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East Garrison Mello-Roos Tax Information

The East Garrison Community Facilities (EGCFD) and Community Services Districts (EGCSD), while functionally independent of each other, are fiscally linked because the EGCFD is the funding source for the EGCSD. The Special Annual Tax collected from all East Garrison residential development, except designated affordable apartments, is imposed by the EGCFD and shared, proportionately, with the EGCSD. The Special Annual Tax is collected by the County Tax collector, during the normal tax collecting cycle and is distributed to the EGCFD and EGCSD following preexisting distribution formulas administered by the County's Special District Administrator. Below is a compilation of questions which have been asked frequently of County staff during the past several years. We hope that this informational document will address your questions. If you have additional questions, please call the County's Special Districts Administration office at the dedicated East Garrison CFD/CSD number, (831)755-5295.

Q: What is a Mello-Roos Community Facilities District (CFD)?

A: The Mello-Roos Community Facilities Act of 1982 is a tool available to local government agencies, including school districts, to help finance needed community facilities and services through the levy of voter-approved special taxes. This tool is implemented via the creation of Community Facilities Districts (CFDs) by the local legislative body. A CFD is authorized to issue bonds and to finance public improvements and services.

Q. Why and when was the East Garrison Community Facilities District (EGCFD) Formed?

A: In 2006, when the East Garrison project was proposed, the Monterey County Board of Supervisors determined that the project would only be approved if it was fiscally neutral, meaning that the project would pay for itself and would not be subsidized by the tax payers of Monterey County. The EGCFD was the tool chosen to achieve the fiscal neutrality goal. The EGCFD was formed and a Special Tax was approved to finance public facilities and services required by the East Garrison project. Per requirements of the Mello-Roos Law, formation of the CFD and the amount of the Special Tax were approved by the voters, who, at the time, consisted of the property owners, since there were no residents in East Garrison. Any increase to the Maximum Special Tax must be approved by the District voters, not including increases resulting from annual inflationary adjustments, which were also approved at the time of formation of the EGCFD.

Q: What is the East Garrison Community Facilities District?

A: CFD No. 2006-01 (EGCFD), was created in 2006 by the East Garrison Public Financing Authority (EGPFA) to provide a mechanism to fund the acquisition of public infrastructure constructed by the developer of East Garrison and to fund the maintenance of these facilities and various public services to East Garrison. Formation of the CFD envisioned the issuance of bonds to acquire up to $20 million of public infrastructure constructed by the developer, including roads, drainage, parks, open space, etc. The CFD was also the tool chosen to achieve fiscal neutrality and to protect the County's General Fund from impacts created by the service needs from development of East Garrison.

The CFD is funded by a Special Tax which may not exceed limits imposed at the time when the district was created. The Maximum Special Tax varies by size of residential unit and does not apply to affordable rental housing, public properties, or commercial parcels. Monterey County has adopted a policy which limits aggregate property taxes to not more than 2% of property value. The EGCFD Maximum Special Tax is consistent with that policy. The EGCFD Special Tax has two components, an amount dedicated to acquiring infrastructure and an amount set aside for the provision of services. The tax is in place today, having been set at the time of EGCFD formation in 2006. All parcels having been issued a building permit are considered developed and are subject to the EGCFD Special Tax. Vacant land can also be taxed, on an acreage basis, if there is not enough money to pay the debt service on the bonds, after taxing developed property to the maximum amount of the Special Tax. Vacant property cannot be taxed for the services portion of the Special Tax. Property owners in East Garrison are currently paying the Special Tax.

Q: What is the East Garrison Community Services District (EGCSD)?

A: The EGCSD was created by the Monterey County Board of Supervisors and approved by the Local Agency Formation Commission in 2005. It is a separate governmental agency whose purpose is to maintain public infrastructure serving East Garrison. An Urban Services Agreement between the CSD and the County of Monterey was approved in 2006, amended in 2013, and amended for a second time in 2017. The Urban Services Agreement assigns to the CSD responsibility to perform maintenance and operation of various facilities, including the on-site drainage facilities and basins, the community park, neighborhood parks, and the open space areas. The CSD is also obligated to reimburse the County costs for maintaining the County roads providing immediate access to East Garrison, including pavement, striping, street lighting, landscape medians, and traffic signals. The CSD is also required to pay for the cost of County Sheriff’s operations within East Garrison. Funding for the maintenance of these facilities and services comes from the Special Tax collected by the EGCFD.

Q: Who governs the East Garrison CFD and CSD?

A: The East Garrison CFD is governed by the East Garrison Public Finance Authority (EGPFA), a joint-powers agency (JPA) formed to issue the CFD bonds. A public financing authority is a financing tool for the issuance of bonds. The members of the JPA are the EGCSD and the County of Monterey. The Monterey County Board of Supervisors was designated as the Board of the EGPFA.

The EGCSD is governed by a Board of Directors. In 2016, the voters within East Garrison voted to designate the Monterey County Board of Supervisors as the governing body for the EGCSD.

Q: Who manages the CFD and the CSD?

A: County staff is delegated by the Boards of the EGCFD and the EGCSD to manage the day-to-day activities of the two special districts. County staff reports to the EGCFD and EGCSD Boards, which arethe Board of Supervisors, in both cases. Some of the tasks for which the CSD and the CFD are responsible are performed by individuals and companies, under contractual arrangements. The selection of those firms and individuals is done following Monterey County processes and rules.

Q: What is the difference between the Maximum Special Tax and the Annual Tax?

A: The Maximum Special Tax is the most that can be taxed in any year. However, a CFD can only impose an annual tax in the amount needed to meet obligations in any particular year. The Annual Tax is calculated each year by the Special Tax Administrator.

Q: Has the EGCFD Issued Bonds?

A: Yes. The EGCFD issued Special Tax Bonds, Series 2016 in the amount of $9,540,000 in September of 2016. Additional bonds are anticipated to be issued in 2019.

Q: Who determines the Annual CFD tax and how is it spent?

A: The EGCFD Special Tax has two funding components, acquisition of public facilities and funding public services required by East Garrison. After the Maximum Special Tax was amended in 2012, ½ of the Maximum Special Tax was assigned to facility acquisition by the EGCFD and ½ was allocated to funding services by the EGCSD. The Maximum Special Tax varies by housing unit type and the breakdown can be obtained from the Special Districts Administrator at the County. Because the facility acquisition portion of the Maximum Special Tax is automatically adjusted by up to 2% per year and the services portion is adjusted by up to 4% per year, today the Maximum Special Tax for Facilities and the Maximum Special Tax for services are no longer equal.

The Maximum Special Tax for facility acquisition is adjusted annually by the CFD (County staff, in consultation with the Special Tax Consultant). The Annual Tax to be collected in any particular year is based on the amount needed to pay bond debt and to administer the EGCFD. Developed Property (built parcels and parcels having been issued a building permit) is first taxed up to the Maximum Special Tax. If additional funds are needed, undeveloped property is taxed, by acre, until the necessary amount is reached. If applying the Maximum Special Annual Tax to developed property yields more funds than needed for bond debt payments and administrative costs, tax payers will be taxed an amount which is less than the Maximum. Tax payers cannot be taxed more than the Maximum Special Tax.

The Maximum Special Tax for services is adjusted by the Special Tax Consultant by increasing the amount by up to 4%. The Annual EGCSD portion of the Special Tax is determined through the County annual budget process. The County Fiscal Year is July 1 through June 30. County Staff, acting as CSD staff, calculate the amount needed for operations the following year, starting in early January of each year. The budget for the EGCSD is presented to the EGCSD Board of Directors (County Board of Supervisors) in May of each year. Again, the Annual Tax can be lower than the Maximum Special Tax, if needed revenues are lower than the amount which would be generated if the Maximum Tax was applied.

Q: How was the Revenue/Expense gap amount for the County Sheriff determined?

A: The County hired the firm Keyser Marston and Associates (KMA) to analyze the funding gap between expected East Garrison revenues and expenditures. KMA concluded that the East Garrison Project would create a funding gap of ≈$685,000 (in 2013 Dollars) for Sheriff's services at full development. The Sheriff services cost gap was approximately 39% of the total County cost gap determined by the KMA study, ≈$1,751,000. The factors used by KMA were based on the most current cost and revenue data available, which for the Sheriff operations was from the 2011-12 FY Budget. Sheriff's cost per resident was calculated at $235. Average occupancy (dwelling unit factor) for single family homes was calculated at 2.3 persons and for multi-family at 1.8 persons, using State Department of Finance data.

Q: How is the annual portion of the tax to be allocated to the Sheriff be determined?

A: Demand for Sheriff services is expected to increase as the homes become occupied. The following formula is used to determine the annual allocation to the County Sheriff:

Each year, as the Budget is prepared, the Special Districts Administrator determines how many housing units received a final building approval from the County as of November 30. The number is added to the previous year total and becomes the Cumulative Unit number for the upcoming Fiscal Year.

Cumulative Number of Occupied Units X Dwelling Unit Factor X Sheriff Cost Factor (adjusted by CPI, Bay Area) = Annual Sheriff Budget Allocation.

For example: In December of 2017, the County Special Districts administrator, in consultation with the Building Department concluded that there were 462 single family units and 29 town houses, and 66 apartments occupied in East Garrison. The calculation was follows:

462 X 2.3 X $265(CPI adjusted) = $281,589
95 X 1.8 X 265(CPI adjusted = $ 45,315
2018 Sheriff's Allocation=$326,904

For the Fiscal Year 2018-19, $326,904 will be transferred from the CSD to the County Sheriff.

If in any year, the CSD does not yield enough revenue to cover the cost of Sheriff services, per the formula, the Sheriff's share of the CSD Special Tax revenue would be 39%, which is the pro-rata distribution based on the KMA study which found a total gap of $1,751,000. $685,000/1,751,000 = 39% (See Table 10 KMA Updated Fiscal Impact Assessment, East Garrison, Monterey, California.) Available revenues would be defined as all revenue collected from the CFD tax allocated to services, remaining after tax administration and other administrative charges.

Q: Why does the County retain a Special Tax Consultant instead of using County staff?

A: There are several firms which provide Special Tax Administration services to Community Facilities Districts. These firms have specialized staff dedicated to CFD administration. The services provided by these firms include calculating the CFD Special Tax and transmitting the data to the County Tax Collector for inclusion in the annual property tax bill, calculating pre-payment amounts for those who wish to prepay the facilities portion of the CFD, answering questions from realtors, title companies, mortgage lenders, etc., managing the foreclosure process when necessary, and calculating the semi -annual interest and principal payment to the CFD Fiscal Agent. These tasks are complex and require specialized skills, not normally available within County staff. Because the firms serve multiple jurisdictions, they can offer the necessary redundancy to answer multiple questions and handle multiple tasks efficiently. The CFD pays it Special Tax Administrator under $10,000 per year for CFD administration. The County allocates this amount between the CFD and the CSD.

Q: Why do we also pay a Fire Services Tax?

A: The Salinas Rural Fire Protection District, now Monterey County Regional Fire District (Fire District), decided that the principle of fiscal neutrality would also apply to the Fire District. The Firm of Keiser Marston and Associates also analyzed the revenues and expenses associated with fire protection services and concluded that there would also be a gap in fire protection funding. Based on that Conclusion, the Fire District adopted a Special Tax for fire services. That tax is imposed and administered by the Fire District. The County took that tax into consideration when calculating the 2% of property value limit.

Q: How long do we have to pay the Mello-Roos Special Annual Tax?

A: The Facilities portion of the CFD will be imposed until the Bonds are retired, in approximately 30 years. The services portion of the Tax is not scheduled to end, because the service demands creating the cost gap will continue to exist.