

COUNTY OF SANTA BARBARA

ROBERT W. GEIS, C.P.A.
Auditor-Controller

THEO FALLA, C.P.A.
Assistant Auditor-Controller



County Administration Bldg.
105 E. Anapamu Street, Rm. 303
Santa Barbara, CA 93101
(805) 568-2100

Mailing Address:
P.O. Box 39
Santa Barbara, CA 93102-0039
FAX (805) 568-2016

OFFICE OF THE AUDITOR-CONTROLLER

June 8, 2006

The Honorable Rodney Melville
Santa Barbara County Superior Court
P.O. Box 21107
Santa Barbara, California 93121-1107

Santa Barbara County Grand Jury
Ted Sten, Foreperson
1100 Anacapa Street
Santa Barbara, CA 93101

Auditor-Controller Department Response to the 2005-06 Grand Jury Report on: School Bonds

Dear Judge Melville:

Attached is response to the current grand jury report entitled School Bonds. The Grand Jury requested that we respond to findings number 1 thru 6 and recommendations 1 thru 3. I want to thank the Grand Jury for its efforts at improving County government over the past year and commend the efforts of its members.

Sincerely,

Robert W. Geis, C.P.A.
Auditor-Controller

Cc: Michael Brown, County Executive Officer

AUDITOR-CONTROLLER'S DEPARTMENT RESPONSE
SANTA BARBARA COUNTY 2005-06 GRAND JURY

FINDINGS AND RECOMMENDATIONS

SCHOOL BONDS

FINDINGS 1 THRU 6

The Grand Jury has pointed out a series of risks that accompany the effort by the school district to maximize the issuance of debt to be repaid by the taxpayers. We agree with the risks pointed out in Findings 1 thru 6 of the report. The limit of \$30 per \$100,000 assessed value has introduced new types of bond financing that includes Capital Appreciation Bonds issued by the District. In the case of the Buellton District these were tagged on to the end of the bond issue and require a long-term growth assumption of property assessed valuation over a 25 year period. In addition, structure of the financing includes multiple issues requiring significant cost of issuance for the taxpayer.

RECOMMENDATION 1

We agree that the district should carefully consider the issuance of Series C and D. An alternative financing could be through private placement with a local financial institution, in order to avoid the cost of issuance.

RECOMMENDATION 2

We agree that maximizing the debt service to the legal rate creates risk at the end of the payment cycle and do not believe that Capital Appreciation Bonds are cost effective for the taxpayer. These Capital Appreciation Bonds are also being used to fund issuance costs for multiple series of bonds at an increased cost to the taxpayer.

RECOMMENDATION 3

We agree that the use of Certificate of Participation financing needs a secure and identified funding stream for repayment of the debt.