



CITY OF ORANGE

OFFICE OF MAYOR

PHONE: (714) 744-2200

FAX: (714) 744-5523

www.cityoforange.org

September 24, 2015

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

Re: City of Orange Response to Grand Jury Report: "*Mello-Roos: Perpetual Debt Accumulation and Tax Assessment Obligation.*"

Dear Judge Sanders:

The following is the City of Orange's response to the findings and recommendations contained in the Grand Jury's Report, "*Mello-Roos: Perpetual Debt Accumulation and Tax Assessment Obligation.*" The City of Orange was asked to respond to Findings F.1, F.2 and F.3 and Recommendations R.1 and R.2.

Finding

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

Response

The City of Orange **does not agree** with this finding as it relates to the City of Orange. The City has two CFDs. The City's website links to our district administrator, who provides the CFD annual bond disclosure reports for both CFDs' bond issues. The maintenance component for one of the CFD's is for maintenance of the bioswale and water quality features within the District. The City maintains a separate fund for the revenues and expenditures related to this component, which is aggregated with other maintenance districts in the City's CAFR. The expenditures for this CFD maintenance in FY 14 were \$90,033, or 0.06% of the City's total expenditures. None of the expenditures were for administrative costs.

Finding

F.2: There does not seem to be appropriate oversight and auditing of CFD's and special tax expenditures within the County of Orange.

Response

The City of Orange **does not agree** with this finding as it relates to the City of Orange but lacks enough information to agree or disagree as to the County of Orange. The City of Orange only has two CFD's, with only one having activity beyond semi-annual debt service payments. As such, there are not many transactions to oversee and requiring a full audit would have the CFDs incur additional costs for relatively little benefit.

Finding

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 Orange **agrees** with this finding that this may be possible in some situations, it is not possible in the City of Orange. The original authorizing resolutions of both CFDs in the City of Orange, were specific as to the improvements that were to be funded by the CFDs. The facilities have been completed and, therefore, per Government Code Section 53330.7, the CFDs cannot fund additional improvements. In addition, although both CFDs have refinanced their respective debts, none of these refinances have resulted in extending the expiration date of the original debt.

Recommendations:

Recommendation

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

The recommendation will not be implemented. However, as an alternative, the City will seek to have this function performed by the City's existing Audit Committee.

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Recommendation

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)

Response

The recommendation requires further analysis. As indicated previously, in the City of Orange there are so few transactions occurring on our CFD's that an audit would be an additional expense to the District that would likely produce little benefit. In compliance with California Government Code Section 53343.1 the City discloses this information upon request of an affected homeowner.

Thank you for your service and efforts on behalf of the City of Orange. We hope this response will be helpful.

Sincerely,



Teresa E. Smith
Mayor, City of Orange

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