What is an Assessment District?

Background:
In 1978 Californians enacted Proposition 13, which limited the ability of local public agencies to increase property taxes based on a property’s assessed value. Since that time, Assessment Districts, which have been in existence since the early 1900’s, have been used on a widespread basis as an alternative method for financing public improvements. Currently, about one in three properties in California is part of an Assessment District.

Authorizing Legislation for Assessment Districts
There are two primary acts which authorize the establishment of assessment districts:

- The Improvement Act of 1911 (Streets & Highways Code §5000 et seq.), which can be used by cities, counties and other municipal governments to fund a wide range of public infrastructure projects. The 1911 Act can also fund maintenance of improvements.
- The Municipal Improvement Act of 1913 (Streets & Highways Code §10000 et seq.), which can be used by cities, counties, joint powers authorities and other special districts to fund water, electrical, gas and lighting infrastructure, public transit facilities, as well as other basic infrastructure needs.

The Improvement Bond Act of 1915 (Streets & Highways Code §8500 et seq.) is normally used in combination with one of these acts to issue bonds to finance the improvements. The vast majority of assessment district projects are paid for with 1915 Act Improvement Bonds.

Why is an Assessment District Needed?
An Assessment District is created to finance improvements when no other source of money is available. Assessment Districts are often formed in undeveloped areas and are used to build roads and install water and sewer systems so that new homes or commercial space can be built. Assessment Districts may also be used in older areas to finance new public improvements or other additions to the community.

How is an Assessment District Formed?
An Assessment District is created by a sponsoring local government agency, such as a city or county. The procedure for forming a district begins with a petition signed by owners of the property who want the public improvement. The proposed district will include all properties that will directly benefit from the improvements to be constructed. A public hearing is held, at which time property owners have the opportunity to protest the assessment district.

Once approved, property owners have the opportunity to prepay the assessment prior to bond issuance. After this cash payment period is over, a Special Assessment Lien is recorded against each property with an unpaid assessment. Then, these parcels will pay their total assessment through annual installments on the county property tax bill. The property owners will have the right to prepay the remaining balance of the assessment at any time, including applicable prepayment fees.

How is the Annual Charge Determined?
By law (Prop. 13), the assessment cannot be directly based on the value of the property. Instead, the assessments are based on mathematical formulas that take into account how much each property will benefit from the installation of the improvements. Each parcel in the assessment district becomes responsible for a fixed percentage of the total district debt, and pays that portion of the principal and interest due on the bonds each year. Bond issues are normally structured so the amount of the annual installment remains relatively level.

How Long Will the Charge Continue?
If bonds were issued by the assessment district, installments will be charged annually until the bonds are paid off in full. Normally the term of the bonds is fifteen to twenty years.

IMPORTANT TO KNOW:

- Rights to Accelerated Foreclosure. It is important for Assessment District property owners to pay their tax bill on time. If bonds are issued, the bondholders have the right to foreclose on property when taxes are delinquent for a certain period (usually 90 to 180 days). Penalties and collection costs must be paid by the delinquent property owner. This is considerably faster than the standard 5 year waiting period on county ad valorem taxes.