

Grand Jury Response
2006-2007 Santa Barbara County Civil Grand Jury

Findings

1. Projects funded by COPs are not subject to a well-regulated, mandatory public notice process, and this deficiency can preclude the general public from either registering opposition or participating as investors.

Response: Partially agree

The Board of Trustees of the Allan Hancock Joint Community College District (AHC) adopted a resolution approving issuance of the identified COP at a regularly scheduled and properly noticed meeting of the board. Projects funded by the COP were clearly identified in the documents and the projects went through a public bid process.

AHC COPs were sold to investors in the same method as the sale of the AHC general obligation bonds, providing the general public the same opportunity to participate as investors.

2. Taxpayers and/or investors may be at risk if standard assurances (e.g. environmental and “escrow”) are not consistently required prior to issuance of COPs.

Response: Partially agree

This risk is not unique to COPs and could impact general obligation bond and revenue bond financings.

3. The maturity terms of COPs are often comparable to those (20-30 years) for General Obligation and Revenue Bonds, suggesting that COPs may be an inappropriate substitute for such bonds.

Response: Disagree

Several factors influence the financing term of COPs, including the revenue stream used for repayment and the type of project being financed. The term of a COP cannot exceed the useful life of the project. For example, a 25-year term to finance a building with a useful life in excess of 30 years would be appropriate. The same term to finance the acquisition of computers would not be.

The COP issued by AHC had a 20-year term, but the benefit of the project funded by the COP will far exceed that term. COPs issued by AHC were repaid using district general revenues and did not place an additional burden on the county taxpayers, as would have been the case with general obligation bonds.

4. The regulations regarding the sales of COPs and the use of the proceeds from those sales are inadequate.

Response: Disagree

AHC followed a process that included rigorous due diligence and independent audit review.

5. Districts and government agencies are not required to give notification of the use of COPs to County or city governments which might be affected.

Response: Agree

Recommendations

1. A consistent, mandatory public notice and approval process should be implemented and sale of COPs should not proceed until completion of that process.

Response: The recommendation has been implemented.

AHC's existing COP was legally defeased in September 2006, through the purchase of US Treasury Securities. With the passage of a general obligation bond in June 2006, additional COPs are not anticipated.

State law requires that a formal resolution to issue COPs be adopted as an action item at a properly noticed, public board meeting subject to the Brown Act. AHC followed these regulations in the issuance of its COPs.

2. All projects funded by COPs should receive the necessary assurances that are demanded of projects funded by General Obligation and Revenue Bonds.

Response: The recommendation has not yet been implemented, as the district does not anticipate issuing an additional COP.

3. The use of COPs should be restricted to short-term projects. Long-term projects should be funded with General Obligation or Revenue Bonds.

Response: The recommendation will not be implemented because it is not reasonable.

With the passage of a general obligation bond in June 2006, additional COPs are not anticipated. However, there could be a need in the future to finance a long-term capital project outside the general obligation bond program. Issuing a revenue bond versus a

COP could result in higher issuance costs for AHC, as using a conduit issuer may be required. The determination of whether to issue a COP or revenue bond in the future is reserved to ensure that the more appropriate and lower cost method is used for every project.

4. COPs should be sold only as needed to fund the specific project for which they were approved, and the funds should not be sold for the sole purpose of earning interest on funds.

Response: The recommendation has been implemented. The existing COP was issued for the purpose of renovating the student center on the Santa Maria Campus and to construct facilities at the Lompoc Valley Center. Proceeds of the sale of the COP were used exclusively for these purposes. Timing of the sale of the COP was developed to meet construction obligations and not for the purpose of earning interest on funds.

5. Any district or government agency within the County that is planning to issue any COPs should give notification to the County government and any affected municipal government.

Response: The recommendation has not yet been implemented, as the district does not anticipate issuing additional COPs in the near future.