



**ORANGE COUNTY
AUDITOR-CONTROLLER**

HALL OF RECORDS
12 CIVIC CENTER PLAZA, ROOM 200
POST OFFICE BOX 567
SANTA ANA, CALIFORNIA 92702-0567

(714) 834-2450 FAX: (714) 834-2569

www.ac.ocgov.com

JAN E. GRIMES, CPA
CHIEF DEPUTY
AUDITOR-CONTROLLER

PHILLIP T. DAIGNEAU
DIRECTOR
INFORMATION TECHNOLOGY

STEVEN P. RODERMUND
PROGRAM MANAGER
CAPS+ PROGRAM MANAGEMENT OFFICE

October 19, 2012

The Honorable Thomas J. Borris
Presiding Judge of the Superior Court of California
700 Civic Center Drive West
Santa Ana, California 92701

The Honorable Thomas J. Borris:

In accordance with the Grand Jury's request dated April 27, 2012, attached is my response to the 2011-2012 Orange County Grand Jury report, "'Let There be Light,' Dragging Special Districts from the Shadows." The Report is addressed to special districts in Orange County as well as the County of Orange Auditor-Controller.

Responses to Findings 9, 12, and 14 and Recommendations 1, 5, and 10 are contained in the attachment Pursuant to Penal Code sections 933 and 933.05. If you have any questions, please contact me.

A handwritten signature in black ink, appearing to read "J E Grimes".

Jan Grimes
Chief Deputy Auditor-Controller

:as
Attachment

cc: Members, Board of Supervisors
Susan Novak, Clerk of the Board of Supervisors
Robert Franz, Interim County Executive Officer

Auditor-Controller Response
2011-2012 Grand Jury Report dated April 27, 2012
“Let There Be Light,” Dragging Special Districts from the Shadows

Finding No. 9

The Orange County Auditor-Controller allocated nearly \$35,000,000 to four enterprise special districts (Costa Mesa Sanitary District, South Coast Water District, Trabuco Canyon Water District, and Yorba Linda Water District) that did not show this revenue in their budgets provided to the Grand Jury. What happened to that money is not clearly recorded. Budgeting without the allocated taxes indicates that, along with the three other enterprise special districts that do not rely on tax revenue, these enterprise special districts could function without tax revenues.

Response

The amount allocated to the enterprise special districts is properly represented. Three of the four districts do properly show the property tax revenue as non-operating revenues in their budget documents. The Auditor-Controller agrees with the statement that all revenues, including property tax revenues, should be included in the annual budget for full transparency.

Finding No. 12

The community services that the original non-enterprise special districts provided can be provided by the surrounding cities and the county that have engulfed these districts. Continuing to collect taxes for these special duplicative services is a disservice to both the community they serve and the surrounding communities that provide the same or similar services.

Response

The Auditor-Controller agrees that the services provided by these non-enterprise special districts could be provided by surrounding cities and the County, and doing so may improve transparency and accountability to the communities they serve. It is not clear that the services referred to are duplicative, or that the structure change would change the overall cost of services provided or bring about any efficiencies.

Finding No. 14

The true cost of water and sanitary sewers in the enterprise special districts is hidden when both taxes and fees fund these districts. Only when the monthly service bills to the customers include all the costs for these services without the tax subsidy will the public understand the true cost of these services and achieve financial transparency.

Response

The current funding structure of the special districts that receive both fees and property taxes makes the full cost of services very difficult for the average customer to identify and understand. Further complicating the issue is the fact that special districts receive a portion of the countywide

1% tax based on a statutorily determined methodology, not based on taxes assessed to customers of that special district. If the special districts were to change financing structure and move to a fee only billing system, the amount of 1% property tax charged countywide would not decrease, and the resulting amount apportioned to all the remaining property tax receiving entities would increase. The mechanics of the tax allocation process have created a tax subsidy for the special districts which receive property tax allocations, and by extension their customers compared to those districts which receive no property tax allocations.

Recommendation No. 1

All special districts (except the Vector Control District and the County Cemetery District) should be eliminated from the county tax rolls and should rely solely on fees or the services of surrounding governments.

Response

The Auditor-Controller does not take a position on this issue. Current law provides for the current structure of these districts.

Recommendation No. 5

Water and sewer districts should be removed from the tax rolls and operate solely on fees and other revenues for their services. Consideration should be given to forming non-profit agencies with ownership shared by the constituents. These districts should meet with county officials before October 31, 2012 to prepare plans and schedules to remove themselves from the county tax rolls.

Response

The Auditor-Controller's office is available to assist LAFCO, Special Districts, or other groups to evaluate an alternative structure for these special districts.

Recommendation No. 10

The Orange County Tax Collector should obtain all the specific allocations for the 1% property tax from the County Auditor-Controller and show them on the tax bill (not just the current generalized summary) sent to each property owner so that the taxpayers are informed of how much each service is costing them.

Response

Currently, there is very limited space available on the secured property tax bills. This space is insufficient to explain the 1% allocation process and identify the amount allocated to water districts on a Tax Rate Area basis. As an alternative, I will pursue putting a general explanation regarding special districts on each tax bill or insert included with the secured tax bill, with a link that will allow taxpayers to identify their specific special district allocations.