## Improvement Bonds

Property in California is assessed upon change of ownership at full cash value. Full cash value is defined by state law as "...the amount of cash or its equivalent that property would bring if exposed for sale in the open market." Therefore, when a buyer assumes a debt related to the property, such as an improvement bond, this amount is added to the sales price and considered part of the full cash value of the property.

**Q. What is an improvement bond?**

*A. Bonds are a form of public financing usually associated with land improvements or infrastructure, such as roads, schools, and utility services, that generally enhance land value.*

*When a developer uses bond financing, the developer can either pay off the bond and pass this cost on to the consumer through a higher sales price of the home, or they can sell the home at a lower amount and allow each owner to assume the bond obligation specific to their lot.*

**Q. Why is a bond added to the sale price for assessment purposes?**

*A. State law requires that the assessor "convert a noncash sale price to its cash equivalent by estimating the value in cash of any tangible or intangible property other than cash which the seller accepted in full or partial payment of the subject property and adding it to the cash portion of the sale price." As an application of this general requirement, the sale price of a property encumbered by an improvement bond is adjusted to reflect the fair market value of the outstanding bond.*

**Q. Is there a benefit to improvement bonds?**

*A. Yes. When a developer finances land development and infrastructure, the costs they incur will ultimately be passed on to the buyer in the sales price of the home. Recently, it has become more popular for developers to allow the buyers to assume the bonds. This benefits the buyer in a couple of ways. First, since the sales price is lower, buyers have an easier time qualifying for their mortgage. Secondly, the interest on the bond is usually lower than interest on a home loan, costing less in the long run.*

## Recent Changes:

The definition of full cash value was amended to establish a new rule for property purchased in an open market transaction. For all appeal hearings concluded on or after September 23, 1998, the purchase price is rebuttably presumed to reflect the value attributable to public improvements financed by improvement bonds.

The assessor must submit evidence at an assessment appeal that establishes that the value of improvements financed with the bonds is not already reflected in the price.