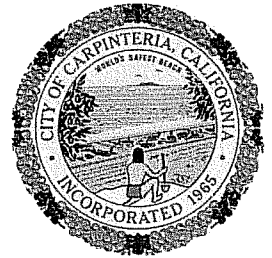


CITY of CARPINTERIA, CALIFORNIA



June 14, 2007

HONORABLE RODNEY S. MELVILLE, PRESIDING JUDGE
SANTA BARBARA COUNTY SUPERIOR COURT
1100 ANACAPA STREET
SANTA BARBARA, CA 93101

Members of the City Council
Michael Ledbetter - Mayor
Gregg Carty – Vice Mayor
J. Bradley Stein
Joe Armendariz
Al Clark

Dear Judge Melville:

During its regular meeting on June 11, 2007 the City Council adopted the following response to the findings and recommendations in the 2006-2007 Grand Jury report entitled “Certificates of Participation in Public Finances, Is More Scrutiny Needed?”

Finding 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 public has several opportunities to comment or learn more about capital projects and their financing. The first is through the annual public hearing on the Capital Improvement Program. At this hearing the City Council approves the Capital Improvement Project list and identifies proposed financing. The second is through City budget hearings each June, where proposed funding for capital projects is considered and approved. The City budget is reviewed at noticed public hearings where members of the community have an opportunity to either express opposition or learn more about the details of capital project financing. Any project proposed to be financed with COP's would also be reviewed at these public meetings. Most capital improvement projects also require a development permit. Development permits are reviewed at noticed public meetings where project financing is also typically disclosed and discussed.

With that said, it is true that there is no legal notice procedure given in law specifically for COP's.

Recommendation 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 will not be implemented because it is not warranted.

As discussed in the response to Finding 1, projects funded by COP's are subject to several publicly noticed meetings as well as the legal requirements for issuance of COP's. This provides for proper and legal notice as well as the opportunity for public involvement.

As noted in our response to Finding 1 the public has at least two opportunities to comment on capital projects and their financing.

Finding 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: (Agree)

The City believes that in its very limited use of COP's, appropriate assurances were provided to taxpayers and/or investors through the process for issuing COP's, and due to the fact that the City relies upon existing revenue, not revenue anticipated from user fees or other potentially volatile revenue sources. The decision by the City to pay for certain capital projects over time rather than all at once is a decision well within the discretion of the City's budgetary authority.

Recommendation 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 will not be implemented because it is not warranted.

Financial risk is inherent to any kind of debt financing and is a part of the discussion of any public capital project.

Finding 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)

General Obligation bonds increase property taxes and this is why they require voter approval. As stated above, the City of Carpinteria has financed the repayment of COPs through existing revenue sources that has not increased property taxes or any fees or charges for services.

This finding seems to suggest that any long-term debt of 20-30 years should require voter approval. Having access to a tool that permits long term financing for capital projects is necessary in order for cities to respond to the service demands of the community in an efficient and timely manner. The City of Carpinteria can see no reason why voter approval should be required for its use of existing revenue sources to repay long term debt associated with capital improvement projects that are subject to a noticed public hearing process and that result in benefits over (and even beyond) the financing period.

Recommendation 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.

Finding 3 asserts, correctly, that maturity terms for COPs are similar to GO bonds but then leaps to the unsound conclusion that COPs are therefore inappropriate substitutes for those bonds. The same 'logic' could be used to conclude that GO bonds are inappropriate substitutes for COPs.

Finding 4:

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

Response: (Disagree)

The City believes that the regulations in existence at the time the City established and refinanced its one COP issuance were sufficient to protect the public interest.

Recommendation 4:

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

Response: In accordance with the recommendation the only COPs issued by the City were issued to fund the specific project for which they were approved. The merits of whether COPs should be issued for the sole purpose of earning interest on the funds would depend on individual circumstances. We believe the regulations concerning arbitrage activities are adequate.

Finding 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)

This statement appears to be factual.

Recommendation 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 will not be implemented because it is not reasonable.

The City does not agree that such notification would serve any additional public purpose beyond the public noticing and review which already would have occurred in the approval process of any capital project(s). The City Council is and should remain the sole party responsible for deciding how such projects are to be financed.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Ledbetter". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Ledbetter
Mayor

cc: Albert Mercado, Foreperson