

## CERTIFICATES OF PARTICIPATION

In 1978, the voters of California approved Proposition 13 which, among other tax changes, required a two thirds majority of voters to approve any new County debts. Given the mood of the electorate, it became nearly impossible for counties to issue new debt obligations. Certificates of Participation (COPs) were authorized by the California legislature to allow counties to raise debt obligations. COPs were then created to raise debt without the issuance of bonds, if the purpose of the COP was for the use of County property in the conduct of County business.

COPs, as approved by the Board of Supervisors, are similar to tax exempt bonds and are *secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the bond proceeds.* (Comprehensive Annual Financial Report, County of Santa Barbara, June 30, 2002). In the opinion of the Grand Jury, the public lacks familiarity and understanding with this method of financing County property.

Representative examples of buildings financed through the use of COPs by Santa Barbara County are:

- Santa Maria Juvenile Court
- Santa Barbara District Attorney Facility
- Santa Barbara Parking Structure for Criminal Justice
- Santa Barbara Clerk-Recorder Building

The capital projects are defined as essential for County Government operations and as real property, they generate intergovernmental revenue through the leasing process. The sum of \$72,890,000 of outstanding COPs as of June 30, 2002 represents almost 100% of Santa Barbara County's outstanding debt. As the long term debt of each project is fully retired, ownership of the site or the structure is transferred to the County.

While most COPs are issued for the acquisition or construction of County structures, a portion of the current outstanding COPs has been used for the purchase of unimproved land:

- Santa Barbara Shores - Isla Vista Bluffs
- Baron Ranch Acquisition

Unimproved land generates little or no revenue which could be used to reduce the indebtedness incurred when COPs are issued. Unimproved land may be identified as an asset, but the lack of revenue makes it a questionable candidate for a COP.

For further information regarding Certificates of Participation, the reader is referred to the 2001-2002 Final Report of the Santa Barbara County Grand Jury.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1**

COPs have been issued for purposes such as capital projects or the purchase of unimproved land required by County Government for future use.

### **Recommendation 1**

COPs should not be used for the acquisition of unimproved land unless the County plans to build a structure on the site.

### **Finding 2**

The public is largely unaware of the existence and use of COPs.

### **Recommendation 2**

The public should be educated regarding the use of COPs and the resulting financial obligations to the County.

## **AFFECTED AGENCIES**

### **Santa Barbara County Board of Supervisors**

<b>Findings</b>	1, 2
<b>Recommendations</b>	1, 2