

July 8, 2003

Honorable Clifford R. Anderson, III
Presiding Judge, Santa Barbara County Superior Court
PO Box 21107
Santa Barbara, California 93121-1107

**Board of Supervisors' responses to Fiscal Year 2002-2003
Grand Jury Report on 'Certificates of Participation'**

Dear Judge Anderson:

During its regular meeting on July 8, 2003, the Board of Supervisors (Board) adopted the following as the Board's response to the relevant findings and recommendations in their Fiscal Year 2002-2003 Grand Jury Report on 'Certificates of Participation'.

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.

Response:

The County of Santa Barbara has historically used Certificates of Participation (COPs) as one means of financing its capital needs. COPs have been issued to purchase or construct capital assets necessary for government operations. Capital assets acquired with COP proceeds have included equipment, buildings and both improved and unimproved land. *(Agree)*

COPs are:

- Securities issued and marketed to investors in a manner similar to tax-exempt bond
- Created in conjunction with a lease agreement which encumbers County-owned property
- Secured by an annual sublease payment paid by the County for use of encumbered County-owned property
- Issued by a third party

In a COP transaction, the County enters into an agreement with a third party, the Santa Barbara County Finance Corporation (created as a public benefit, non-profit corporation, to issue COPs and to lease back various assets), to lease an asset over a specific period of time at a predetermined total cost. The asset, owned by the County and leased to the Finance Corporation, is then subleased back the County. In this transaction, the Finance Corporation sells certificates in order to make its total lease payment to the County at the beginning of the lease period. The County then makes capital expenditures with the lump sum (advance) lease payment. The sublease payments are used by the Finance Corporation to pay interest and principal on the certificates.

A summary of COPs outstanding as of June 30, 2003 is as follows (in thousands):

Governmental Activities	Interest Rate	Date of Issuance	Maturity	Amount of Original Issue	Outstanding as of 6/30/02
1994 Land and Improvements	3.30-5.70	3/15/1994	3/1/2011	\$ 45,680	\$ 20,940
1997 Capital Improvements	5.39-7.11	6/24/1997	12/1/2006	5,395	1,390
1998 Capital Improvements	3.80-4.60	2/10/1998	2/1/2011	11,720	8,185
2001 Capital Improvements	2.00-5.25	12/1/2001	12/1/2021	31,425	31,120
Total Governmental Activities				94,220	61,635

Business-type Activities	Interest Rate	Date of Issuance	Maturity	Original Issue Amount	Outstanding as of 6/30/02
1997 Laguna Sanitation Refinance	5.39-7.11	6/24/1997	12/1/2006	1,915	925
1998 Baron Ranch	3.80-4.60	2/10/1998	2/1/2011	7,760	5,300
Total Business-type Activities				9,675	6,225

TOTAL				\$ 103,895	\$ 67,860
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Recommendation #1:

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

Response: *The recommendation will not be implemented, as it is not warranted.*

Unimproved land acquisition is a legitimate lawful use of COPs and may be considered appropriate by future Boards.

The County has issued COPs as listed above (in response to Finding #1). Whether "COPs should not be used for the acquisition of unimproved land" will be considered in the context of Board policy and future use of the COP financing mechanism.

The Board has adopted the following decision-making process for potential use of COPs:

1. Capital Projects in need of financing are identified through the annual Five-Year Capital Improvement Plan (CIP) process. The CIP is conceptually adopted annually following public capital workshops.
2. Projects with sufficient funding sources are referred to the County Administrator's Office (CAO) for further analysis of projected impacts to the operating budget, debt feasibility with current Countywide outstanding debt, financing options, and community pooling.
3. The CAO works in conjunction with General Services (GS) to compare facility designs with adopted County standards of the Space Utilization Report. The Space Utilization Report validates size and scope of facilities based on a set of parameters adopted by the Board, such as projected growth, number of employees, or industry standard guidelines for space.
4. Once CAO staff completes its analysis, the project is presented to the Debt Advisory Committee (DAC). The DAC reviews project consistency with Board adopted debt policy and project checklists, and then provides a recommendation to the Board of Supervisors on matters relating to any new issuance of debt.
5. Projects that receive recommendation for approval are then referred to the Board of Supervisors for multiple public hearings. The Board understands that public participation is crucial for local governments to operate effectively, and thus has held numerous public hearings on COPs, televised informational videos on COPS (via the County's public access television station), and provided access to staff reports on COPs (via weblinks on the County website).

Finding #2:

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

Response:

Although in the 1980's, the public may not have been given sufficient opportunity to become aware of the County's COP issuance process, the current decision-making process (described in response to Recommendation #1) provides ample opportunity for public awareness. *(Partially Agree)*

Recommendation #2:

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

Response: *The recommendation has been implemented.*

In addition to the decision-making process described in response to Recommendation #1 above, it is important to note that both DAC and Board meetings are subject to the Open Meetings (Brown) Act, and are appropriately noticed at least 72 hours in advance of the meeting date. In the future, the DAC meetings will be noticed at the end of the Board agenda, when applicable. In addition, all reports that are received and/or accepted by the Board during a public hearing are available on the County website, under the Board Agenda and Minutes link.

The County understands that public participation is crucial for local governments to operate effectively, and thus will continue to educate the community on COPs through public hearings and access to staff reports.

The Board would like to thank the Grand Jury for its Report on 'Certificates of Participation'.

Sincerely,

Naomi Schwartz
Board of Supervisors, Chair

CC: William Anderson, Grand Jury Foreman

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:
Prepared on:
Department Name: County Administrator
Department No.: 012
Agenda Date: 7/8/03
Placement: Administrative
Estimate Time: 10 Minutes
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Michael F. Brown
County Administrator

STAFF CONTACT: Andrea Labbe
Administrative Analyst, 884-8083

SUBJECT: Board of Supervisors' responses to Fiscal Year 2002-2003 Grand Jury Report on 'Certificates of Participation'

Recommendation(s):

That the Board of Supervisors:

1. Adopt the proposed Board of Supervisor's responses to the Fiscal Year 2002-2003 Grand Jury Report on 'Certificates of Participation'.
2. Authorize the Chair to sign the letter forwarding these responses to the Presiding Judge

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with Goal No. 4. A Community that is Economically Vital and Sustainable.

Executive Summary and Discussion:

The Grand Jury Report requires responses from the [Board of Supervisors](#) as affected agencies in the subject report.

This Grand Jury Report released [on April 22, 2003, contains two findings and two recommendations](#). In accordance with section 933(b), the governing body of the agency (Board of Supervisors) must respond within 90 days after issuance of the Grand Jury report. Consequently, the Board of Supervisors' response

must be finalized and transmitted to the Presiding Judge of the Superior Court no later than [Friday, July 18, 2003](#).

Responses to both findings and recommendations are the sole responsibility of the Board of Supervisors and thus, the Board of Supervisors has responded to both findings and recommendations.

Mandates and Service Levels:

California Penal Code Sections 933c requires that comments to the Grand Jury Findings and Recommendations be made in writing. These comments, in themselves, do not change existing programs of service levels.

Fiscal and Facilities Impacts:

[None from the recommended action.](#)

Special Instructions:

This response of the Board of Supervisors must be transmitted to the Presiding Judge of the Superior Court no later than [Friday, July 18, 2003](#). Please return signed letter, which includes the written response to Jennie Esquer, County Administrator's Office, for distribution to the Superior Court. The signed letter, written response and a 3½" computer disk with the response in a Microsoft Word file must be forwarded to the Grand Jury.

Attachments:

1. Board of Supervisors' Letter and Response to the Presiding Judge
2. Copy of Fiscal Year [2002-2003](#) Grand Jury Report, '[Certificates of Participation](#)'

CC: