



# CITY of CYPRESS

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August 12, 2015

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

Subject:      Response to Grand Jury Report- "Mello-Roos: Perpetual Debt  
Accumulation and Tax Assessment Obligation"

Dear Judge Sanders:

In accordance with the California Penal Code, Section 933 and 933.05, the City of Cypress is submitting this response to the Grand Jury Report "Mello-Roos: Perpetual Debt Accumulation and Tax Assessment Obligation." As stipulated in the statute, the responses are provided for each Grand Jury finding and recommendation. Included with the responses are statements of agreement or disagreement, either wholly or partially, and the corresponding reasons for each.

Per the requirements and instructions, the City of Cypress is responding to Findings (F.1 through F.3) and Recommendations (R.1 through R.2).

## **Responses to Grand Jury Findings:**

**F.1    There is a lack of transparency to homeowners relative to how CFD funds are being used.**

**Response:** The City of Cypress agrees partially with this finding. We are not familiar what information other agencies provide homeowners, however the City of Cypress required the developer to provide information on the CFD to the original buyers. The required information included the disclosure of the time duration of the CFD, improvement costs associated with the assessment and the projected debt payments (including a maximum annual assessment amount). The homeowner and realtor were responsible for providing this information to future home buyers.

Rob Johnson, Mayor

Mariellen Yarc, Mayor Pro Tem  
Paulo M. Morales, Council Member

Stacy Berry, Council Member  
Jon E. Peat, Council Member

**F.2 There does not seem to be appropriate oversight and auditing of CFDs and special tax expenditures within the County of Orange.**

**Response:** The City of Cypress agrees partially with this finding. We are not familiar with the oversight and auditing of other CFDs within the County of Orange. While there is no oversight committee or separate audit completed for the CFD in Cypress, the District is responsible for providing an Annual Continuing Disclosure Information Statement. Since the CFD assessments are for debt payments on previously approved bonds used to construct improvements within the District, an oversight committee and annual audit would likely represent unnecessary costs to the homeowners.

**F.3 While the assumption is that the CFD debt would be repaid in a finite period of time, there is a mechanism available to controlling entities to extend debt obligations and thereby extend the CFD special tax in perpetuity.**

**Response:** The City of Cypress agrees partially with this finding. While we are not aware of the payback periods of other CFDs, the Cypress CFD has a specific end date if all payments are paid by the homeowners. There are also circumstances where homeowners could benefit from the CFD extending debt (refinancing to a lower interest rate is one example).

**Responses to Grand Jury Recommendations:**

**R.1: Each local agency that established the CFD should create an oversight committee and an audit committee to provide for an independent, transparent view of the manner in which CFD funds are being expended. (F.1) (F.2)**

**Response:** This recommendation will not be implemented. During the prior fiscal year, the CFD in Cypress assessed the final bills to homeowners and all future debt service payments will be made with accumulated reserves. Therefore this recommendation is unnecessary. Also since the CFD was solely for making bond payments on approved debt, this recommendation would likely result in unnecessary costs to the homeowners. However, this recommendation will be considered if a new CFD is established in Cypress.

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**R.2 Audit report information, as delineated in the California Government Code, 1982 53343.1, should be made available to the CFD taxpayers on a website after each fiscal year for each CFD number. (F.1) (F.2)**

**Response:** This recommendation will not be implemented. As discussed previously, the Community Facilities District in Cypress has assessed the final bills to homeowners in the prior fiscal year. Therefore this recommendation is unnecessary. However, this recommendation will be considered if a new CFD is established in Cypress.

If you have any questions regarding the responses provided in this letter, please contact Mr. Matt Burton, Director of Finance and Administrative Services, at (714) 229-6718 or via e-mail at [mburton@ci.cypress.ca.us](mailto:mburton@ci.cypress.ca.us).

Sincerely,



Rob Johnson  
Mayor  
City of Cypress

cc: City Council  
Peter Grant, City Manager  
Paul S. Borzcik, Foreman, Orange County Grand Jury, 700 Civic Center Drive  
West, Santa Ana, CA 92701