



## **TYPICAL QUESTIONS & ANSWERS** **ABOUT 1913 ACT ASSESSMENT DISTRICTS**

### **1. What is an assessment district?**

An assessment district is a financial tool. In the early 1900's, the California Legislature established the Municipal Improvement Act of 1913 providing a means by which citizens could assess themselves for the construction of public infrastructure and utilize public financing mechanisms for the costs of that infrastructure. The cost of improvements is spread in proportion to the benefit of properties within the boundaries of the designated area or "district". Municipal bonds may be used to finance the cost of the district over a specified time. Assessment districts are initiated by interested citizens (proponents) within a given area, neighborhood or community.

### **2. What improvements can be constructed with an assessment district?**

Various public infrastructure improvements can be funded with an assessment district. Examples include, but are not limited to, construction of new, or replacement of existing, arterial block walls, sidewalks, curbs, gutters, and also to underground overhead utilities and to pave alleys.

### **3. How long does it take to process an assessment district?**

Approximately thirty-six (36) months assuming all processes proceed without any delays.

### **4. What is the process?**

- A. The proponents meet with staff from the City's Engineering Division and determine the boundaries of the proposed District and a scope of work.
- B. A preliminary estimate for the total costs to be assessed is prepared by City staff with input from utility companies if their facilities are impacted.
- C. Petition forms are prepared by City staff and given to proponents to distribute to the property owners within the district boundaries.
- D. Once petitions from owners representing at least two-thirds (2/3) of the property owners of the land area within the district are submitted to the City, staff presents the petitions to the City Council.

- E. City Council advances funds to the district to hire an Assessment Engineer to prepare the required Engineers Report; to hire a Bond Counsel for legal advice; and to provide a cash advance to the affected utility companies so that they can prepare plans in the case of undergrounding the overhead utilities.

The above process takes approximately 6 months to 1 1/2 years to complete.

- F. Once the plans and Engineers Report have been completed, the proposed district is submitted to City Council to present the Engineers Report, approve the Resolution of Intention, and to schedule the required public hearing. Ballots will be sent to each property owner with the meeting notice a minimum of 45 days prior to the public hearing. The votes will be tallied at the public hearing. (Note: If the City receives more YES votes than NO votes at the public hearing the district is approved. However, if the City receives more NO votes than YES votes at the public hearing, the district fails.)
- G. An informal property owner information meeting is held prior to the public hearing to explain the proposed district to the property owners, provide information about the work to be accomplished, the time schedule, the assessment amount, etc. and to answer any questions
- H. Once the public hearing is completed and the district is approved, the following occurs:
- i. The 30-day cash payment period is conducted to allow property owners to pay the full assessment in cash. (See item 6).
  - ii. Bonds are sold to fund construction of the district improvements.
  - iii. A construction contract is awarded and work commences.

This process takes approximately 4 to 6 months to complete.

**5. For an assessment district to underground overhead utilities, what is the average individual assessment cost?**

The City has not established an undergrounding district in residential areas and has no cost information. However, based on information from other cities that have established underground districts in residential areas, the average cost per parcel ranges from \$15,000 to \$35,000 depending on the extent of improvements included, such as storm drain or street reconstruction. Undergrounding overhead utility lines that service the district are assessed on a per parcel basis. Typically, each property owner is assessed in accordance to benefit. However, the **conversion** of the individual service connection to each property is the responsibility of the property owner and is paid for by the property owner. The conversion of the individual service cannot be funded through the Bond financing.

**6. What is the average cost to the property owner to convert their Edison house service?**

Typically, the cost ranges from \$1,000 to \$4,000 to convert an overhead Edison service to underground.

**7. How do I pay the assessment?**

The assessment can be paid in cash or through bond financing.

Once the assessment district has been approved by the City Council, property owners have a 30-day cash payment period to pay their assessment if they choose. After the 30-day cash payment period any unpaid portion of the assessment will be financed through bond sales. If the property owner elects to finance the costs, annual installments of principal, interest, and administrative fees (approximately 8 percent of the assessment) will be collected with the property tax bill. The 8 percent is the cost of the bond issuance and administration. If a property owner pays the assessment in cash, he/she will save the bond financing costs. Cash payment also saves the cost of interest payments.

**8. Can the assessment be paid partially in cash and partially go to bond?**

Yes, during the 30-day cash payment period, the property owner will save approximately 8 percent on the portion of the assessment paid in cash. After the 30-day cash payment period, the property owner can at any time make cash payments to pay off the assessment by paying off any outstanding delinquencies, the remaining principal amount or any portion of it, the applicable bond redemption premium, interest to the next available bond call date and an administrative fee fixed by the City, additionally they will not receive the 8 percent discount.

**9. What is the term of the bond financing?**

The bonds are usually financed over a 15-year term.

**10. What is the rate of interest on the Bonds?**

The bond financing reflects the market rate at the time of issuance. Recent bond rates over the past two years (2002-2003) have ranged from 4.5% to 6%.

**11. Can assessments be deferred for hardship cases?**

Individuals should consult with a tax attorney to determine if their situation (such as a long term resident on low fixed income) qualifies for deferred tax payments under the California Revenue and Tax Code. If their situation qualifies, the

assessment MAY also qualify for deferment until the property is sold or the estate is settled.

**12. Is the assessment tax deductible?**

Question needs to be directed to your tax advisor, or accountant.

**13. What is the approximate assessment added to my tax bill?**

A rough estimate is approximately \$100 per thousand dollars of assessment. (For example: an assessment of \$5000 would result in an annual property tax assessment of \$500)

Another factor that contributes to the cost of these districts is that when they are priced the estimator takes a conservative approach due to the lag time inherent in these projects. The estimator must allow time for scheduling a district to go to City Council for a public hearing, allow for a 30-day cash payment period, a period for bond sales, then ultimately awarding the contract and going to construction. This period can take upwards of 4 to 5 months.