

June 22, 2007

The Honorable Rodney S. Melville
Santa Barbara County Superior Court
312-M East Cook Street
Santa Maria, CA 93454-5162

Santa Barbara County Civil Grand Jury
Attention: Foreman
1100 Anacapa Street
Santa Barbara, CA 93101

Subject: Response to Findings and Recommendations, Santa Barbara County
Grand Jury Report, "*Certificates of Participation in Public
Finances: Is More Scrutiny Needed?*"

Dear Judge Melville and Civil Grand Jury Foreman,

Montecito Water District (MWD) is responding to the Findings and
Recommendations made in the report entitled *Certificates of Participation in
Public Finances: Is More Scrutiny Needed* received by the District on March 26,
2007.

Please note that the District is not a part of county government or a county
dependent special district as referenced in Penal Code § 925, or an incorporated
city or a joint powers agency as referenced in Penal Code § 925a, or any of the
other types of agencies over which the Grand Jury has been statutorily granted
reviewing authority. However, as a responsible local agency, the governing board
of the Montecito Water District is happy to provide these responses to the Civil
Grand Jury Report.

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.*

District disagrees that this finding applies to Montecito Water District.
Projects funded by MWD's 1998A COP were initially discussed in special
public meetings where public input was solicited. The COP, which
contained a list of funded projects, was approved in public meeting.
Subsequently, there has been an annual review of funded projects at public
meeting.

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.

All applicable necessary assurances to issue a COP have been obtained by the District. District disagrees that this finding applies to Montecito Water District. All “standard assurances” are in place for MWD’s 1998A COP to avoid investor and rate-payer risk.

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.

District disagrees with this finding. Applicable State law does not set maturity term limits, and authorizes payment over time. State and Federal tax rules require that the term match the useful life of the project. MWD’s 1998A COP is part of a long-term infrastructure improvement program, and therefore the 29 year maturity of the COP is appropriate.

Finding #4—

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

District disagrees with this finding. Both State and Federal regulations on the sale of COPs are extensive, as are IRS restrictions on the use of the proceeds of COPs.

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.

District disagrees with this finding. It is difficult to see how a county or city government would be affected by a special district using a COP. However, it is MWD’s practice to distribute agendas and minutes of all Board meetings to local government agencies; these agencies therefore receive notice of all issues, including a COP, to come before the MWD Board, and actions taken by the Board.

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.

This recommendation has been implemented in accordance with the Ralph M. Brown Act. It has been the practice of the District for many years to have a public notice and process as exemplified by the District's 1998 COP public review process.

Recommendation #2—

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

This recommendation has been implemented. For example, the Preliminary Official Statement and the Official Statement are the same as would be required for General Obligation Bonds.

Recommendation #3—

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

All applicable necessary assurances to issue a COP have been implemented by the District. Those assurances applicable to General Obligation and Revenue bonds will not be implemented. It is in the best interest of the customer that capital projects be financed over the life of the projects. General Obligation Bonds require a 2/3 vote, making it possible for 1/3 of the ratepayers to jeopardize the construction of needed, and sometimes government mandated, system improvements for water quality or water reliability.

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.

This recommendation has been implemented. MWD's 1998A COP funds only specific projects. It is illegal to issue bonds or COPs to earn arbitrage interest on the proceeds.

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.

This recommendation has not yet been implemented, but MWD could notify the County and any affected municipal government if we should consider issuing any COPs in the future.

Thank you for the opportunity to comment on the findings and recommendations of the Grand Jury Report.

Sincerely,

Robert L. Roebuck
General Manager