



CYPRESS SCHOOL DISTRICT

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August 14, 2014

The Honorable Glenda Sanders
Presiding Judge
Orange County Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Re: Cypress School District's Response to 2013-14 Orange County Grand Jury Report, "School Bonds – The Untold Story of Assessed Values"

To the Honorable Glenda Sanders:

In accordance with California Penal Code section 933.05, the Orange County Grand Jury has requested that the Cypress School District ("District") respond to Findings 1, 2, 4, 5, 6, 7, 8, and 9, and Recommendation 1 in the 2013-14 Orange County Grand Jury Report entitled, "School Bonds – The Untold Story of Assessed Values."

Finding 1: Taxpayers in the Westminster, Cypress and Savanna Elementary School Districts will potentially be faced with significantly higher tax rates in future years to repay school construction bonds.

District Response to Finding 1: Cypress School District disagrees with this finding. This finding is very speculative and as a result is inappropriate to state as a finding. We are unable to determine whether there is a factual basis for this finding. Based on historical data, no school districts in Orange County have exceeded their tax rates for the past 40 years. Based on the Grand Jury's own data, the use of the term "significantly higher" with respect to tax rates is misleading. Even using the Grand Jury's data, the projected and speculative tax increase are, on an annual basis, very small ranging from \$15.70 in Westminster to \$50.63 in the Savanna School District.

Finding 2: The funds raised through these school bonds for the Westminster, Cypress and Savanna Elementary School Districts have been spent on much needed capital improvements. All three districts were faced with schools that in some cases had not been renovated in over 50 years. These districts are making tremendous progress in bringing their schools up to a 21st Century standard.

District Response to Finding 2: Cypress School District agrees with this finding.

Finding 4: School districts located in lower AV areas are at a distinct disadvantage in terms of their bonding capacity per student. For instance, Laguna Beach Unified School District has over ten times the bonding capacity per student as Garden Grove Unified School District.

District Response to Finding 4: Cypress School District agrees with this finding. However, the District has no basis to comment on the statements made in the second sentence.

Finding 5: The 20 year average for growth in AVs for the Savanna, Cypress and Westminster Elementary School Districts are approximately 4% per year.

District Response to Finding 5: Cypress School District agrees that over a 20 year period, the average growth rate was approximately 4% per year. However, a more appropriate time period to consider would be 30 to 40 years. The District used corresponding historical periods of assessed value changes when making its projections for the issuance of each Series of its General Obligation bonds.

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Finding 6: The assumptions made for the expected growth in AVs in the future years has a very significant effect on the corresponding tax rates. For example, in the Savanna Elementary School District, the tax rate will be \$60.74 per \$100,000 of AV in the year 2052 if the AVs continue to grow at an average of 4% per year. The tax rate falls to \$20.04 per \$100,000 of AV in the year 2052 if the AVs grow at an average rate of 7%.

District Response to Finding 6: Cypress School District agrees with this finding. However, the District has no basis to comment on the statements made in the second and third sentences.

Finding 7: The homeowners and property owners will pay additional taxes of \$2,025, \$809 and \$628 per \$100,000 of AV over the term of the bonds in the Savanna, Cypress and Westminster Elementary School Districts respectively if AVs continue to grow at the historical rate of 4%.

District Response to Finding 7: Cypress School District partially disagrees with this finding. This statement is speculative and is based upon a single AV growth scenario. If AVs continue to grow at the historical rate of 6%, over 30 years, homeowners and property owners will pay no additional taxes.

Finding 8: The methodology used by Savanna, Cypress and Westminster Elementary School Districts to estimate the future growth rates for AVs does not appear to be reliable to the Grand Jury. Savanna and Cypress relied on average growth of AVs over a 35-year period. The first 10 to 15 years of this historical data includes a considerable amount of original development, thereby inflating the average AV growth rate. Westminster developed an estimate of AV growth that appears to have no historical or factual basis. AV growth is projected to average around 6% from the years 2017 – 2041, and then tails off dramatically for the last 10 years of the bonds, averaging less than 2%. Using this estimate, Westminster projects the district will never exceed the legal tax rate of \$30 per \$100,000.

District Response to Finding 8: Cypress School District disagrees wholly with this statement and the reliability assessment made by the Grand Jury. In fact, the Grand Jury's Report is factually incorrect in stating that data used by Cypress School District to determine the average growth of AV contained significant original development that inflated the AV growth in those earlier years. Cypress School District did historical research relative to its AV, historical growth and projections. The District was functionally built out prior to the 35-year period relied on to determine average growth of AV. This is further proven by the sharp decline in students experienced by Cypress School District in the late 1970s, which caused three elementary schools to be closed in 1978 (Cypress, Damron, and Landell) and Mackay

Elementary school to be closed in 1980. Further, the District is of the view that the data that it used to project future assessed value changes is factual and historically grounded and was, and is, reasonable. Cypress School District is not responding to statements relative to Savanna and Westminster Elementary School Districts.

Finding 9: Orange County Department of Education (OCDE) does not have any statutory authority to ensure all Orange County school districts properly disclose assessed value assumptions for bond measures being presented to voters for approval.

District Response to Finding 9: Cypress School District agrees with this finding. That said, Cypress School District has worked with OCDE in structuring the sale of its General Obligation bonds by series, including, but not limited to, discussions of AV projections.

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Recommendation 1: All school districts in Orange County should include a clear explanation of the assumed future growth rate of assessed values in the bond election materials made available to voters for future bond issues. This explanation should reference the *relevant* historical assessed value data for the individual district. For instance, if the district is fundamentally built out, the historical assessed value data should not include years with significant development because that is not indicative of the district's current and future situation.

District Response to Recommendation 1: The Cypress School District agrees that the assumptions utilized in creating a General Obligation bond program, including the assumed growth rate of assessed values, should be transparent and made available to the voters. Cypress School District also agrees that the explanation should reference historical assessed value data for the individual district. Cypress School District has already utilized historical research relevant and relative to its AV rates. The assessed value data used to determine AV rates does not include years with significant development. The Cypress School District was fundamentally built out in the 1960s, when it saw the opening of ten new schools within seven years, from 1962 to 1968. The building boom was drawing to an end in the late 1970s when the Cypress School District experienced a serious decline in enrollment causing four elementary schools to be closed. All AV data utilized by Cypress School District for its General Obligation bond program did not include years with significant or original development. The District also points out that under existing provisions and limitations of the California Elections Code that furnishing the identified information to voters within a ballot pamphlet may not be possible. Henceforth, Cypress School District has already implemented this action recommended by the Grand Jury. Cypress School District has complied with all applicable laws relative to its bond elections and legal limits for General Obligation bond issuance.

If you have any further questions, please do not hesitate to contact me.

Sincerely,



Beverly M. Hempstead
Superintendent



Tim McLellan, Ed.D.
Assistant Superintendent, Business Services

cc: Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, California 92701

Board of Trustees
Cypress School District