

# LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

## THE HISTORY OF MELLO ROOS

In 1982, former Senator Henry J. Mello and former Assemblyman Michael Roos won passage of the Mello-Roos Community Facilities Act to provide the cities, counties and school districts with a way to raise money to develop the public facilities for new communities. Prior to the passage of Proposition 13 in 1978, which limited the amount the State of California could increase property taxes each year, state and local governments used income collected through those property taxes to build new roads, schools, public utilities and communities.

The localities and home developers were forced to figure out a way to pay for these needed public improvements for their new housing communities. The objective was to pass the cost of the infrastructure improvements on to the consumers who would be benefiting from all these new amenities. If they added this cost to the sales price, in many cases, they would have a property that wouldn't appraise for the sale price. Additionally, their product would appear overpriced which would make them difficult to sell. As a workaround, new developments took advantage of the Mello-Roos Community Facilities Act. The builders simply passed this expense on to the homeowners by having them assume their proportionate share of the bond payment

Logistically, under the Mello-Roos Act, landowners put up their land as collateral so that public agencies, like school districts, could raise money to pay for vital basic public facilities. The public agency forms a Mello-Roos Community District that sells bonds to fund the construction of new public facilities, and allows for payment over a set amount of time through special taxes levied on property owners in that district.

Mello-Roos has become very common in newer communities, but not all new homes are affected by Mello-Roos special assessments. Sometimes a new neighborhood is built within an existing community where all public facilities are already in place. Mello Roos made it possible to develop new areas in California after the loss of property tax revenue caused by the passage of Proposition 13.

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