September 21, 2015

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

Re: Required Response to Grand Jury Report, “JOINT POWERS AUTHORITIES: ISSUES OF VIABILITY, CONTROL, TRANSPARENCY, AND SOLVENCY”

Dear Presiding Judge Sanders:

On June 22, 2015, the 2014-2015 Orange County Grand Jury released its report on the “Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency.” The report made 4 findings (F3, F4, F5, F6) and 3 recommendations (R2, R3, R4) to which the City of La Habra is required to comment on. Please consider this letter as the City’s official response to these findings and recommendations.

Findings

Finding 3 (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.

Based on the information and documentation provided in the study, the City of La Habra wholly disagrees with the finding of the Grand Jury. When the La Habra Redevelopment Agency (RDA) dissolved in February 2012, the City substituted the La Habra Housing Authority as a member of the La Habra Civic Improvement Authority (JPA). The purpose of the JPA is to issue debt to finance City projects, as needed, for the benefit of the public.
Finding 4 (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.

Based on the data and analysis provided by the Grand Jury, the City of La Habra wholly disagrees with the finding of the Grand Jury. The City’s JPA is a legally permissible public entity that provides an effective mechanism to issue debt when needed. Furthermore, the JPA is administered by a Board of Directors at publically noticed and held meetings.

Finding 5 (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.

Based on the data and analysis presented by the Grand Jury, the City of La Habra wholly disagrees with the finding of the Grand Jury. The City’s JPA is a legally permissible public entity that provides an effective mechanism to issue debt when needed. Furthermore, the JPA is administered by a Board of Directors at publically noticed and held meetings.

Finding 6 (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.

Based on the data and analysis presented by the Grand Jury, the City of La Habra agrees with the finding of the Grand Jury in regard to not submitting the 2013 required report to the County Auditor-Controller; however, we have submitted the 2013 required report to the State controller’s Office.

**Recommendations**

Recommendation 2 (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. The City has replaced its former Redevelopment Agency with the Housing Authority as a member of the JPA. Additionally, the JPA has an outstanding long-term debt obligation (Certificates of Participation) and legally must remain in place until the debt is fully repaid.

Recommendation 3 (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 following recommendations have already been implemented or will be implemented.

(1) The JPA’s financial statements are included in the City’s Comprehensive Annual Financial Report (CAFR) as a separate fund and are being audited annually by an independent external auditor.

(2) The City’s audited CAFR, which contains audited information regarding the JPA, is posted on the City’s website.

(3) The City’s audited CAFR, which contains audited information regarding the JPA, has been submitted to the State Controller’s Office on an annual basis. We are not aware of prior requests by the County Controller to receive a copy of our audited CAFR; however, we will begin submitting annual audited CAFRs in FY 2015-16.

(4) Reports are filed with the State annually and we can provide a report to the County if requested.

Recommendation 4 (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 not yet been implemented. The City will implement the recommendation by submitting the required 2014 reports to both the State and County by December 31, 2015, and submitting the required reports annually thereafter.

Thank you for the opportunity to provide comments on these findings and recommendations related to the Grand Jury Report on “Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency.” Please contact Melvin Shannon, Director of Finance, at (562) 383-4052 if you have any questions.

Sincerely,

Michael Blazey
Mayor, City of La Habra

CC: Orange County Grand Jury