STATE OF CALIFORNIA

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September 19, 1989

No. 89/68

TO COUNTY ASSESSORS:

MELLO-ROOS BONDS

This letter will set forth the Board's position with respect to the effect of bonds issued under the Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et seq.) on the assessed value of real property.

The question has frequently arisen as to whether the unpaid cash equivalent principal balance of Mello-Roos bonds that are a lien on a lot or site should be included in the value of the land upon a change in ownership. We have previously taken the position that an appraiser, when using the comparable sales approach in determining the value of a site to which improvement bonds are a lien, should include the unpaid cash equivalent principal of any bonds outstanding as a sale price adjustment. (See Assessors' Handbook Section 501, General Appraisal Manual, August 1982, p. 70.)

For the following reasons, we have concluded that it is not proper to include the amount of Mello-Roos assessments in the value of land subject to such levies. Although the assessment is secured by a lien against the property, the principal amount of the bonds are not tied to specific parcels. With Mello-Roos, a maximum tax rate may be approved in excess of what will be needed to retire the bonds. This gives Mello-Roos the potential to provide greater security to bondholders than improvement bonds would in financing comparable facilities.

Additionally, Mello-Roos generally provides for a wider variety of facilities and services than the other improvement bond acts, which generally authorize a more limited range of capital improvements providing a specific benefit to individual properties. Moreover, Mello-Roos requires no test of benefit and is authorized for use on governmental facilities which the legislative body creating the district is authorized by law to construct, own, or operate. As such, it is more on the order of a general property levy for general fund benefits and thus would not be appropriate for inclusion in the land value of property subject to the assessments.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

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