

Overview of Community Facilities Districts (“CFDs”) vs. Assessment Districts (“ADs”)

| ISSUE | COMMUNITY FACILITIES | 1913 – 1915 ACT ASSESSMENTS DISTRICTS |
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| Eligible Assets | | |
| 1 | All public improvements with a useful life of five years or more. | Public improvements which provide local special benefit to parcels within an AD. |
| Eligible Services | | |
| 2 | Authorized for certain types of public services, including police, fire, library, recreational, flood control and maintenance of parks, parkways and open space (certain services require registered voter approval). | Authorized only to fund operations and maintenance of facilities directly financed by an AD. |
| Apportionment of Assessments/ Special Taxes | | |
| 3 | Special tax is not a special “assessment” and there is no requirement that the tax be apportioned on the basis of benefit to any property. However, a special tax levied pursuant to the Mello-Roos Act may be based on a benefit received by parcels of real property, the cost of making facilities or authorized services available to each parcel, or some other “reasonable” basis as determined by the legislative body. | No assessment may be imposed on any parcel that exceeds the reasonable cost of the proportional special benefit conferred on that parcel. Only special benefits are assessable, and an agency must separate the general benefits from the special benefits conferred on a parcel. |
| Financing District Boundaries | | |
| 4 | May be expanded through future annexations to include other properties that might benefit from CFD facilities or services. | AD boundaries are generally fixed once assessments are confirmed. |
| Formation Process | | |
| 5 | Notice, public hearing, majority protest process and 2/3 vote required. Landowner election if less than 12 registered voters or if a tax is not imposed on residential property. | Notice, public hearing, majority protest process. Majority protest exists if ballots submitted in opposition to the assessment exceed ballots submitted in favor. Ballots weighed according to proportional financial obligation of the affected property. |
| Maximum Residential Property Tax as Percentage of Sales Price | | |
| 6 | No statutory limit, but generally limited by public agency policy to a percentage of projected (not actual) property values. | No statutory limit, based solely on special benefit. |
| Homeowner Property Tax Bills | | |
| 7 | Special taxes can be levied each year up to maximum rates, regardless of outstanding debt service and maintenance cost requirements. The maximum special taxes for parcels used for private residential uses cannot be increase by more than 2% per year. In addition parcels used for private residential uses cannot be increased by more than 10% to cover delinquencies caused by others. | Assessments can only be levied for existing debt service, maintenance costs, and pre-approved administrative charges. |

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| Public Property | | |
| 8 | No special tax required, so generally not taxed. | Must be assessed based on special benefit, so it generally results in an upfront cash payment/contribution to offset any assessment levy. |
| Land Use Changes | | |
| 9 | Special taxes are automatically apportioned based on a tax formula (referred to as a “Rate and Method of Apportionment”), which generally adapts to changes in land use that occur after formation of the CFD. | Assessment lien apportionments cannot easily be modified after formation of an AD, except for subdivision of existing parcels generally based on lot sizes or numbers of units in each subdivided lot. |
| Cross Collateralization & Debt Service Coverage | | |
| 10 | Parcels are generally cross collateralized, overall CFD provides 110% (or greater) debt service coverage. Therefore, delinquencies on certain parcels may require that special taxes be raised on other properties (up to maximums provided). | No cross collateralization of parcels, each parcel in AD limited to its proportional share of 100% debt service coverage. |
| Pay-as-you-go financing of infrastructure | | |
| 11 | Yes. | No. |
| Pay-off or Prepayment of Lien | | |
| 12 | Allowed if included in the Rate and Method of Apportionment, but require complicated formula to administer – usually not financially efficient. | Automatically allowed by State statute, simpler to administer than in CFD. |
| Public Agency Financing Guidelines | | |
| 13 | Must be adopted by agency prior to initiation of proceedings to establish a CFD. | None required by law. Often imposed as policy matter. |
| Acceptance by Public | | |
| 14 | Widespread use since 1996 (particularly by school districts and since Prop 218) and a strong economy have made CFDs more acceptable to homebuyers. CFDs historically had a poor reputation with many political bodies and homebuyers. | ADs are more politically acceptable in many communities. |
| Assessment/ Taxation of Undeveloped Property | | |
| 15 | Special Taxes on undeveloped land can differ from Special Taxes on developed properties. | Assessments on undeveloped land are often based on their potential development, and are generally equivalent to assessments on similar properties in their “post development” state. |
| Debt Service Structure | | |
| 16 | Usually either level debt service or increasing debt service of 2% per year. | Usually level debt service. |