an overall decrease of 9.95% from the previous year for all CFDs.

In Ladera Ranch, there are six separate CFDs. Below is the estimated FY 2012-13 special tax levy for Ladera Ranch's CDFs.

- Ladera Ranch CFD No. 99-1 ($1,517,942)
- Ladera Ranch CFD No. 2000-1 ($1,940,188)
- Ladera Ranch CFD No. 2001-1 ($2,087,043)
- Ladera Ranch CFD No. 2002-1 ($4,501,133)
- Ladera Ranch CFD No. 2003-1 ($3,736,008)
- Ladera Ranch CFD No. 2004-1 ($4,697,118)

If you would like to learn more about your property's Mello-Roos tax or if you have any questions related to the special tax levy process please call the County's special tax consultant, David Taussig & Associates at (949) 955-1500.

As always, it is an honor to serve you.