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CITY OF SANTA ANA

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September 22, 2015

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

Re: City of Santa Ana 2014-2015 Orange County Grand Jury Report:
Joint Powers Authorities

Dear Judge Sanders:

Enclosed please find the responses to each of the findings and recommendations as outlined in the above-referenced Grand Jury report.

If you have any questions feel free to contact Francisco Gutierrez, Executive Director at (714) 647-5420 or via email at Fgutierrez@santa-ana.org

Respectfully,

David Cavazos
City Manager

Cc: Miguel Pulido, Mayor
Orange County Grand Jury

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Orange County Grand Jury FY 2014-2015
Orange County Joint Powers, Authorities: Issues of Viability, Control,
Transparency, and Solvency

Findings [Page 13]

Based on its investigation of Joint Power Authorities (“JPA”) for Cities within Orange County (“OC”), the 2014-2015 Grand Jury has arrived at one (1) principal finding for the City of Santa Ana (“City”) and four (4) principal findings for the Santa Ana Financing Authority (“Authority”), as follows:

Findings of the Grand Jury

- F.3.** Orange County has 18 vertical Joint Powers Authorities created by a city along with its redevelopment agency that no longer exists. The Grand Jury determined that these Joint Power Authorities serve no benefit to the public or taxpayer and have the potential for misuse or obfuscation of public funds.

City Response:

City of Santa Ana, Mayor & City Council / Santa Ana Financing Authority:

The City of Santa Ana (“Respondent”) disagrees partially with the finding due to the fact information regarding any Joint Power Authority (“JPA”) is referenced in the City’s Comprehensive Annual Financial Report (“CAFR”). The information included within the CAFR includes but is not limited to the following: debt issued by the entity; debt service payments owed; related footnote disclosures.

Findings of the Grand Jury

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

City Response:

Santa Ana Financing Authority:

The respondent disagrees with this finding. The establishment of the JPA allows for the issuance of debt; however all reporting requirements are required to be completed including but not limited to CAFR, State Controller Reports and continuing bond disclosure requirements as outlined by each debts bond covenants. The preparation and/or filing of these reports on annual basis allows both investors and taxpayers to obtain current information related to JPA and/or related City.

Findings [continued]

Findings of the Grand Jury

- F.5.** Vertical Joint Powers Authorities in which the controlling entity transfers 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.

Santa Ana Financing Authority:

The respondent disagrees with this finding. The establishment of the JPA allows for the issuance of debt; however all reporting requirements are required to be completed including but not limited to CAFR, State Controller Reports and continuing bond disclosure requirements as outlined by each debts bond covenants. The preparation and/or filing of these reports on annual basis allows both investors and taxpayers to obtain current information related to JPA and/or related City.

Findings of the Grand Jury

- 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.

City Response:

Santa Ana Financing Authority:

The respondent disagrees with the finding partially. The City is believes it has complied with the requirements set forth in government code section 6500 and SB 282 however it will compare to existing information already prepared by the City to determine its compliance with the regulation(s). The respondent will provide a response to the Orange County Grand Jury at a future date (within six months from this correspondence) outlining its own analysis related to this finding.

Recommendations [Page 14]

- R.2.** All Vertical Joint Powers Authorities created by a city along with its redevelopment agency should submit the necessary paperwork with the State of California requesting termination of their existence. [F.3]

Recommendations [continued]

City Response:

City of Santa Ana, Mayor & City Council / Santa Ana Financing Authority:

The recommendation requires further analysis by the City regarding the feasibility in submitting the necessary paperwork in order to terminate the existence of a JPA.

The City will provide an update on the feasibility of terminating its JPA within six months of the date of publication of the Grand Jury Report, December 2015.

- 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 the State. [F.4, F.5.]

City Response:

Santa Ana Financing Authority:

The recommendation has been implemented and thus the City believes its met the spirit of the law requiring JPA's to be transparent with external users of its financial information via posting its related City's CAFR which outlines the said information of the referenced JPA.

The recommendation requires further analysis by the City regarding the feasibility in obtaining a separate audit of a JPA. Please note the activities of the JPA are examined and disclosed within the City's CAFR on annual basis along with annual reporting to the State Controller's office of which the County Controller is also provided the report.

- 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]

City Response:

The recommendation has been implemented by the City regarding the feasibility its compliance with the requirements set forth in government code section 6500 and SB 282. The City will conduct further analysis to confirm its compliance with the above referenced code section(s) within six months of the date of publication of the Grand Jury Report, December 2015.