



Office of City Manager  
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September 4, 2015

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

The Honorable Glenda Sanders,

Please accept this as the City of San Clemente's official response to the 2014-2015 *Mello-Roos: Perpetual Debt Accumulation and Tax Assessment Obligation*.

### Findings

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

This finding is not applicable to the City of San Clemente since there are no homeowners in CFD 99-1 which includes only commercial development. The parcels include Lowe's, Mobil, Albertsons, and other various business enterprises. There are no homeowners in this district.

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

The City of San Clemente reports CFD 99-1 funds within its audited annual financial statement. The annual report is submitted to the governing board and sent to the County of Orange. The annual financial statements are also available on the City's website. The only expenditures of this district are for debt service (principal and interest) and administrative costs.

**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.**

The City of San Clemente believes this flexibility is appropriate. This flexibility allows the taxpayers of the district to benefit from situations which may arise, such as interest rate changes, development changes that effect financial aspects, and making improvements to the debt financing that develop over time.

For example, the City was able to refinance the original CFD 99-1 debt to provide present value savings of \$509,000. This was able to be accomplished without extending past the life of the original issuance, however this may have been able to be accomplished in some circumstances. The refunding of this debt was taken to the City Council on January 18, 2011 and approved in open session.

### 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)**

The City of San Clemente reports the CFD 99-1 activity in a variety of ways which provide oversight. The audited annual financial statements, which include CFD 99-1 funds, are submitted to the governing board, sent to the County of Orange and are available on the City's website. The City Budget lists the outstanding debt on an annual basis. Investment information on the CFD is provided monthly to the Investment Advisory Committee. While one committee may be the correct approach in some circumstances the only expenditures for our CFD are for debt service (principal and interest) and administrative costs. A summary of anticipated costs through the life of the debt is provided on Attachment I.

The creation of new CFD's are at a public meeting, with Agenda Reports and other information available on our website based on State mandated requirements. We will consider the use of a single committee in the future as part of the creation of new CFD's.

- R.2. Audit report information, as delineated in 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)**

The City of San Clemente reports the CFD 99-1 within its audited annual financial statement. The City will comply with Government Code 53343.1, which states the following:

"A community facilities district formed after January 1, 1992, shall prepare, if requested by a person who resides in or owns property in the district, within 120 days after the last day of each fiscal year, a separate document titled an "Annual Report." The district may charge a fee for the report not exceeding the actual costs of preparing the report..."

The CFD expenditures are for debt service (principal and interest) and administrative costs. A summary of anticipated costs through the life of the debt are provided on Attachment I.

If further information is required regarding this matter, please contact the City's Finance Manager, Judi Vincent, at (949) 218-9601.

Sincerely,

A handwritten signature in black ink, appearing to read 'Erik Sund', written in a cursive style.

Erik Sund  
Assistant City Manager

C: Mayor and City Council  
Orange County Grand Jury

ATTACHMENT I – SUMMARY OF CFD 99-1 ACTIVITY THROUGH CALENDAR YEAR 2030

BOND DEBT SERVICE

City of San Clemente  
 CFD No. 99-1  
 2011 Special Tax Refunding Bonds

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Period Ending	Principal	Interest	Debt Service	Annual Debt Service
03/01/2012		115,051.98	115,051.98	
09/01/2012	155,000	111,340.63	266,340.63	381,392.61
03/01/2013		109,790.63	109,790.63	
09/01/2013	170,000	109,790.63	279,790.63	389,581.26
03/01/2014		108,090.63	108,090.63	
09/01/2014	180,000	108,090.63	288,090.63	396,181.26
03/01/2015		105,390.63	105,390.63	
09/01/2015	195,000	105,390.63	300,390.63	405,781.26
03/01/2016		102,465.63	102,465.63	
09/01/2016	210,000	102,465.63	312,465.63	414,931.26
03/01/2017		99,315.63	99,315.63	
09/01/2017	220,000	99,315.63	319,315.63	418,631.26
03/01/2018		95,603.13	95,603.13	
09/01/2018	230,000	95,603.13	325,603.13	421,206.26
03/01/2019		91,290.63	91,290.63	
09/01/2019	240,000	91,290.63	331,290.63	422,581.26
03/01/2020		86,340.63	86,340.63	
09/01/2020	245,000	86,340.63	331,340.63	417,681.26
03/01/2021		80,981.25	80,981.25	
09/01/2021	250,000	80,981.25	330,981.25	411,962.50
03/01/2022		75,356.25	75,356.25	
09/01/2022	260,000	75,356.25	335,356.25	410,712.50
03/01/2023		69,181.25	69,181.25	
09/01/2023	275,000	69,181.25	344,181.25	413,362.50
03/01/2024		62,306.25	62,306.25	
09/01/2024	290,000	62,306.25	352,306.25	414,612.50
03/01/2025		55,056.25	55,056.25	
09/01/2025	305,000	55,056.25	360,056.25	415,112.50
03/01/2026		47,431.25	47,431.25	
09/01/2026	325,000	47,431.25	372,431.25	419,862.50
03/01/2027		39,103.13	39,103.13	
09/01/2027	335,000	39,103.13	374,103.13	413,206.26
03/01/2028		30,100.00	30,100.00	
09/01/2028	355,000	30,100.00	385,100.00	415,200.00
03/01/2029		20,559.38	20,559.38	
09/01/2029	375,000	20,559.38	395,559.38	416,118.76
03/01/2030		10,481.25	10,481.25	
09/01/2030	390,000	10,481.25	400,481.25	410,962.50
	5,005,000	2,804,080.21	7,809,080.21	7,809,080.21

In addition to the Debt Service schedule amounts, the City also incurs approximately \$15,000 for the annual administration of the Community Facilities District related to fiscal agent fees, county property tax administration costs, arbitrage fees, and City overhead related charges.

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