

May 8, 2007

The Honorable Judge Rodney Melville
Superior Court
312-M East Cook Street
Santa Maria, CA 93455-5165

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

Dear Honorable Judge Rodney Melville and
Foreman Santa Barbara Civil Grand Jury:

The following is the response of the Solvang City Council to the Report of the 2006-2007 Santa Barbara County Civil Grand Jury concerning Certificates of Participation. The Solvang City Council appreciates the time and effort that the 2006-2007 Santa Barbara Civil Grand Jury spent in preparing the referenced report.

The City of Solvang has reviewed the report, the findings and the recommendations and has the following responses as required by law:

FINDINGS

Finding 1

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

Response to Finding 1

Solvang disagrees with this finding. This is a highly regulated field of law and has worked well for decades. All such issues have to be on the agenda and the public receives notice of that in several ways as required by law.

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 to Finding 2

Solvang disagrees with this finding. The use of such certificates is highly regulated and the certificates are not issued and sold without extensive review by special bond counsel, the investors, and based upon confirmation by them that all proper steps have taken place.

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 to Finding 3

Solvang does not have sufficient information to agree or disagree with this finding. Solvang is not aware of the practices of other governmental agencies in this regard. The most recent COP for Solvang was issued July 1, 2003 and has a maturity date of July 11 2010. The costs of issuing COPS for such projects is greatly reduced from the costs of General Obligation and Revenue Bonds, thus making them an excellent vehicle where the City Council feels it is appropriate. We do have a representative form of government, and the people express their control of that government at least every two years.

Finding 4

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

Response to Finding 4

This has not been Solvang's experience. The COP process has served Solvang well in the past without any problems.

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 to Finding 5

Solvang is not sure what is meant by this finding. There are no districts or other governmental agencies located in Solvang corporate limits that could affect Solvang interests by issuing COPS.

Likewise, the County of Santa Barbara is not a superior governmental agency to Solvang and is not affected by Solvang in such a way as to require notice and or permission before financing is obtained.

It is possible that this finding is in reference to COP issuance by the School District. The City of Solvang has not suffered from lack of notice of activities by the School District, and as long as the School is acting in its educational capacity, the City of Solvang has no legal authority to control the activities of the School District. The City does receive notice of environmental determinations as required by law and does not see a problem in regards to COP issuances that needs to be addressed.


RECOMMENDATIONS

The recommendations do not relate specifically to Solvang and rather serve more as a call for some action by some other type of governmental agency. While the Solvang City Council does appreciate the concerns expressed by the Grand Jury, and will continue to exercise caution in any financing mechanism it may use in the future, Solvang does not agree that the system in regards to the use of COPs is broken and does intend to implement any of the recommendations. Solvang would note that it is informed and believes that it is illegal arbitrage to borrow money solely for the purpose of earning interest on it and Solvang will continue to refrain from doing so.

CITY OF SOLVANG

DATED: May 14, 2007

BY:



Mayor Kenneth Palmer

