November 23, 2015

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


Thank you for your report.

The findings of the report that we were asked to respond to are as follows:

F.1. There is a lack of transparency to homeowners relative to how CFD funds are being used.
F.2. There does not seem to be appropriate oversight and auditing of CFDs and special tax expenditures within the County of Orange.
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.

We’ve been given directions to guide our responses to these findings. The directions we received are: As to each Grand Jury finding, the responding person or entity shall indicate one of the following:

(1) The respondent agrees with the finding
(2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

Response to F.1:

(2) We disagree with the findings – “how CFD funds are being used” are published in an annual report, including information on debt payments, facilities projects, and administrative services. The reports are prepared annually and available from the disclosure website Electronic Municipal Market Access, or available from the District’s business office upon request.
Response to F.2:

(2) We disagree with the findings – all of the District’s funds are audited in compliance with the law. The District is allocated $75,000 annually from the CFD, and this is held in Fund 49, the “Capital Project Fund for Blended Component Units”. Fund 49 is part of the District’s audit. Further, while not having a special oversight or appeals committee unique to the CFD, oversight is provided by the Board of Trustees and any actions, of the Board occur at open, publicly noticed Board meetings, which all community members are welcome to attend. The agendas and supporting documentation for such board meetings are available for review on the website of the District.

Response to F.3:

(2) We disagree with the findings – in Santa Ana Unified School District, the CFD has an established end date of Fiscal Year 2045-46 and there is no mechanism available to the District to extend the CFD special tax in perpetuity. The special tax by its terms has a termination date per Section 53321(d) of the Government Code. The termination date cannot be extended without a vote of the electorate. Issuing bonds does not extend the term of the special tax.

We noted the report’s recommendations as follows:

**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.

**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.

We’ve been given directions to guide our responses to these findings. The directions we received are: As to each Grand Jury recommendation, the responding person or entity shall report one of the following actions:

(1) The recommendation has been implemented, with a summary regarding the implemented action.

(2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.

(3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the Grand Jury report.

(4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

1601 East Chestnut Avenue, Santa Ana, CA 92701-6322, (714) 558-5501

**BOARD OF EDUCATION**

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Response to R.1:

(4) The recommendation will not be implemented because it is not warranted or is not reasonable – while in general the District agrees with oversight, and had an oversight committee for its $200M Measure G general obligation bond program while the program was active, it would not be appropriate to have an oversight committee for its CFD. This is because the CFD bonds were issued ten years ago, the bond funds that the District received have long since been spent, and the District has no authorization to issue any additional bonds for anything other than refinancing. During the time of bond repayment, the District is allocated $75,000 annually from the CFD it would be an inefficiencies use of taxpayer dollars to create an oversight committee to oversee this level of CFD expenditures. However, the District has retained auditors and consultants, to ensure that audit and oversight controls are in place over District funds, to include CFD revenues. That said, should the District ever consider forming a new CFD, it may also consider incorporating an oversight committee consistent with the Grand Jury’s recommendation.

Response to R.2:

(4) The recommendation will not be implemented because it is not warranted or is not reasonable – while in general the District agrees with auditing, reporting, and transparency, it would not be appropriate to provide such report information for its CFD. This is because, as stated previously, the CFD bonds were issued ten years ago, the bond funds that the District received have long since been spent, and the District has no authorization to issue any additional bonds for anything other than refinancing. During the time of bond repayment, the District is allocated $75,000 annually from the CFD. Therefore, the additional reporting recommended, above and beyond what the District already reports, would provide very little additional transparency because the District has very little expenditures on which to report. Further, the District has retained auditors and consultants to ensure that audit and oversight controls are in place over District funds. That said, should the District ever consider forming a new CFD, it may also consider incorporating a level of reporting consistent with the Grand Jury’s recommendation.

If you have further questions, please feel free to contact me.

Sincerely,

[Signature]

Stéfanie P. Phillips, Ed.D., CBO
Deputy Superintendent, Operations
Santa Ana Unified School District

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