



CITY OF GARDEN GROVE

(714) 741-5100

September 23, 2015

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

RE: Response to Orange County Grand Jury Report, *Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency*

Dear Judge Sanders:

I have reviewed the Orange County Grand Jury Report, *Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency*. On behalf of the Garden Grove Public Financing Authority (GGPFA), I am providing responses to Findings F1 and F3 through F6, and Recommendations R1 through R4, as requested by the Grand Jury.

Response to Findings

F1: *Orange County has nine "inactive" Joint Powers Authorities that have no viable activity, revenue, expenditure, assets, or liabilities. The Grand Jury determined that these Joint Powers Authorities serve no benefit to the public or the taxpayers and have the potential for misuse or obfuscation of public funds.*

The GGPFA disagrees wholly with this finding. The GGPFA has viable use and benefits to the public and taxpayers, and does not misuse or obfuscate public funds.

The GGPFA is a conduit entity used to facilitate debt financing for the City of Garden Grove and related entities. It provides a mechanism for the financing of public capital improvements for members through the purchase by the Authority of obligations of a member pursuant to bond purchase agreements and/or the loan of funds to a member. The GGPFA has enabled the issuance of several outstanding bonds with maturity extending through 2030; as a result, the JPA cannot legally be dissolved. The GGPFA will also be used in the future for other public financing activities.

Bao Nguyen
Mayor

Steven R. Jones
Mayor Pro Tem

Christopher V. Phan
Council Member

Phat Bui
Council Member

Kris Beard
Council Member

F3: *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 Powers Authorities serve no benefit to the public or the taxpayers and have the potential for misuse or obfuscation of public funds.*

The GGPFA disagrees wholly with this finding. The members of the GGPFA are the City of Garden Grove, the Garden Grove Sanitary District, and former Redevelopment Agency whose rights and obligations were assumed by the Successor Redevelopment Agency. Further, the GGPFA still has outstanding bonds and obligations facilitated by the JPA through a maturity date of December 2030.

F4: *Vertical Joint Powers 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.*

The GGPFA disagrees wholly with this finding. The GGPFA is a legally authorized public entity that provides an effective mechanism to issue debt when needed. Moreover, the GGPFA is administered by a Board of Directors at publically noticed and held meetings.

F5: *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.*

The GGPFA disagrees wholly with this finding. The use of the JPA is an efficient and cost effective mechanism of capital financing for the City, its related agencies, and taxpayers. The GGPFA has no information that would support the finding of the Grand Jury that 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.

F6: *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.*

The GGPFA disagrees wholly with this finding. The GGPFA complies with the California State reporting requirements through its reporting in the City of Garden Grove's Comprehensive Annual Financial Report.

Response to Recommendations

R1: *All Orange County Joint Powers Authorities that are "inactive" should submit the official paperwork with the State of California requesting termination of their existence or provide at the next public meeting the justification for continuing the Joint Powers Authority. (F.1.)*

The recommendation will not be implemented because it is not warranted. The GGPFA is active as indicated in the response to F1 above.

R2: *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.)*

The recommendation will not be implemented because it is not warranted. The GGPFA is active as indicated in the response to F3 above.

R3: *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.)*

The recommendation will not be implemented because it is not warranted. The GGPFA financial transactions are included in the annual audit of the City of Garden Grove by an outside auditor and disclosed in the footnotes of the Comprehensive Annual Financial Report (CAFR). The CAFR is posted annually on the City's website and appropriate documentation is sent to the State.

R4: *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.)*

The recommendation has been implemented. The GGPFA believes it is in compliance in the context of submitting its reports through the City's annual CAFR.

Sincerely,



SCOTT C. STILES
General Manager

C: Orange County Grand Jury