



CITY OF RANCHO SANTA MARGARITA

September 9, 2015

Mayor

Bradley J. McGirr

Mayor Pro Tempore

L. Anthony Beall

Council Members

Carol A. Gamble

Jerry Holloway

Michael Vaughn

City Manager

Jennifer M. Cervantez

The Honorable Glenda Sanders
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Dear Judge Sanders:

The Rancho Santa Margarita Public Financing Authority (PFA) in conjunction with the City of Rancho Santa Margarita has reviewed the Orange County Grand Jury Report entitled, "Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency." As required by Penal Code Section 933.05(a) and (b), the PFA is responding to the applicable findings and recommendations included within the report.

FINDINGS:

F 4: Vertical Joint Powers Authorities with a single controlling entity, such as a city council, have the potential to use this organization structure as a shell company to avoid other legal constraints on the controlling entity and to obfuscate taxpayer visibility.

Response: Based on the data, information and analysis provided by the Grand Jury, the PFA disagrees with this finding. In order to establish the City of Rancho Santa Margarita Public Financing Authority (PFA) and issue the Lease Revenue Refunding Bonds, Series 2012 (2012 Bonds), the City complied with all the necessary requirements set by state law, including but not limited to, the posting of all required notices, held official public hearings, and approved resolutions by the order of the City Council and the Board of Directors of the PFA.

F 5: Vertical Joint Powers Authorities in which the controlling entity transfers assets from itself to a Joint Powers Authority for the purpose of obtaining additional funding, or signs a long-term lease to a Joint Powers Authority to obtain assets, are avoiding transparency and are not acting in the best financial interest of the taxpayers.

Response: Based on the data, information and analysis provided by the Grand Jury, the PFA disagrees with this finding. The PFA followed all the legal requirements pertaining to the establishment of the PFA, the issuance of the 2012 bonds, and all the necessary required public noticing. From there, the PFA has and continues to comply with all the necessary disclosure requirements set by the Lease Revenue Refunding Bond documents by annually completing the Continuing Disclosure Annual Report, the Annual State Controller's Report and performing a fiscal year audit by an outside audit firm in order to produce the City of Rancho Santa Margarita's Comprehensive Annual Financial Report (CAFR), which includes the financial data of the PFA. Furthermore, all actions taken by the PFA have been made in and for the best financial interest of the taxpayers.

F 6: 32 of the Joint Powers Authorities identified in Orange County are not complying with the California State reporting requirements in code Section 6500 and SB 282 according to the latest information available from the year 2013.

Response: Based on the data, information and analysis provided by the Grand Jury, the PFA partially disagrees with this finding. The PFA completes and submits the required annual reports to the State of California. The PFA was not aware of the requirement to send the CAFR to the Orange County Auditor-Controller and will implement this requirement with the FY 2014-15 CAFR and annually thereafter.

RECOMMENDATIONS:

R 3: All Joint Powers Authorities should take the following actions to insure transparency to the taxpayers: (1) have an annual outside audit, (2) post the complete audit on their city website as a separate Joint Powers Authority entity, (3) send the audit to the County Controller and the State Auditor, and (4) ensure the required reports are filed annually to the County and State. (F.4) (F.5)

Response: Each action listed in recommendation R3 will be addressed separately. Recommendation item (1) has been implemented. Rancho Santa Margarita currently contracts with an outside auditor for the City's Annual Financial audit and in conjunction with that audit prepares the required Comprehensive Annual Financial Report (CAFR). Recommendation item (2) will not be implemented. The City's audit includes a complete and thorough review of each of the City's funds, individual transactions, and an audit opinion of the City's financial records, including the Rancho

Santa Margarita Public Financing Authority (PFA), listed separately as the Debt Service Fund. The PFA Debt Service fund is considered a major fund, and therefore, is identified separately in the report and not combined with other funds. Non-Major funds are combined and grouped in one column titled Non-Major Governmental funds in the Fund Financial Statements within the financial report. The PFA is also addressed in each of the required areas within the Notes of the Financial Statements section of the CAFR. The City does post its CAFR, which includes all necessary information regarding the PFA, on the City's website, but it is neither feasible nor practical to provide a separate reporting of the PFA, particularly since the CAFR contains information for both the City and the PFA. However, the City will consider adding language and additional descriptions in specific areas of the CAFR. The City will also add the ability, through the website's search engine, to direct the public to the CAFR when searching for PFA information. Numbers (3) and (4) are also partially implemented. The City sends the CAFR and the State Controller's report for the City's PFA, to the State Auditor-Controller each year by the required due dates. The City was not aware of the requirement to send the CAFR to the Orange County Auditor-Controller and will implement this requirement with the FY 2014-15 CAFR and annually thereafter.

R 4: The 32 Joint Powers Authorities that are not complying with the California State Law requiring annual reporting should become compliant by submitting their 2014 report by December 31, 2015, and submitting the required reports annually thereafter. (F.6)

Response: This recommendation has partially been implemented by Rancho Santa Margarita. The City currently complies with California State Law by annually sending a separate State Controller's report for the PFA by the specified due date as well as the City's Comprehensive Annual Financial Report to the State each year by December 31st. The requirement to send the City's CAFR, which includes the PFA, to the Orange County Auditor-Controller has not yet been implemented, but will be implemented with the FY 2014/15 Comprehensive Annual Financial Report and will continue annually thereafter.

Should you have any questions or need any additional information, please contact Stefanie Turner, Finance Director, at 949-635-1808 or via e-mail at sturner@cityofrsm.org.

Respectfully,

A handwritten signature in blue ink, appearing to be 'B. McGirr', with a long horizontal flourish extending to the right.

Bradley J. McGirr
President
Rancho Santa Margarita Public Financing Authority

Cc: Orange County Grand Jury
700 Civic Center West
Santa Ana, CA 92701