



**WESTMINSTER
SCHOOL
DISTRICT**

Tina Douglas
*Assistant Superintendent
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September 18, 2014

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

Re: Westminster 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 Westminster School District ("District") respond to Findings 1, 2, 5, 6, 7, and 8, and Recommendations 1 and 2 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: We disagree with this finding. This finding is based on estimates, is therefore speculative and, as a result, is inappropriate to state as a finding. Based on historical data, no school districts in Orange County have exceeded their legal 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 increases are, on an annual basis, very small ranging from \$15.70 in the Westminster School District 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 of these 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.

Response to Finding 2: We appreciate the Grand Jury's representatives touring Westminster's completed school facilities renovation projects and agree with this finding.

Superintendent

Marian Kim Phelps, Ed.D.

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leaders today"*

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

Response to Finding 5: We agree 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 Westminster School District used the corresponding historical periods of assessed value changes and trends when making its future projections for the issuance of each Series of its General Obligation Bonds.

Finding 6: The assumptions made for the expected growth in AVs in 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%.

Response to Finding 6: We disagree with this finding. The future tax-rates per \$100,000 will be based on the actual changes in the District's annual assessed values. We are unable to verify the accuracy of the information contained in the finding regarding future assessed values assumptions made by the Grand Jury. We are not responding to statements relative to the Savanna School District.

Finding 7: The homeowners and property owners will pay additional taxes of \$2,052, \$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%.

Response to Finding 7: We disagree with this finding. This finding is based on estimates of future assessed value increases, and the resulting annual tax rates will be based on the actual assessed value changes that occur in the future. Should Westminster's assessed value historical increases and trends be maintained into the future, the homeowners will continue to pay taxes at a rate of \$30 or lower per \$100,000 each year.

Finding 8: The methodology used by the 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.

Response to Finding 8: We disagree with this finding that the assessed value methodology does not appear to be reliable. The Westminster School District simply utilized the historical assessed value changes and trends that have actually occurred since 1989 in its estimates of future assessed value levels for each Series of General Obligation Bonds that it has issued. It should be noted that the Westminster area achieved build-out years before 1989, so past periods of development are not included in its historical assessed value methodology. Based on Westminster's historical assessed value trends, we do agree with the finding that Westminster projects that the district will likely continue to not exceed the legal tax rate of \$30 per \$100,000. We are not responding to statements relative to Savanna and Cypress 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.

Response to Finding 9: We agree with this finding. That said, the Westminster School District had the opportunity to work with the OCDE in finalizing the structure for each of its General Obligation Bond Series which included the assessed value methodology and future estimates.

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.

Response to Recommendation 1: The Westminster School District agrees that a clear explanation of the assumed future growth rate of assessed values in the bond election materials made available to voters is a good recommendation for school districts.

However, it should be noted that the Tax Rate Statement in a school district's bond election materials already sets forth the tax rate estimates, and the historical assessed value basis for such estimates. In the Westminster School District's case, a comprehensive summary and analyses, which included the relevant assessed value historical trends and future methodology, was provided to both its Citizen's Oversight Committee and the general community via District public Board meetings prior to the issuance of each of the District's General Obligation Bond Series. Additionally, meetings with the OCDE and the County Treasurer's staff were held to review the District's plan prior to the issuance of each of the General Obligation Bond Series. We believe that these Westminster School District practices provided the community with the disclosure and transparencies set forth in this recommendation.

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September 9, 2014
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If you have any further questions, please do not hesitate to contact me.

Sincerely,



Dr. Marian Kim Phelps
District Superintendent



Tina Douglas
Assistant Superintendent, Business Services

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

Board of Trustees
Westminster School District