



CAPITAL APPRECIATION BONDS: TICKING TIME BOMBS

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SUMMARY

Capital Appreciation Bonds (CABs) have an innocent-sounding name. A more appropriate name might be “Too-Good-to-be-True Bonds.” CABs are the ultimate ticking time bombs. They are a method of borrowing now and paying back later – much, much later and often at a very high cost.

While most bonds are due in 25 years, some CABs have terms up to 40 years. More troubling is that all CABs, regardless of the length of their term, don’t require any payment (principal or interest) until they are due. During that time, the interest payments continue to accrue and compound, creating massive balloon-type payments at or near the CABs’ maturity dates.

Moreover, CABs create a disconnect between when borrowed money is spent and when (and by whom) it is paid back. The taxpayers who approve these loans are presenting the tab to their children and grandchildren.

Elementary and high school districts, unified school districts, and community college districts issue 98% of California CABs.¹ These CABs can threaten schools’ abilities to borrow in the future, as the massive loan payments will be landing on their doorsteps just when repairs and facility upgrades may be needed.

The 2012-2013 San Mateo County Civil Grand Jury (Grand Jury) investigated the use by school districts within the County of these controversial debt-financing instruments.

San Mateo County (County) school districts currently have 20 outstanding CABs. Three of these CABs fall outside of loan parameters declared prudent by elected officials, school boards, and other Grand Juries in California.

In addition, three bonds issued by the San Mateo Union High School District in 2010 and 2011, in the aggregate amount of \$190,109,353 create a total debt of close to \$1 billion dollars that will come due between 2034 and 2050.

The Grand Jury finds that school districts need to ensure that they follow prudent loan parameters before issuing a CAB. The Grand Jury recommends that school districts within the County develop and adopt prudent loan parameters for issuance of school debt.

¹ http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_0151-0200/ab_182_cfa_20130318_154906_asm_comm.html

GLOSSARY

Bond Types: The following bond types are discussed in this report:

- General Obligation Bonds – this is a general term for bonds backed by the credit and "taxing power" of the issuing jurisdiction rather than the revenue from a specific project.
- Current Interest Bonds (CIBs) – these bonds have a steady, every-six-months schedule of principal and interest that begins when the bond is funded.
- Capital Appreciation Bonds (CABs) – as explained above, these bonds are not due until the end of the bond term, and interest on the bond continues to accrue and compound throughout the life of the bond.

General Obligation (GO) bond issues are either CIBs, CABs, or a combination of the two.

Proposition 39 Limits:² Prior to 2000, voter approval of local bond measures required a 2/3-supermajority vote. In 2000, voters approved Proposition 39 (Prop 39), which provided an option for approval of a local education bond based on a 55% vote rather than a 2/3 vote so long as certain limitations on bonded indebtedness and tax rates were followed. Examples of Prop 39 requirements include³:

Districts	Limit on Bonded Indebtedness	Limit on Tax Rate per Assessed Valuation
Elementary and High School	1.25%	\$30/\$100,000
Unified School	2.50%	\$60/\$100,000
Community College	2.50%	\$25/\$100,000

Education Code Bonds vs. Government Code Bonds:⁴ Pursuant to the Education Code, school districts can issue bonds without the involvement of the County, with bond maturity dates up to 25 years and an interest rate as much as 8%. Under the Government Code, the bonds must be issued by the County Board of Supervisors and may have maturity dates of 40 years with an interest cap of 12%.

² Ibid, pp. 1-2.

³ http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_0151-0200/ab_182_cfa_20130318_154906_asm_comm.html

⁴ http://californiawatch.org/k-12/controversial-school-bonds-create-debt-next-generation-18795?utm_source=FINAL+CaLBOC+REVIEW+Feb+4%2C+2013+-+Issue+41&utm_campaign=Issue+41+FEB+4%2C+2013&utm_medium=archive

BACKGROUND

The Alarm Sounded in California

In May 2011, the Office of the Los Angeles County Treasurer and Tax Collector (LA Treasurer) issued a white paper on the use of CABs by Los Angeles County school districts.⁵ The LA Treasurer stated: "...we wish to highlight a common type of...bond financing that is exceedingly costly for both school districts and for taxpayers...A 40-year CAB [can] generate debt service more than ten times greater than the principal amount of the bonds being issued."⁶ The LA Treasurer recommended "that districts take a conservative approach when issuing GO bonds..." He further warned against financing instruments which "extend the total years of debt service beyond the limits set forth in the...Government Code."

On January 17, 2012, State Treasurer Bill Lockyer and State Superintendent of Public Instruction Chief Tom Torlakson issued a news release, the title of which was "[Lockyer and Torlakson] Caution School Districts Against Issuance of Capital Appreciation Bonds." In it, they call for a moratorium on the issuance of CABs.

In 2012, newspapers began reporting on the use of CABs. The Los Angeles Times frequently wrote about the issue. It interviewed Treasurer Lockyer, who said the following:

CABs kick interest and principal payments 40 years down the line. Property owners who never voted for these bonds will have to pay for them.

and

Property owners -- not the school system -- are likely to be on the hook for bigger tax bills if the agency's revenues can't cover future bond payments.⁷

The New York Times quoted Lockyer as stating:

It's the school district version of printing money. These bonds are bad deals for taxpayers, and they contribute to the general view that the government doesn't spend their money intelligently.

and

The only people these deals benefit are the financial advisers, who have collected millions of dollars helping school districts sell capital appreciation bonds.⁸

Given the controversial nature of CABs, the Grand Jury sought to determine the extent to which school districts within the County were utilizing these debt-financing instruments.

⁵ Op. cit.

⁶ Ibid, p.2

⁷ Risky bonds tie schools to huge debt, Los Angeles Times, November 29, 2012.

⁸ California Schools Finance Upgrades by Making the Next Generation Pay, New York Times, February 9, 2013.

METHODOLOGY

Documents

Interviews

- County Office of Education management
- County Treasurer-Tax Collector management
- County Controller's Office management
- COE school board trustee

DISCUSSION

The ABCs of CABs

The 2008-2009 housing market crash reduced tax revenues, including those meant for education and school facilities. Schools still needed funds for capital projects despite falling tax revenues. CABs had been around for years, but because of their high debt service cost, they were not typically used. Instead, standard CIBs were more common.

CIBs, unlike CABs, must be paid back beginning with the first year, and a steady repayment stream must be maintained. Some school districts were pessimistic about being able to make payments in the short term, so they chose to issue CABs in order to postpone payments until (it was hoped) property values would rebound and tax revenues would increase. The issuance of CABs must receive local school board approval, followed by the approval of the voters.

Outstanding CABs

County school districts currently have 20 outstanding CABs. The total amount borrowed through these CABs was \$553,421,748 and the debt service (compounded interest) is \$1,580,234,305 producing a total debt ratio (the ratio of interest due to amount borrowed) of 2.86. The average term, or length, of these bonds is 26 years. This is close to thirty years, which is an oft-mentioned timeframe for replacing, repairing, or upgrading facilities – in these cases the facilities being financed by the original CABs. This is like having a car loan that is paid at the end of the useful life of the car.

The total amount ultimately due (the amount borrowed plus compounded interest) for these 20 CABs is in excess of \$2 *trillion* dollars (\$2,133,656,053).

Three of the twenty CABs fall outside of prudent loan parameters, where the debt service is greater than four times the amount borrowed, a yardstick used in a recent report issued by the Santa Clara Civil Grand Jury,⁹ and a similar report issued by the San Diego Civil Grand Jury.¹⁰

⁹ http://www.sccourt.org/court_divisions/civil/cgj/2013/SchoolDistrictZeros.pdf

¹⁰ http://www.sdcounty.ca.gov/grandjury/reports/2012-2013/School_District_Dilemma_Bonds_Bondage.pdf

The total amount borrowed for these three CABs was \$64,172,234 and the amount ultimately due is \$426,189,372. Their total debt ratio is 6.64 and their average term is 34 years.¹¹

OUTSTANDING CABs WITH DEBT SERVICE RATIOS GREATER THAN 4:1								
Issue Date	Bond Name/Advisor	Bond Amount	Total Debt Service	Maturity Date	Total Amt. Due at Maturity	CABs	Term	Debt Ratio
1/13/11	Hillsborough GO Bonds 2002C	\$22,680,012	\$149,557,380	2045	\$172,237,391	Y	34	6.6
	Stone & Youngberg LLC							
6/29/00	Laguna Salada 97 Series 2000C	\$6,492,858	\$30,980,000	2030	\$37,472,858	Y	30	4.8
	Piper Jaffray							
7/6/11	SMUHSD Election of 2006 GO BONDS Series 2011A	\$34,999,364	\$245,651,992	2050	\$280,651,356	Y	39	7
	Keygent LLC							
TOTAL		\$64,172,234	\$426,189,372		\$490,361,605			
AVERAGE							34	
TOTAL DEBT RATIO								6.64

The San Mateo Union High School District (SMUHSD), issuer of \$35 million in bonds in the table above, faces a future payment of over \$250 million on those bonds alone.

In addition to the CAB shown in the table above, the SMUHSD has two additional outstanding CABs, which are shown in the following table. These CABs have a debt ratio of 3.9. Ultimately, SMUHSD will pay close to \$1 *billion* (\$932,909,471) for three loans that provided \$190,109,353 in funding. These loans will not begin to be paid off until 2034, when children being born now have already graduated from high school.

¹¹ Appendix A

SAN MATEO UNION HIGH SCHOOL DISTRICT -- OUTSTANDING CABS								
Issue Date	Bond Name /Advisor	Bond Amount	Total Debt Service	Maturity Date	Total Amt. Due at Maturity	C A B S	Term	Debt Ratio
7/6/11	SMUHSD Election	\$34,999,364	\$245,651,992	2050	\$280,651,356	Y	39	7
	of 2006 GO BONDS							
	Series 2011A							
	Keygent LLC							
6/8/11	SMUHSD Election of 2010	\$89,999,989	\$347,079,667	2041	\$437,079,656	Y	30	3.9
	GO Bonds, Series 2011A							
	Keygent LLC							
1/28/2010	SMUHSD SERIES 2010 B	\$65,110,000	\$150,068,460	2034	\$215,178,460	Y	24	2.3
	Election of 2006 GO Bonds							
	Keygent LLC							
TOTAL		\$190,109,353	\$742,800,118		\$932,909,471			
AVERAGE							31	
TOTAL DEBT RATIO								3.9

Sharks in the Water

School districts have outside financial advisers who explain the various financing options available. A southern California school chief business officer lamented the lack of financial expertise that leaves many districts unqualified to navigate complex bond deals – or to do business with high-powered financial advisers...“They’re swimming with the sharks...These are principals and assistant superintendents of curriculum, and they’re being promoted to the role of a chief business officer.”¹²

California removed its flat debt service requirement on long-term bonds in 2009 with the passage of AB 1388. The bill was sponsored by the California Public Securities Association, which lobbies state lawmakers on behalf of financial consultants and underwriters.¹³

With AB 1388 in place, the stage was set for a mortgage-like meltdown: Buy now, kick the payments down the road, and cross your fingers about the future.

And, as noted in the San Francisco Chronicle, “[t]he capital appreciation bond business in California has been lucrative for dozens of private financial advisers, banks and credit rating firms that have charged government entities nearly \$400 million for financial services since 2007, state data show.”¹⁴

A Matter of Transparency

Both state and local county officials bemoan the lack of transparency surrounding CABs at the taxpayer level. Bill Lockyer complains that “...the public has not always been fully informed about the total costs and risks associated with capital appreciation bonds,”¹⁵ and a Southern California official notes that “In most cases, taxpayers don’t know what has gone on,” and while bonds require voter approval, “details of how the money is borrowed is left to district officials.”¹⁶

The Grand Jury found that consolidated information on the use of CABs is scarce within County government. Online searches showed conflicting data from different sources. County Office of Education management stated that school districts are not required to furnish it documentation on CABs. And, because the County Board of Supervisors is not required to review or approve bonds issued under the Education Code, it too does not keep track of CABs. Neither the County Treasurer nor the County Controller tracks CABs. The County Treasurer compiled the figures presented in this report for the Grand Jury at its request. It should be noted that the County Treasurer has taken an interest in CABs issued by school districts and their associated risks in

¹² http://www.sdcounty.ca.gov/grandjury/reports/2012-2013/School_District_Dilemma_Bonds_Bondage.pdf

¹³ Controversial school bonds create ‘debt for the next generation,’ California Watch, January 31, 2013; http://californiawatch.org/k-12/controversial-school-bonds-create-debt-next-generation-18795?utm_source=FINAL+CaLBOC+REVIEW+Feb+4%2C+2013+-+Issue+41&utm_campaign=Issue+41+FEB+4%2C+2013&utm_medium=archive.

¹⁴ <http://www.sfgate.com/education/article/School-districts-pay-dearly-for-bonds-4237868.php>

¹⁵ Assembly Committee on Education, Joan Buchanan, Chair – AB182 (Buchanan and Hueso) – As Amended: March 12, 2013, p.5.

¹⁶ Risky bonds tie schools to huge debt, Los Angeles Times, November 29, 2012.

light of the potential involvement of the County in the school districts' issuance of CABs pursuant to the Government Code.

Pending Legislation

California AB 182¹⁷ was introduced by members Buchanan and Hueso, who were urged to act by San Diego Treasurer, Bill McAllister.¹⁸ The purpose of the bill is to limit the terms and use of CABs. The key elements of the still-pending legislation, as of June 8, 2013, are:

- Removal of the authorization for school districts to issue local GO bonds under the provisions of the Government Code, which is currently permitted. This would prohibit bonds that exceed 25-year terms.
- Bond debt ratios are not to exceed 4:1
- CABs longer than 10 years must contain a callable feature (i.e., can be paid back early or be refinanced) beginning no later than the first 10 years after issuance.
- Potential CAB sales must be identified as such by the school board as an agendized item. The terms and full cost of the bond offering must be disclosed.

FINDINGS

- F1. School districts need to follow prudent loan parameters before issuing a CAB.
- F2. The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.

RECOMMENDATIONS

The Grand Jury recommends that the *San Mateo County Office of Education* do the following:

- R1. Consider issuing a recommendation regarding prudent parameters in the issuance of school bond financing.
- R2. Collect and make available to the public online data on all CABs issued within the County that do not conform to Education Code parameters.

The Grand Jury recommends that *Board of Trustees* of each *County School District* do the following:

- R3. Adopt prudent loan parameters in connection with the issuance of school bond financing.
- R4. Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

¹⁷ Op. cit.

¹⁸ <http://www.sdtreastax.com/docs/assembly-bill-182.pdf>

REQUEST FOR RESPONSES

Pursuant to Penal code section 933.05, the grand jury requests the following to respond to the foregoing Findings and Recommendations referring in each instance to the number thereof:

- San Mateo County Office of Education
- Boards of Trustees of each school district in San Mateo County.

The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury.
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APPENDIX A

San Mateo County School Districts -- Outstanding CABs								
Issue Date	Bond Name/Advisor	Bond Amount	Total Debt Service	CABs	Year Due	Total Amount Due	Term	Debt Ratio
4/17/2008	Burlingame 2007, 2008A	\$18,300,000	\$35,535,859	Y	2032	\$53,835,859	24	1.9
	Backstrom McCarley Berry & Co.							
4/6/2011	Burlingame Elementary SD	\$9,910,000	\$15,718,155	Y	2026	\$25,628,155	15	1.6
	Election of 2007 GO Bonds							
	Series C-2							
	Backstrom McCarley Berry & Co.							
1/13/2011	Hillsborough GO Bonds 2002C	\$22,680,012	\$149,557,380	Y	2045	\$172,237,391	34	6.6
	Stone & Youngberg LLC							
1/14/2004	Jefferson SD 2001, Series 2004	\$20,000,000	\$36,470,779	Y	2024	\$56,470,779	20	1.8
	Kelling, Northcross, & Sutcliffe							
3/5/2009	LaHonda-Pescadero 2006 2009B	\$2,853,582	\$7,939,076	Y	2031	\$10,792,658	22	2.8
	A.M. Peche & Associates LLC							
6/29/2000	Laguna Salada 97 Series 2000C	\$6,492,858	\$30,980,000	Y	2030	\$37,472,858	30	4.8
	Piper Jaffray							

6/18/2008	Menlo Park 2006, 2008 Current	\$9,000,000	\$22,651,250	Y	2040	\$31,651,250	32	2.5
	KNN Public Finance							
6/18/2008	Menlo Park 2006, 2008 Cap App	\$24,264,728	\$91,495,000	Y	2040	\$115,759,728	32	3.8
	KNN Public Finance							
3/31/2011	Millbrae SD 2011 GO Bonds Election of 2008 Series B	\$17,999,527	\$43,224,745	Y	2040	\$61,224,272	29	2.4
	Northcross, Hill, & Ach Inc.							
8/1/1997	Redwood City Elem 1997 A	\$44,000,000	\$91,323,618	Y	2021	\$135,323,618	24	2.1
	Piper Jaffray							
3/31/2005	San Carlos 1997, Series 2005	\$250,000	\$351,528	Y	2024	\$601,528	19	1.4
	Piper Jaffray							
5/11/2006	San Carlos 2005, Series 2006	\$32,818,665	\$52,757,745	Y	2024	\$85,576,410	18	1.6
	Piper Jaffray & Co.							
6/18/2008	San Carlos 2005, Series 2008	\$5,181,332	\$15,601,890	Y	2033	\$20,783,222	25	3.0
	Keygent LLC							
2/9/2005	SMC Comm Coll Dist 2005 B	\$85,545,000	\$96,499,913	Y	2022	\$182,044,913	17	1.1
	Morgan Stanley							
6/8/2011	SMUHSD Election of 2010 GO Bonds	\$89,999,989	\$347,079,667	Y	2041	\$437,079,656	30	3.9
	Series 2011A							
	Keygent LLC							

7/6/2011	San Mateo Union HS District	\$34,999,364	\$245,651,992	Y	2050	\$280,651,356	39	7.0
	Election of 2006 GO BONDS							
	Series 2011A							
	Keygent LLC							
12/1/2005	Sequoia 2004, 2005B	\$45,000,000	\$110,964,401	Y	2035	\$155,964,401	30	2.5
	Northcross, Hill, & Ach Inc							
1/28/2010	SMUHSD SERIES 2010 B	\$65,110,000	\$150,068,460	Y	2034	\$215,178,460	24	2.3
	Election of 2006 GO Bonds							
	Keygent LLC							
4/13/2006	Woodside 2005 Series 2006	\$9,499,999	\$18,588,698	Y	2030	\$28,088,697	24	2.0
	Piper Jaffray							
1/23/2007	Woodside 2007 Rev Bond	\$9,516,693	\$17,774,149	Y	2037	\$27,290,842	30	1.9
	Piper Jaffray							
TOTAL		\$553,421,748	\$1,580,234,305			\$2,133,656,053		2.86
AVERAGE							25.9	

Issued: July 11, 2013



**BURLINGAME
SCHOOL DISTRICT**

BOARD OF TRUSTEES

Michael Barber

Davina Drabkin

Liz Gindraux

Mark G. Intrieri

Gregory Land

**DISTRICT
ADMINISTRATION**

Maggie MacIsaac, Ed.D.
Superintendent

Ken Wyatt, Ph.D.
*Assistant Superintendent,
Administrative Services*

Robert Clark, Ed.D.
*Assistant Superintendent,
Chief Business Official*

Dennis Hills
*Director of Curriculum,
Instruction and Assessment*

1825 Trousdale Drive
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(650) 259-3800

<http://www.bsd.k12.ca.us>

25 September 2013

Timothy A. Johnson
Foreperson, 2012-2013 Grand Jury
Hall of Justice
400 County Center
Redwood City, CA 94063-1655

Dear Foreperson Tim Johnson:

The Burlingame School District is in receipt of the 2012-2013 Grand Jury Report dated July 8, 2013. The topic raised is the use of Capital Appreciation Bonds (CABs) to fund school construction projects.

Regarding the San Mateo County School Districts Outstanding CABs on Appendix A of the Grand Jury Report, the information of the two issues of Burlingame Elementary School District outstanding CABs needs to be corrected.

The first issue listed in the Appendix A "Burlingame Elementary School District, Election of 2007, GO Bonds, Series 2008A" which issued in 4/17/2008 was actually all CIBs (Current Interest Bonds), not CABs (Capital Appreciation Bonds). The total par amount is \$18,300,000, the principal amount still outstanding is \$16,275,000, and the final maturity is 2032.

The second issue listed in Appendix A "Burlingame Elementary School District, Election of 2007 GO Bonds, Series C-2" consists only of CIBs. Election of 2007 GO Bonds, Series C was issued in 4/26/2011. It consists of Series C-1 which is CABs, and Series C-2 as CIBs. **The Series C-1 is CABs serial bonds, maturing from 2021 to 2035, total par amount is \$2,887,486.15.** The total accrued interest at maturity will be \$10,572,513.85, it should be noted that Series C-1 were sold as premium CABs. Therefore, the proceeds were slightly higher at \$3.3 million than the \$2.8 million par amount, thus produced the total debt service ratio of approximately 4.49 (total debt amount at maturity to total amount borrowed). See the Table 1 below for calculation. The main purpose of the District's use of the CABs is that it allowed the District to fully benefit from its \$9.9 million allocation of Qualified School Construction Bonds (QSCBs) authority. Interest on the QSCBs is almost entirely paid by the Federal Government subsidy, a significant benefit to local taxpayers. The terms of the QSCBs were that they must be amortized with a maturity of no longer than 2025. Therefore, the \$9.9 million of QSCBs amortize earlier than the CABs, which mature from 2021 to 2035. The QSCBs allowed BSD to place the CABs at the back end and close out the Measure A bond program authority and eliminated the need for the sale of a Series D, which saved the District's cost of issuance expense.

Table 1. Total Debt Calculation for C-1 and C-2

Series C-1 Par Amount (CABs)	\$2,887,486.15
Accrued Interest at Maturity	\$10,572,513.85
Premium Generated from the Sale of Bonds	\$500,000.00
Total Net Interest	\$10,072,513.85
Total Debt Amount at Maturity	\$12,960,000.00
Series C-1 Debt Service Ratio	4.49
Series C-2 Par Amount (QSCB)	\$9,910,000.00
Total Interest	\$5,808,155.27
Federal Government Subsidy	\$5,338,751.00
Total Net Interest	\$469,404.27
Total Debt Amount at Maturity	\$10,379,404.27
Series C-2 Debt Service Ratio	1.05
Composite Series C Debt Service Ratio	1.82

Findings:

- F1** School districts need to follow prudent loan parameters before issuing a CAB.
- F2** The public would benefit from having one convenient source to consult regarding the details of all CABs issued within one County.

Recommendations:

Based on Recommendations in the Grand Jury Report, we will take the following steps to improve our future bond financing program and add more transparency of our outstanding debt.

- R3.** Adopt prudent loan parameters in connection with the issuance of school bond financing.

District's Response:

Set up debt policy of the District specifying future debt issuance parameters for consideration of the board.

- R4** Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity

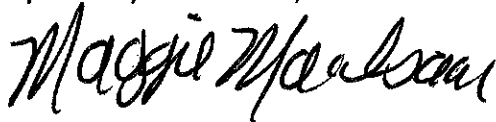
date, interest rate, total debt service, amount due at maturity, and other relevant details.

District's Response:

On the school district's website, we will add links to the official statements of each bond issuance posted on EMMA (Electronic Municipal Market Access, which is an official source for municipal disclosures and market data), enables the public to get access to the full information of each bond issuance, as well as the continuing disclosures and rating updates. The EMMA website information is already publicly available. Adding a link to the site will facilitate access but avoid duplication.

The responses above, along with a copy of the Grand Jury report, were presented to the Board of Trustees at the September 24, 2013 Board meeting for their review and approval.

Respectfully submitted,

A handwritten signature in black ink that reads "Maggie MacIsaac". The signature is written in a cursive, flowing style.

Maggie MacIsaac, Ed.D.
Superintendent



CABRILLO UNIFIED SCHOOL DISTRICT

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SUPERINTENDENT
Tony Roehrick, Ed.D.

GOVERNING BOARD
Michael Ahern
Kate Livingston
Freya McCamant
Robert Pappalardo
Kirk Riemer

September 12, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs"

Dear Hon. Livermore:

The Cabrillo Unified School District's Governing Board responses to the above referenced Grand Jury report are contained below. The Governing Board approved these responses at their September 12, 2013 regular meeting. It is important to note that the Cabrillo Unified School District has issued general obligation bonds. However, the District has not, nor does the District intend, to issue capital appreciation bonds.

Findings:

F1. School districts need to follow prudent loan parameters before issuing a CAB.

The Cabrillo Unified School District Governing Board agrees with the finding.

F2. The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.

The Cabrillo Unified School District Governing Board agrees with the finding.

Recommendations:

R3. Adopt prudent loan parameters in connection with the issuance of school bond financing.

The Cabrillo Unified School District Governing Board has implemented this recommendation. The Governing Board has adopted specific policy to ensure the issuance of any bond is done within a prudent fiscal management strategy. In addition, the District has contracted with legal

and fiscal professional consultants at the time of each prior issuance in order to assure the result protects the public's interest.

- R4. Post on the school district's website basic information on all bonds issues by the district that are outstanding, including date of issuance, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

The Cabrillo Unified School District Governing Board is in the process of implementing this recommendation. Our current web-site system is not fully capable of easily handling the complexity of adding these features within an easy to navigate environment. We are in the process of researching alternatives and expect to have this information accessible on our website by January 1, 2014.

The Governing Board of the Cabrillo Unified School District is pleased to provide this information to the San Mateo Grand Jury. Please feel free to contact me with any additional questions you may have.

Sincerely,



Tony Roehrick, Ed.D.
Superintendent/CUSD Governing Board Secretary

Cabrillo USD

Board Policy

General Obligation Bonds

BP 7214

Facilities

The Governing Board recognizes that school facilities are an essential component of the educational program and that the Board has a responsibility to ensure that the district's facilities needs are met in the most cost-effective manner possible. When the Board determines that it is in the best interest of district students, it may order an election on the question of whether bonds shall be issued for school facilities.

(cf. 1160 - Political Processes)

(cf. 7110 - Facilities Master Plan)

(cf. 7210 - Facilities Financing)

The Board shall determine the appropriate size of the bond in accordance with law.

When any project to be funded by bonds will require state matching funds for any phase of the project, the ballot for the bond measure shall include a statement as specified in Education Code 15122.5, advising voters that, because the project is subject to approval of state matching funds, passage of the bond measure is not a guarantee that the project will be completed. (Education Code 15122.5)

Bonds Requiring 55 Percent Approval by Local Voters

The Board may decide to pursue the authorization and issuance of bonds by approval of 55 percent majority of the voters pursuant to Article 13A, Section 1(b)(3) and Article 16, Section 18(b) of the California Constitution. If two-thirds of the Board agree to such an election, the Board shall vote to adopt a resolution to incur bonded indebtedness if approved by a 55 percent majority of the voters. (Education Code 15266)

The bond election may only be ordered at a primary or general election, a statewide special election, or a regularly scheduled local election at which all of the electors of the school district are entitled to vote. (Education Code 15266)

Bonded indebtedness incurred by the district shall be used only for the following purposes: (California Constitution Article 13A, Section 1(b)(3) and 1(b)(3)(A))

1. The construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities
2. The acquisition or lease of real property for school facilities

The proposition approved by the voters shall include the following accountability requirements: (California Constitution Article 13A, Section 1(b)(3))

1. A requirement that proceeds from the sale of the bonds be used only for the purposes specified in items #1-2 above, and not for any other purposes including teacher and administrative salaries and other school operating expenses
2. A list of specific school facility projects to be funded and certification that the Board has evaluated safety, class size reduction, and information technology needs in developing that list

(cf. 0440 - District Technology Plan)
(cf. 0450 - Comprehensive Safety Plan)
(cf. 6151 - Class Size)
3. A requirement that the Board conduct an annual, independent performance audit to ensure that the funds have been expended only on the specific projects listed
4. A requirement that the Board conduct an annual, independent financial audit of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects

If a district general obligation bond requiring a 55 percent majority is approved by the voters, the Board shall appoint an independent citizens' advisory oversight committee. This committee shall be appointed within 60 days of the date that the Board enters the election results in its minutes pursuant to Education Code 15274. (Education Code 15278)

(cf. 1220 - Citizen Advisory Committees)
(cf. 9324 - Minutes and Recordings)

The Superintendent or designee shall ensure that the annual, independent performance and financial audits conducted pursuant to items #3 and #4 above are issued in accordance with the U.S. Comptroller General's Government Auditing Standards. He/she shall submit the audits to the citizens' oversight committee by March 31 of each year. (Education Code 15286)

Bonds Requiring 66.67 Percent Approval by Local Voters

The Board may decide to pursue the authorization and issuance of bonds by approval of 66.67 percent majority of the voters pursuant to Education Code 15100 and Article 13A, Section 1(b)(2) of the California Constitution. If a majority of the Board agrees to such an election, or upon a petition of the majority of the qualified electors residing in the district, the Board shall adopt a resolution ordering an election on the question of whether to incur bonded indebtedness if approved by a 66.67 percent majority of the voters. (Education Code 15100)

The bond election may be ordered to occur on any Tuesday, except a Tuesday that is a state holiday or the day before or after a state holiday, is within 45 days before or after a statewide

election unless conducted at the same time as the statewide election, or is an established election date pursuant to Elections Code 1000 or 1500. (Education Code 15101)

Bonds shall be sold to raise money for the following purposes: (Education Code 15100)

1. Purchasing school lots
2. Building or purchasing school buildings
3. Making alterations or additions to school building(s) other than as may be necessary for current maintenance, operation, or repairs
4. Repairing, restoring, or rebuilding any school building damaged, injured, or destroyed by fire or other public calamity
5. Supplying school buildings and grounds with furniture, equipment, or necessary apparatus of a permanent nature
6. Permanently improving school grounds
7. Refunding any outstanding valid indebtedness of the district, evidenced by bonds or state school building aid loans
8. Carrying out sewer or drain projects or purposes authorized in Education Code 17577
9. Purchasing school buses with a useful life of at least 20 years
10. Demolishing or razing any school building with the intent to replace it with another school building, whether in the same location or in any other location

Except for refunding any outstanding indebtedness, any of the purposes listed above may be united and voted upon as a single proposition by order of the Board and entered into the minutes. (Education Code 15100)

The Board may appoint a citizens' oversight committee to review and report to the Board and the public as to whether the expenditure of bond revenues complies with the intended purposes of the bond.

Certificate of Results

If the certificate of election results received by the Board shows that the appropriate majority of the voters are in favor of issuing the bonds, the Board shall record that fact in its minutes. The Board shall then certify to the county board of supervisors all proceedings it had in connection with the election results. (Education Code 15124, 15274)

Resolution Regarding Sale of Bonds

Following passage of the bond measure by the appropriate majority of voters, the Board shall pass a resolution to issue the sale of bonds. The resolution shall prescribe the total amount of bonds to be sold and may also prescribe the maximum acceptable interest rate, not to exceed eight percent, and the time(s) when the whole or any part of the principal of the bonds shall be payable, which shall not be more than 25 years from the date of the bonds. However, if the Board elects to issue the bonds pursuant to Government Code 53508, the maximum acceptable interest rate shall not exceed 12 percent and the time(s) when the whole or any part of the principal shall be payable shall not be more than 40 years. (Education Code 15140; Government Code 53508)

Prior to the sale of bonds, the Board shall disclose, as an agenda item at a public meeting, either in the bond issuance resolution or a separate resolution, all of the following information: (Education Code 15146; Government Code 53508.9)

1. Express approval of the method of sale (i.e., competitive, negotiated, or hybrid)
2. Statement of the reasons for the method of sale selected
3. Disclosure of the identity of the bond counsel, and the identities of the bond underwriter and the financial adviser if either or both are utilized for the sale, unless these individuals have not been selected at the time the resolution is adopted, in which case the Board shall disclose their identities at the public meeting occurring after they have been selected
4. Estimates of the costs associated with the bond issuance, including, but not limited to, bond counsel and financial advisor fees, printing costs, rating agency fees, underwriting fees, and other miscellaneous costs and expenses of issuing the bonds

After the sale, the Board shall be presented with the actual issuance cost information and shall disclose that information at the Board's next scheduled meeting. The Board shall ensure that an itemized summary of the costs of the bond sale and all necessary information and reports regarding the sale are submitted to the California Debt and Investment Advisory Commission. (Education Code 15146; Government Code 53509.5)

Bond Anticipation Notes

Whenever the Board determines that it is in the best interest of the district, it may, by resolution, issue a bond anticipation note, on a negotiated or competitive-bid basis, to raise funds that shall be used only for a purpose authorized by a bond that has been approved by the voters of the district in accordance with law. (Education Code 15150)

Payment of principal and interest on any bond anticipation note shall be made at note maturity, not to exceed five years, from the proceeds derived from the sale of the bond in anticipation of which that note was originally issued or from any other source lawfully available for that purpose, including state grants. Interest payments may also be made from such sources. However, interest payments may be made periodically and prior to note maturity from an increased property tax if the following conditions are met: (Education Code 15150)

1. A resolution of the Board authorizes the property tax for that purpose.
2. The principal amount of the bond anticipation note does not exceed the remaining principal amount of the authorized but unissued bonds.

The notes may be issued only if the tax rate levied to pay interest on the notes periodically would not cause the district to exceed the tax rate limitations set forth in Education Code 15268 or 15270, as applicable.

Legal Reference:

EDUCATION CODE

7054 Use of district property, campaign purposes

15100-15254 Bonds for school districts and community college districts

15264-15288 Strict Accountability in Local School Construction Bonds Act of 2000

17577 Sewers and drains

17584.1 Deferred maintenance, reports

47614 Charter school facilities

ELECTIONS CODE

324 General election

328 Local election

341 Primary election

348 Regular election

356 Special election

357 Statewide election

1302 School district election

15372 Elections official certificate

GOVERNMENT CODE

1090-1099 Prohibitions applicable to specified officers

1125-1129 Incompatible activities

8855 California Debt and Investment Advisory Commission

53506-53509.5 General obligation bonds

53580-53595.5 Bonds

54952 Definition of legislative body, Brown Act

CALIFORNIA CONSTITUTION

Article 13A, Section 1 Tax limitation

Article 16, Section 18 Debt limit

COURT DECISIONS

San Lorenzo Valley Community Advocates for Responsible Education v. San Lorenzo Valley Unified School District (2006) 139 Cal.App.4th 1356

ATTORNEY GENERAL OPINIONS

88 Ops.Cal.Atty.Gen. 46 (2005)

87 Ops.Cal.Atty.Gen. 157 (2004)

Management Resources:

CSBA PUBLICATIONS

Bond Sales - Questions and Considerations for Districts, Governance Brief, December 2012

Legal Guidelines: Use of Public Resources for Ballot Measures and Candidates, Fact Sheet, February 2011

WEB SITES

CSBA: <http://www.csba.org>

California Debt and Investment Advisory Commission: <http://www.treasurer.ca.gov/cdiac>

California Department of Education: <http://www.cde.ca.gov>

California Office of Public School Construction: <http://www.opsc.dgs.ca.gov>

Policy CABRILLO UNIFIED SCHOOL DISTRICT

adopted: December 11, 2008 Half Moon Bay, California

revised: May 31, 2012

revised: February 12, 2013

Cabrillo USD

Administrative Regulation

General Obligation Bonds

AR 7214
Facilities

Cautionary Notice: As added and amended by SBX3 4 (Ch. 12, Third Extraordinary Session, Statutes of 2009), ABX4 2 (Ch. 2, Fourth Extraordinary Session, Statutes of 2009), and SB 70 (Ch. 7, Statutes of 2011), Education Code 42605 grants districts flexibility in "Tier 3" categorical programs. The Cabrillo Unified School District has accepted this flexibility and thus is deemed in compliance with the statutory or regulatory program and funding requirements for these programs for the 2008-09 through 2014-15 fiscal years. As a result, the district may temporarily suspend certain provisions of the following policy or regulation that reflect these requirements. For further information, please contact the Superintendent or designee.

Election Notice

Whenever the Governing Board orders an election on the question of whether general obligation bonds shall be issued for school facilities, the Superintendent or designee shall ensure that election notice and ballot requirements comply with Education Code 15120-15126 and 15272, as applicable.

Citizens' Oversight Committee

If a bond is approved under the 55 percent majority threshold pursuant to Proposition 39 (Article 13A, Section 1(b)(3) and Article 16, Section 18(b) of the California Constitution), then the district's citizens' oversight committee shall consist of at least seven members, including, but not limited to: (Education Code 15282)

1. One member active in a business organization representing the business community located within the district
2. One member active in a senior citizens organization
3. One member active in a bona fide taxpayers' organization
4. One member who is a parent/guardian of a child enrolled in the district
5. One member who is a parent/guardian of a district student and is active in a parent-teacher organization, such as the Parent Teacher Association or school site council

(cf. 0420 - School Plans/Site Councils)

(cf. 1220 - Citizen Advisory Committees)

(cf. 1230 - School-Connected Organizations)

Members of the citizens' oversight committee shall be subject to the conflict of interest prohibitions regarding incompatibility of office pursuant to Government Code 1125-1129 and financial interest in contracts pursuant to Government Code 1090-1099. (Education Code 15282)

(cf. 9270 - Conflict of Interest)

No employee, Board member, vendor, contractor, or consultant of the district shall be appointed to the citizens' oversight committee. (Education Code 15282)

Members of the citizens' oversight committee shall serve for a term of two years without compensation and for no more than two consecutive terms. (Education Code 15282)

The purpose of the citizens' oversight committee shall be to inform the public concerning the expenditure of bond revenues. The committee shall actively review and report on the proper expenditure of taxpayers' money for school construction and shall convene to provide oversight for, but not limited to, the following: (Education Code 15278)

1. Ensuring that bond revenues are expended only for the purposes described in Article 13A, Section 1(b)(3) of the California Constitution including the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities
2. Ensuring that, as prohibited by Article 13A, Section 1(b)(3)(A) of the California Constitution, no funds are used for any teacher and administrative salaries or other school operating expenses

In furtherance of its purpose, the committee may engage in any of the following activities: (Education Code 15278)

1. Receiving and reviewing copies of the annual, independent performance and financial audits required by Article 13A, Section 1(b)(3)(C) and (D) of the California Constitution

(cf. 3460 - Financial Reports and Accountability)

2. Inspecting school facilities and grounds to ensure that bond revenues are expended in compliance with the requirements of Article 13(A), Section 1(b)(3) of the California Constitution
3. Receiving and reviewing copies of any deferred maintenance proposals or plans developed by the district, including any reports required by Education Code 17584.1
4. Reviewing efforts by the district to maximize bond revenues by implementing cost-saving measures including, but not limited to, the following:

- a. Mechanisms designed to reduce the costs of professional fees
- b. Mechanisms designed to reduce the costs of site preparation
- c. Recommendations regarding the joint use of core facilities
(cf. 1330.1 - Joint Use Agreements)
- d. Mechanisms designed to reduce costs by incorporating efficiencies in school site design
- e. Recommendations regarding the use of cost-effective and efficient reusable facility plans
(cf. 7110 - Facilities Master Plan)

The district shall, without expending bond funds, provide the citizens' oversight committee with any necessary technical assistance and shall provide administrative assistance in furtherance of the committee's purpose and sufficient resources to publicize the committee's conclusions.
(Education Code 15280)

All citizens' oversight committee proceedings shall be open to the public and noticed in the same manner as proceedings of the Board. Committee meetings shall be subject to the provisions of the Ralph M. Brown Act. (Education Code 15280; Government Code 54952)

(cf. 9320 - Meetings and Notices)

The citizens' oversight committee shall issue regular reports, at least once a year, on the results of its activities. Minutes of the proceedings and all documents received and reports issued shall be a matter of public record and shall be made available on the district's web site. (Education Code 15280)

(cf. 1113 - District and School Web Sites)
(cf. 1340 - Access to District Records)

The citizens' oversight committee shall be disbanded following its review of the final performance and financial audits.

Reports

Within 30 days after the end of each fiscal year, the district shall submit to the County Superintendent of Schools a report concerning any bond election(s) containing the following information: (Education Code 15111)

1. The total amount of the bond issue, bonded indebtedness, or other indebtedness involved
2. The percentage of registered electors who voted at the election

3. The results of the election, with the percentage of votes cast for and against the proposition

Regulation CABRILLO UNIFIED SCHOOL DISTRICT
approved: December 11, 2008 Half Moon Bay, California
revised: February 10, 2011
revised: June 28, 2012
revised: February 12, 2013



SAN MATEO
COUNTY
OFFICE OF
EDUCATION

Anne E. Campbell · County Superintendent of Schools

October 4, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Livermore,

Attached please find the San Mateo County Office of Education's response to the 2012-13 Grand Jury Report entitled "Capital Appreciation Bonds: Ticking Time Bombs."

This response was presented and reviewed by the San Mateo County Board of Education at its October 2, 2013 meeting.

Very truly yours,

Anne E. Campbell
San Mateo County Superintendent of Schools

Encl.

AEC:a



Anne E. Campbell • County Superintendent of Schools

October 4, 2013

The Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Livermore,

The San Mateo County Office of Education (SMCOE) has received and reviewed the 2012-13 Grand Jury Report entitled “Capital Appreciation Bonds: Ticking Time Bombs.” We appreciate the Grand Jury’s interest in the ways in which public schools issue bonds. Together with our colleagues in San Mateo County’s 23 school districts, we share a commitment to ensuring fiscal prudence is practiced and taxpayer interests are protected when bonds are issued.

SMCOE must also register its deep distress at the erroneous and misleading information contained in the Grand Jury’s July 11th report on CAB use by San Mateo County’s local school districts. The data obtained from the San Mateo County Treasurer’s Office by the Grand Jury was inaccurate, and local districts were not contacted to confirm that the information the Grand Jury received was in synch with current bond issuances by individual districts. Examples of inaccurate data included in “Ticking Time Bombs”:

1. The Hillsborough, San Mateo Union High, and Laguna Salada (now Pacifica) School Districts are accused of issuing CABs that “fall outside of prudent loan parameters.” Yet, a closer look at the bond issuances from these districts indicates their loan issuances are within the indicated prudent loan parameters.

For Hillsborough: The debt ratio of 6.6% is incorrect and overinflated. It is calculated from the total amount due at maturity that, for some reason, counts the principal twice; it treats Hillsborough’s 1/13/11 issuance as if it were made up entirely of CABs, which it was not; and it assumes that the CABs would be held until their full maturity whereas the District’s practice has been to refund bonds early.

For San Mateo Union High School District: The Grand Jury lists a variety of bond issuances, incorrectly attributing bonds as CABs when in fact they were other types of financial instruments, including an issuance of 100% current interest bond financing that was a Build America Bond (BAB) subsidized by the federal government, an issuance that was 100% current interest bonds, and issuances that

included Quality School Construction Bonds (QSCBs). Even with the CABs that the District has issued, Measure M has a repayment ratio of 2.64. SMUHSD has made ample use of federal subsidy programs (BABs and QSCBs) as well as refinancing of bonds to gain better interest rates. Every series of bonds SMUHSD has issued has early prepayment provisions so that advantage can be taken of lower interest rates in the future. These facts and the precautions SMUHSD has taken indicate that SMUHSD has been establishing and abiding by prudent loan parameters.

For Laguna Salada (Pacifica): The report states that the District has a debt ratio of 4.8%. While the District Series C does have a debt ratio of 4.77 to 1, the future debt service to principal ratio of the original bond program as a whole was less than 2.70 to 1, well within the 4 to 1 ratio proposed by AB 182. Pacifica does not have any "massive balloon-type payments" as some CAB issuances do.

2. Other districts where the information cited by the Grand Jury is inaccurate include the Millbrae Elementary School District where a CAB issuance of \$17,999,527 is cited, yet only \$2.9 million of that amount included CABs. The Jefferson Elementary School District is cited for having a \$20,000,000 CAB issuance when in reality the District has no outstanding CABs but rather has Capital Interest Bonds (CIBs). The LaHonda Pescadero Unified School District is listed in the Grand Jury Report as having \$2,853,582 in CABs when in reality the 2009B Bond Issuance included \$1,203,582 of CABs with a 22 year maturity, a 2.6 debt ratio and a total debt service of \$3,080,000. Other districts where CABs are incorrectly represented include the Woodside Elementary School District, the Menlo Park City School District, the Sequoia Union High School District, the Redwood City Elementary School District and the San Carlos Elementary School District.

SMCOE respectfully requests the 2013-14 Grand Jury re-open the "Ticking Time Bomb" report to correct the record and accurately represent the bond issuances of San Mateo County school districts. Our school districts have worked exceptionally hard to follow prudent loan parameters as they issue bonds. To assert otherwise does them a grave disservice. The record needs to be corrected.

SMCOE responds to the Grand Jury's findings and recommendations as follows:

FINDINGS

1. *School districts need to follow prudent loan parameters before issuing a CAB.*
The San Mateo County Office of Education agrees that school districts should follow prudent loan parameters before issuing not only CABs but also any other financial instrument.
2. *The public would benefit from having one convenient source to consult regarding the details of all CABS issued within the County.*

The San Mateo County Office of Education agrees that it would be beneficial for the public to have one convenient source to consult regarding the details of CABs issued by school districts within San Mateo County.

RECOMMENDATIONS

1. *Consider issuing a recommendation regarding prudent parameters in the issuance of school bond funding.*

The San Mateo County Office of Education will include recommendations regarding prudent parameters in the issuance of bond funding in the financial advisory letters that are sent to each school district at three different times of the fiscal year during the budget and interim budget approval process. It should be noted that if AB 182 is signed into law, a distinct set of prudent parameters will be established that school districts will have to follow in issuing bonds.

2. *Collect and make available to the public online data on all CABs issued within the County that do not conform to Education Code parameters.*

The San Mateo County Office of Education will explore the feasibility of collecting and making data available to the public on-line regarding bond issuances by local school districts. If posting such a data base on-line is feasible and not cost-prohibitive, then SMCOE will add such a link to its website by March 1, 2014.

It should also be noted that such a website already exists: The Municipal Securities Rulemaking Board – Electronic Municipal Market Access (EMMA) which can be found online at: www.emma.msrb.org.

Please do not hesitate to contact me if you have questions or require additional information.

Very truly yours,



Anne E. Campbell
San Mateo County Superintendent of Schools

AEC:a

BAYSHORE SCHOOL DISTRICT
ONE MARTIN STREET
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ACTING SUPERINTENDENT
AUDRA PITTMAN

September 30, 2013

The Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Livermore,

The Bayshore Elementary School District has received and reviewed the 2012-2013 Grand Jury Report entitled "Capital Appreciation Bonds: Ticking Time Bombs."

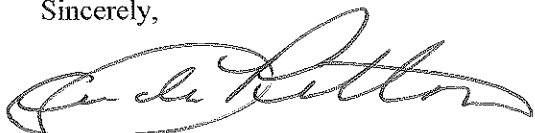
The Bayshore Elementary School District currently has no outstanding bonds therefore are responding only to your recommendations.

RECOMMENDATIONS

1. *Adopt prudent loan parameters in connection with the issuance of school bond financing.*
The Bayshore Elementary School District currently has no outstanding bonds. The Bayshore Elementary School District will adopt prudent loan parameters if and when we proceed with financing through school bonds.
2. *Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.*
The Bayshore Elementary School District currently has no outstanding bonds. Should the Bayshore Elementary School District have bonds issued in the future, the district will post the date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details on the district website.

Please do not hesitate to contact me if you have questions or require additional information.

Sincerely,



Audra Pittman
Acting Superintendent, Bayshore Elementary School District



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SANDPIPER SCHOOL
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Redwood City, CA 94065
650-631-5510

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<http://www.brssd.org>

September 20, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

RE: San Mateo Grand Jury Response to "Capital Appreciation Bonds: Ticking Time Bombs"
Approved by the Belmont-Redwood Shores Board of Trustees on September 19, 2013

The Honorable Judge Livermore,

In response to the Civil Grand Jury's request of July 11, 2013, the following summarizes the District's position on the use of Capital Appreciation Bonds (CABs) as they relate to the sale of General Obligation (GO) Bonds. The District shares the Grand Jury's view that every school district should adopt a clear and transparent process and set of broad policies defining the appropriate use of CABs and documenting the financial terms, including repayment schedules for each District G.O. Bond issuance so that taxpayers can have easy access to them. The District also believes that the Board should discuss and adopt broad guidelines related to the use of CABs prior to each bond authorization as part of the process of providing information and soliciting input from the public. Ultimately, the decision as to whether or not to use CABs is a policy decision with financial implications that is reserved to the Board of Trustees who are accountable to the voters and taxpayers through the democratic process.

That being said, The District has historically made it a practice to discuss the expected terms of each bond sale in public session of the Board of Trustees properly noticed and agendized so that interested members of the public may attend and speak when comments from the public are solicited. And people do come and speak at these meetings. These discussions are in addition to the study sessions and public sessions that have preceded placing each bond on the ballot for voter approval at our District. Following the public session discussions held prior to adopting each resolution that authorizes a bond sale, the District posts a copy of the final official statement – including a clear disclosure of the use of CABs, discounts, bond maturity schedules, debt service schedules, sources and uses of funds, yields and coupons on the Electronic Municipal Market Access (EMMA), the bond industry disclosure depository. The District annually updates information for taxpayers and investors on the EMMA website through the assistance of a third party continuing disclosure consultant.

Having reviewed the Grand Jury recommendations, the District has concluded that its shared objective of full disclosure to the public can be furthered by posting a link on the District's website to the District's information on the EMMA website. With this link in place, the second of the Grand Jury's concerns has been addressed by the District. **The District believes that providing a link to all debt issuance of the District posted on EMMA constitutes implementation of Recommendation Number 2.**

Given that the last remaining authorized G.O. Bond debt of the district was issued last fiscal year, the Grand Jury Recommendation Number One, to adopt prudent parameters for the issuance of school debt, will be implemented as part of a larger discussion engaging public comment at the time that the next bonds are being prepared for placement on the ballot. The District has no plans to place a measure before the voters at this time and expects no further bond sales until additional debt is authorized by a future voter-approved measure. **Because there are no planned bond sales for the foreseeable future, the District intends to postpone the development of policy guidelines related to debt and CABs until a future date when the outcome of California Assembly Bill 182 ("AB 182") is known and the District is able to develop a policy that reflects the economic environment, project selection, legal parameters and voter interest in setting limits on CABs more restrictive than those proposed in AB 182. The District expects to develop those guidelines and/or parameters prior to seeking additional bonding authority from the voters.**

While acknowledging that it will adopt guidelines prior to the next ballot measure for additional bonds, the District wishes to remind the Grand Jury that Capital Appreciation Bonds are a legitimate financial tool that can be used to produce a better financial result for taxpayers under certain circumstances and in certain market conditions. CABs are used by counties, cities, public power agencies, water districts, the State of California and even the U.S. Government in the form of U.S. Savings Bonds. While AB 182 does propose to limit the use of CABs by school districts, it acknowledges their legitimate place among financial tools by leaving them available to all other local governments with no restrictions whatsoever and only limits – not bans -- their use by school districts. The legislature, the governor and other local government officials share our view that CABs are not always or even most often "ticking time bombs" as the Grand Jury information sent to the District characterizes them.

CABs are simply compound interest bonds like U.S. Saving Bonds. The investor who purchases CABs receives all of the interest due at the time his principal is repaid. Because interest compounds rather than being paid, taxpayers do not pay interest every six months and are allowed to keep their own income to invest in retirement accounts, college savings plans or mortgage payments on a house. Provided that the taxpayer earns more than the CAB rate – which is typically at a lower rate than the historical return on stocks and historically close to a home mortgage rate – CABs actually allow taxpayers to keep their own money longer and profit by investing. It is true that compounding means debt service ratios higher than those for bonds that pay interest every six months, but this fails to take into account that the taxpayer has lost use of his funds to make this happen.

It is also important for the Grand Jury to recognize while a CAB may grow to from 5 to 10 times the initial principal borrowed in 40 years, the time value of money – what a dollar will be worth in the future – needs to be considered when weighing the true cost of a 40 year single payment loan. For instance, using historical construction inflation of 5.45%, \$1 of construction will cost \$8.6 in 40 years. For every dollar of unfunded actuarial retirement liability left unfunded, the average retirement plan will owe \$16 in 40 years. Even examples from our own lives such as the price of a ticket to the movies, a candy bar, a soda, bus fare, etc. have all risen by 5 to 10 times over the past 40 years. Gross dollar comparisons of the cost of CABs made in the press treat the burden of paying \$1 in tax today the same as \$1 forty years from now when household income will have tripled or better. While creating sensational headlines, gross dollar cost comparison is bad economics. The real concern with CABs for our District is that CAB interest rates are about .75% to 1.5% higher than current interest bonds which is why we – and other districts – should use them sparingly.

While the District did not utilize CABs in its most recent Belmont SFID bond issuance, CABs were used in the District-wide bond issuance for Ralston Middle School two years ago for the following reasons: 1. Enabled the District to sell bonds in a single issuance saving the taxpayers a second set of costs of issuance approaching \$275,000 in taxpayer savings; 2. Locked in lower interest rates than would be available today if the District were to have sold its bonds in early 2014 as planned; and 3. Allowed the construction projects at Ralston Middle School to be bid in a more economical single package, in a more favorable bidding environment and shortened the number of months the District had to pay for interim student housing and construction management. This means real dollar savings – offsetting the present value cost of the CABs higher interest rates -- to the taxpayers while delivering a completed school to the children of our community in a timelier manner.

Furthermore, the Grand Jury needs to consider that the decision to use CABs is often integrated into bigger decisions about costs separate from interest cost but equally important to taxpayers. Offsetting the higher interest

rate on CABs are often benefits of: 1. Addressing the urgent need to complete facilities to safely house and effectively teach the children of our community; 2. Generating economies of scale by bidding more attractive, larger projects to attract better, stronger bids; 3. Matching local funding timing for eligibility to receive State grants such as the funding recently received by the District from the State Building Program from a pool of funds that is now "out of money" for the foreseeable future; 4. Accessing Federal Programs (such as QZABs, QSCBs or Build America Bonds) that had a two year window under the Stimulus Act and are now no longer available to those districts that postponed their bond issuances; 5. Qualifying for incentive programs such as PG&E solar credits; 6. Increasing ongoing construction cost savings by reducing the number of phases of construction, shortening the length of each phase, reducing the number of months of contractor construction borrowing, lowering costs by shortening the length of contractor bonds and insurance policies, decreasing the number of months of rent paid for District temporary portable classrooms (and/or the total number of temporary classrooms) used when construction is phased to accommodate slower receipt of bond dollars; and 7. Realizing savings from monthly consultants like construction managers and DSA inspectors who charge less when a project's timeline is shortened.

Sometimes the decision to use CABs is about realizing a policy objective. Without CABs, taxpayers in the first 25 to 30 years are likely to bear the full burden for repaying the cost of school facilities – schools that are designed to be more durable than residential or UBC commercial structures that are typically financed or refinanced for 30 years. Because the Field Act standard creates a 50 year shell and a 100 year structure, future taxpayers have a legitimate responsibility to share in the burden of debt service payments for schools built today. Lost in the CABs debate is the legitimate need for each Board to consider the issue of fairness to all taxpayers and the District's duty to endeavor to spread the cost of capital facilities as nearly as possible in a manner that allocates the debt burden to match the full useful life of the facility being financed. State law allows all local governments to finance facilities for 40 years. The Grand Jury needs to allow that modest reductions in overall debt service to address CAB concerns may cause the transfer of the debt burden for paying for school facilities to fall more heavily on one generation than another. Avoiding an unfair distribution of the debt burden is a legitimate counterbalancing concern to interest cost control as it relates to CABs.

Other legitimate policy objectives include maintaining tax rate pledges, level tax rate levies (to the extent possible) and reasonable assessed value growth assumptions over time. Combined, these objectives translate into keeping the District's promise as to keep the tax rate collected as close as possible to the amount included in the Election Pamphlet. These policy considerations and goals related to the tax levy are made significantly more difficult to realize when issuers of bonds over-tighten their debt parameters to restrict the use of tools like CABs and discount bonds. With a community such as Belmont Redwood Shores the only way to spread the burden equitably over a growing tax base over 30 or more years is to defer some of the interest due in the earliest years when the tax base is smallest – otherwise, today's taxpayers bear a disproportionate burden for debt repayment. The main way to defer interest payments in the earliest years is the use of CABs and discount bonds. These discussions as to intergenerational tax equity for long-lived assets like public schools and tax rate integrity and stability should be had by every governing Board prior to placing a bond measure on the ballot and prior to each issuance of a bond. The discussions should not be prevented by the existence of rigid guidelines, outdated parameters or fear of using CABs.

For these reasons, a broad policy statement can often capture the issues associated with CABs while avoiding the expected pitfalls associated with rigid parameters that prevent future boards from acting in the best interest of taxpayers based on the specific circumstances that are unknowable today but will be quantifiable in the future when such decisions actually will be made by the Board at an agendaized open session meeting as a discussion item, action item or over multiple meetings as both. The District wants to be clear that its first duty to the community is to serve its children by providing clean, safe, un-crowded, modern, equitable and state-of-the-art schools so that students can be educated to succeed in a competitive world and learn the skills that our society requires of them as members of a community and as citizens. Interest rates rise and fall. Assessed values grow, plateau and drop. Costs of school construction escalate over time by inflation and by changes in the Field Act and the Uniform Building Code. Like all governments, the District must be creative and flexible in the performance of its duties to the community. And our debt programs, like all of our other programs, need to remain flexible in the service of our mission to children.

The Belmont-Redwood Shores School District expects to be held accountable for the way it balances the demands of its mission against the resources it consumes to deliver one of the region's most successful collection of K-8 public schools. The District relies on its credibility with taxpayers to continue ongoing support for parcel taxes and future bonds that contribute to its reputation. The Board has operated with great care in the past in considering how much, when and in what form its bonds will be issued. We do not believe that the Belmont Redwood Shores has abused the privilege of issuing CABs. Nor do we imagine that most school districts have. With 1,000 school districts in the State, there will be some mistakes and some poor choices but it would be unfortunate if the Grand Jury painted the vast majority of school districts with the same brush used to describe a small number of outlier districts that thoughtlessly or carelessly issued CABs. For our part, we welcome the Grand Jury's recommendations and sincerely hope that the Grand Jury will consider our response and our discussion of the complexity of how CABs are integrated into school district planning and decision-making as part of formulating its future recommendations as they relate, not just to schools, but to all governmental agencies that issue bonds and other forms of debt.

Sincerely,

A handwritten signature in cursive script that reads "Nellie Hungerford".

Nellie Hungerford
Assistant Superintendent of Business Services and Operations

Building Thoughtful Citizens

September 18, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: Response to Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs"

Dear Judge Livermore,

Thank you for the opportunity to review and comment on the findings of the Grand Jury. This letter serves as response from the Brisbane School District to the recommendations found therein.

Findings:

- F1. *School Districts need to follow prudent loan parameters before using a CAB.***
- F2. *The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.***

We are in receipt of your findings and recommendations related to the use of Capital Appreciation Bonds. While we share your concern that some Districts have not used CABs wisely, we think it is a mistake to brand all CABs as "ticking time bombs." We believe that the Grand Jury is aware that CABs are routinely used by the federal government in the form of U.S. Savings Bonds and by cities, counties, special districts and the State as part of their bond issuances. There are legitimate uses for CABs such as: 1. reducing the number of bond issuances to save issuance costs; 2. reducing the cost of interim housing, construction inflation and CM costs by accelerating the pace of construction; 3. maintaining tax rate stability by lowering the assessed value growth rate requirements in down markets; and 4. spreading the cost of capital facility debt service over longer periods of time to avoid over-burdening the current generation of taxpayers by giving a free ride to future generations that ought to share in the cost of facilities that have a useful life of 50 years or more.

We are concerned that the current climate of discussion may cause districts to avoid the use of CABs where such use represents sound public policy. The assertion that CABs are "bad" or "ticking time bombs" has largely been made by public officials, such as county treasurers and the State Treasurer (discussed in the Grand Jury's attached materials), who continue to support the completely unfettered use of CABs for themselves while opposing their use for school districts. We are told that investors,

rating agencies, economists and finance professionals do not share the view, expressed by these elected officials, that many school districts have abused the privilege of issuing CABs. We believe that that rules for CABs should be no more restrictive for school districts than they are for other local governments and that schools should be held to the same standards as cities, counties, special districts and the State.

Having expressed our concerns related to the materials attached to your findings and recommendations, our Board considered your two recommendations related to San Mateo County school districts and reached the following conclusions:

Recommendations by the Grand Jury:

The Grand Jury recommends that Board of Trustees of each County School District do the following:

R3 *Adopt prudent loan parameters in connection with the issuance of school bond financing.*

The District's past practice has been to adopt loan parameters as part of approving bond resolutions each time a bond is sold. The resolutions are properly noticed, available to the public and discussed in open session by the Board where the public is invited to comment. Prior the adoption of the resolutions, our past practice has been to have an information item or study session presented by our advisors at a separate meeting prior to the meeting where the resolution is presented for adoption. We believe this practice has been sufficient to safeguard the interests of the public and the taxpayers and to sunshine the terms of our borrowings to the public.

Realizing that the question of the use of CABs has been raised in recent months, we agree that the Board discussion of loan parameters should include adoption of a parameter on the use of CABs. We believe that the adoption of such parameters should be made in advance of any voter election where debt authorization is being requested and reviewed prior to each bond sale – but not so far in advance of actual bond measures that the policy becomes stale and irrelevant to the issues of greatest concern to the voters, taxpayers and elected officials as debt is being actively considered and issued.

Given that the District has no remaining unissued voter approved debt and has no plans to seek or issue additional debt at this time, we have concluded that it would be in the best interest of the public and the District to postpone the discussion of loan parameters until such a time as the District is ready to consider issuing debt so that the specifics of the projects, repayments sources, legal requirements and community interests can be considered in developing parameters. We will develop parameters prior to placing another bond on the ballot so that they may be considered by the public prior to voting on any future bond.

R4 *Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.*

This data has always been available to the public through the EMMA website where the District has a duty to post an official statement and continuing updates under securities law. The District's information is currently up to date and available to the public for review. In the interest of making this information more convenient to citizens, residents and taxpayers, the District has posted a link on its

website to the EMMA database that will allow interested parties to review the information identified in this recommendation. We believe that adding this link to our website constitutes implementation of the recommendation.

Sincerely,



Toni Presta
Superintendent

CC: Brisbane Board of Trustees
grandjury@sanmateocourt.org (via email)

Board Approval:

This response was hereby approved by the Board of Trustees of the Brisbane School District at the September 18, 2013 board meeting.

300 El Cerrito Avenue • Hillsborough, CA 94010

BOARD OF EDUCATION
MARY ELLEN BENNINGER
GREGORY J. DANNIS
LYNNE ESSELSTEIN
STEVEN KOURY
MARGI POWER

August 22, 2013

SUPERINTENDENT
ANTHONY H. RANII

Hon. Richard C. Livermore
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

To the Honorable Richard C. Livermore:

The purpose of this letter is to respond to the Grand Jury Report "Capital Appreciation Bonds: Ticking Time Bombs" which was filed on July 11, 2013 and received by this district on July 12, 2013. This response was approved by the Hillsborough City School District Board of Trustees on August 21, 2013.

Your report directed agencies to respond to each finding and to each recommendation pertaining to its agency.

FINDINGS:

Finding 1: School districts need to follow prudent loan parameters before issuing a CAB.

We agree with this finding.

Finding 2: The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the county.

We agree with this finding if this "convenient source" is expanded to include the details of all debt, not just CABs, issued within the county.

RECOMMENDATIONS:

Recommendations 1 and 2 are directed to the San Mateo County Office of Education, so no response is provided for these two recommendations.

Recommendation 3: Adopt prudent loan parameters in connection with the issuance of school bond financing.

Though we have always acted prudently and have followed informal parameters in connection with the issuance of school bond financing, formal loan parameters

have not been adopted. This recommendation has not yet been implemented, but will be implemented by June 30, 2014.

Recommendation 4: Post on the school district's website basic information on all bonds issued by the district that are outstanding, including the date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

While this information is publically available in other forms, this recommendation has not yet been implemented. This recommendation will be implemented by December 1, 2013.

In addition, the Hillsborough City School District Board would like to note that the information presented about Hillsborough's GO Bonds 2002C issued on 1/13/11 is erroneous in several ways. The Hillsborough City School District Board of Trustees notes that the methodology of this report did not include inviting testimony from District Trustees or district personnel. District Trustees and personnel devote significant time to the good governance of the District, and we encourage you to reach out to these officials when you have an area of interest related to the schools.

If you need more information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anthony Ranii', with a long horizontal flourish extending to the right.

Anthony Ranii, Superintendent
Hillsborough City School District



Jefferson Elementary School District

Martin Luther King Jr. Education Center
101 Lincoln Ave. • Daly City, CA 94015
(650) 746-2431 • Fax (650) 992-2265
Web Address: www.jsd.k12.ca.us

Governing Board

Shaheed Ali
Marie Brizuela
Rebecca Douglass, Ph.D.
Hans E. Hansen
Joseph Otayde

Superintendent
Bernardo Vidales

September 11, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

RE: Jefferson Elementary School District Comments
2012-13 Grand Jury
Capital Appreciation Bonds: Ticking Time Bombs

Honorable Richard C. Livermore,

The Jefferson Elementary School District Board of Trustees, understands and appreciates the concerns that have recently come to light regarding Capital Appreciation Bonds (CABs). Before responding to your findings, it is important you be informed that though your Appendix A indicates the District has outstanding CABs, this information is not correct. The District has no outstanding CABs. All district bonds are Capital Interest Bonds (CIBs).

Please see the following responses to the findings in your report.

Finding 1

School districts need to follow prudent loan parameters before issuing a CAB.

Recommendation 3

Adopt prudent loan parameters in connection with the issuance of school bond financing.

Response to Finding 1 and Recommendation 3

The District agrees with the finding and the recommendation has been practiced though a formal prudent loan parameters policy has not been adopted. The District will continue to abide by state law including any new adjustments in pending legislation and will consider any guidelines developed by the County Office of Education regarding the development of prudent loan parameters policy before considering the issuance of Capital Appreciation Bonds.

Finding 2

The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.

Recommendation 4

Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

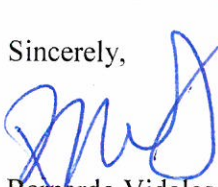
Response to Finding 2 and Recommendation 4

The District agrees with the finding. The recommendation has not yet been implemented. The district will consider any County Office of Education guidelines for consistency of format, content and placement of local bond information on the District website. Again, it should be noted that the District does not currently have any outstanding CABs.

Recommendation 1 and 2 pertain to the County Office of Education and are therefore not included in our response.

This response was approved by the Jefferson Elementary School District Board of Trustees at its regularly scheduled public meeting on September 11, 2013.

Sincerely,



Bernardo Vidales
Superintendent



Jefferson Union High School District

ADMINISTRATIVE OFFICES – SERRAMONTE DEL REY

699 Serramonte Boulevard, Suite 100

Daly City, California 94015-4132

October 2, 2013

The Honorable Richard C. Livermore
Judge of the Superior Court
Hall of Justice
400 County Center
Redwood City, CA 94063-1655

Dear Judge Livermore,

In accordance with the San Mateo County Grand Jury's recent findings and recommendations regarding Capital Appreciation Bonds, the Jefferson Union High School District responds with the following information.

FINDINGS:

- F1. The District agrees with the finding.
- F2. The District agrees with the finding.

RECOMMENDATIONS:

- R3. The recommendation has not yet been implemented, but will be implemented in the future. The district is awaiting the passage of AB182 which will give guidance to districts in establishing prudent loan parameters in connection with the issuance of school bond financing.
- R4. The recommendation has not yet been implemented, but will be implemented in the future. The district will begin posting separately from the audited financial statements already posted on the district's website, the section of the audit that includes all the basic information of the bonds issued by the district that are outstanding.

The Jefferson Union High School District Board of Trustees reviewed these responses during their regular meeting on October 1, 2013.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven R. Fuentes".

Steven R. Fuentes
Associate Superintendent
Business Services



6 LA HONDA-PESCADERO UNIFIED SCHOOL DISTRICT
PO Box 189 • 360 Butano Cut Off, Pescadero, CA 94060
650-879-0286 • FAX 650-879-0816

Amy Wooliever, Superintendent

September 12, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs"

Dear Judge Livermore,

Thank you for the opportunity to review and comment on the findings of the Grand Jury report regarding the La Honda-Pescadero Unified School District use of Capital Appreciation Bonds (CAB). This response was approved by the Board of Trustees on September 12, 2013. While in agreement with the many of the findings of this report, there is concern that errors in the reported information listed on the spreadsheet titled, "San Mateo County School Districts---Outstanding CABS" provide an inaccurate picture of bond financing in our district. Concerns were expressed via e-mail to the Grand Jury prior to public release.

Following are the responses from the district regarding the findings, conclusions and recommendations:

FINDINGS

F1: School Districts need to follow prudent loan parameters before issuing a CAB.
We agree with this finding.

F2: The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.
We agree with this finding but recommend the broadening of the resource to incorporate information regarding all types of bonds, not just CABs.

RECOMMENDATIONS

R1 and R2 require a response from the San Mateo County Office of Education.

R3: Adopt prudent loan parameters in connection with the issuance of school bond funding.
We agree with this recommendation and will adopt prudent loan parameters prior to a future issuance of any bond funding.

Board of Trustees
Andy Wilson, Bob McCahon, Peter Bohacek, Humberto Perez, Connie Sarabia

R4: Post on the school district's website basic information on all bonds issued by the district that are outstanding, including the date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

We agree with this recommendation and will provide this information on our district website prior to January 1, 2014.

The Grand Jury incorrectly reports the total amount CAB funding in LHPUSD and other San Mateo County school districts providing an inaccurate picture of district bond programs. On page 10 of the report, LHPUSD is reported as having \$2,853,582 in CAB's when in reality the 2009B Bond Issuance included \$1,203,582 of CABs with a 22 year maturity, a 2.6 debt ratio and total debt service of \$3,080,000. As a district leader, I am always available to discuss school-related issues with the Grand Jury in order to provide information, context or perspective. A recent LA Times article <http://spreadsheets.latimes.com/capital-appreciation-bonds/> provides more detailed information regarding the use of CABs in our state and our county and I encourage the Grand Jury to review the data presented.

Sincerely,



Amy Wooliever

Superintendent, La Honda-Pescadero Unified School District

Board of Trustees

Andy Wilson, Bob McCahon, Peter Bohacek, Humberto Perez, Connie Sarabia



District Office
1011 Altschul Avenue
Menlo Park, CA 94025
(650) 854-2880

Las Lomas School
299 Alameda de las Pulgas
Atherton, CA 94027
(650) 854-5900

La Entrada School
2200 Sharon Road
Menlo Park, CA 94025
(650) 854-3962

September 3, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Livermore:

This letter responds to the 2012-13 Grand Jury report entitled "Capital Appreciation Bonds: Ticking Time Bombs."

Response to Findings:

Finding 1: School districts need to follow prudent loan parameters before issuing a CAB.

The Las Lomas Elementary School District agrees with this finding.

Finding 2: The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.

The Las Lomas Elementary School District disagrees with this finding. The finding creates an unnecessary process. Each district should retain the ability to select an independent financial advisor. Any advice given is available for public review to ensure that each district is following prudent loan parameters.

Response to Recommendations:

Recommendation 1 and 2: These two recommendations are for the San Mateo County Office of Education and do not apply to the Las Lomas Elementary School District.

Recommendation 3: Adopt prudent Loan parameters in connection with the issuance of school bond financing.

We agree with the recommendation made and will base our loan parameters on the advice of bond counsel and on the advice of an independent financial advisor.

Recommendation 4: Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, a mouny due at maturity, and other relevant details.

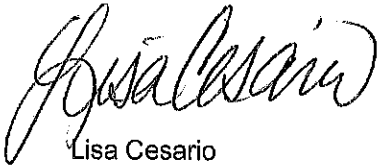
Yes, the Las Lomas Elementary School District will implement this recommendation for any future bond issuance. We do not, at this time, have any bonds to issue.

In addition to the above, the Las Lomas Elementary School District does not appear to be listed in Appendix A of this report as having any outstanding CABs.

We do have \$1,309,346 in outstanding CABS which will mature by July 1, 2015 and we will include this information on our website in a format that is easily accessible to the public.

The Las Lomas Elementary School District's governing board discussed and approved this response at their September 11, 2013 School Board Meeting. Please call me if you require any additional information or if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Lisa Cesario". The signature is written in a cursive style with a large initial "L".

Lisa Cesario
Superintendent, LLESD
lcesario@llesd.org
650-854-2880

Menlo Park City School District

August 20, 2013

It is recommended that the following response is approved for submission to the The San Mateo County Civil Grand Jury in response to their July 13, 2013 report: CAPITAL APPRECIATION BONDS: TICKING TIME BOMBS:

On July 13, 2013, the San Mateo County Civil Grand Jury issued the Report: CAPITAL APPRECIATION BONDS: TICKING TIME BOMBS. The Grand Jury requested that each County School District' governing body (MPCSD Board of Trustees) provide, pursuant to Penal code section 933.05, a response to the following foregoing Findings and Recommendations referring in each instance to the number thereof and that the governing body must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.

R3. Adopt prudent loan parameters in connection with the issuance of school bond financing.

In response to R3, MPCSD will continue to apply prudent loan parameters in connection with the issuance of school bond financing as described by our bond program below:

MPCSD Bond Program

To fund MPCSD's facilities expansion and improvements, our voters have overwhelmingly approved two bond measures: a \$22 million bond measure in 1995 with 82% voter approval (the "1995 Bonds") and a \$91.1 million bond measure in 2006 with 70.6% voter approval (the "2006 Bonds"). MPCSD appreciates our community's support of our previous bond measures. MPCSD will continue to apply prudent loan parameters under current and future legislation in connection with the issuance of school bond financings.

The 1995 Bonds

MPCSD issued the 1995 Bonds in two financings: Series A and Series B were issued in 1996 and 1998, respectively. The 1995 Bonds were issued as 100% current interest bonds. The first payments for Series A and Series B were due in 1997 and 1999, respectively. Overall, the 1995 Bonds have a total debt repayment ratio (the sum of all interest and principal payments divided by the issue amount of the bonds) prior to completed bond refinancing of 1.8 to 1.

The 2006 Bonds

MPCSD issued the 2006 Bonds in three financings: Series 2007, Series 2008, and Series 2010 were issued in 2007, 2008, and 2010, respectively. The 2006 Bonds were issued as 48% current interest bonds and 52% capital/convertible capital appreciation bonds. The first payments for Series 2007, Series 2008, and Series 2010, were due in 2007, 2009 and 2013, respectively. Overall, the 2006 Bonds had a total debt repayment ratio prior to completed bond refinancing of 3.13 to 1

Bond Refinancings

We have saved our taxpayers over \$2.4 million by issuing Refunding Bonds in 2005 and in 2012. MPCSD remains committed to taking advantage of all future taxpayer savings opportunities.

Facts on the Prospective 2013 Bonds

MPCSD will be asking our community for its support for a \$23 million bond measure in November 2013 (the "2013 Bonds"). The proceeds of this measure will be used to re-open the O'Connor Elementary School site and renovate school sites in the District. The 2013 Bonds are expected to be issued in a single series as 100% current interest bonds. The first payment is expected to be due in 2014, and the debt repayment ratio is currently estimated to be 1.73 to 1.

Election of 1995 General Obligation Bonds

	Series A ^{1,2}	Series B ^{2,3}	Total Authorization
Principal	\$ 6,000,000	\$ 16,000,000	\$ 22,000,000
Interest	\$ 5,419,044	\$ 12,163,715	\$ 17,582,759
Total Debt Service	\$ 11,419,044	\$ 28,163,715	\$ 39,582,759
% Current Interest Bonds	100%	100%	100%
% CABs / CCABs	0%	0%	0%
Term (years)	25 Years	25 Years	-
Principal Amortization Period	1997 - 2021	1999 - 2023	-
Callability	Callable	Callable	-
Payback Ratio	1.90x	1.76x	1.80x

Election of 2006 General Obligation Bonds

	Series 2007 ^{1,2}	Series 2008	Series 2010	Total Authorization
Principal	\$ 35,000,000	\$ 33,264,728	\$ 22,835,271	\$ 91,099,999
Interest	\$ 24,575,316	\$ 80,881,522	\$ 88,487,229	\$ 193,944,068
Total Debt Service	\$ 59,575,316	\$ 114,146,250	\$ 111,322,500	\$ 285,044,066
% Current Interest Bonds	100%	27%	0%	48%
% CABs / CCABs	0%	73%	100%	52%
Term (years)	24 Years	35 Years	34 Years	-
Principal Amortization Period	2007 - 2031	2010 - 2043	2013 - 2044	-
Callability	Callable	Callable	Callable	-
Payback Ratio	1.70x	3.43x	4.88x	3.13x

Refinancings

	2005 Refunding³	2012 Refunding¹
Principal	\$ 13,915,000	\$ 31,395,000
Interest	\$ 5,684,884	\$ 17,485,319
Total Debt Service	\$ 19,599,884	\$ 48,880,319
% Current Interest Bonds	100%	100%
% CABs / CCABs	0%	0%
Term (years)	18 Years	19 Years
Principal Amortization Period	2006 - 2023	2013 - 2031
Callability	Callable	Callable
Payback Ratio	1.41x	1.56x

Prospective Election of 2013 Bonds⁴

	Series A	Total Authorization
Principal	\$ 23,000,000	\$ 23,000,000
Interest	\$ 16,700,894	\$ 16,700,894
Total Debt Service	\$ 39,700,894	\$ 39,700,894
% Current Interest Bonds	100%	100%
% CABs / CCABs	0%	0%
Term (years)	24 years	-
Principal Amortization Period	2015 - 2038	-
Callability	Callable	-
Payback Ratio	1.73x	1.73x

¹ The 2012 Refunding Bonds created savings to taxpayers related to the Election of 1995, Series A Bonds and Election of 2006, Series 2007 Bonds.

² Bond has been refinanced to lower debt payments; Bond no longer remain outstanding.

³ The 2005 Refunding Bonds created savings to taxpayers related to the Election of 1995, Series B Bonds.

⁴ All figures below are MPCSD's best estimate given currently known interest rate and assessed value market conditions. Actual results will be presented once the bonds are sold.

R4. Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

MPCSD has published on its website information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details:

<http://district.mpcsd.org/modules/cms/pages.phtml?pageid=298071&sessionid=cab4d6e0a7b7b0652e948d1ecd18b918&sessionid=cab4d6e0a7b7b0652e948d1ecd18b918>

Menlo Park City SD

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f. Approval of District Response to San Mateo County Grand Jury Report (10 minutes)

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Maurice Ghysels, Ed.D., Superintendent

▼ [Recommended Action / Abstract](#)

The District response to the San Mateo County Grand Jury Report regarding "Capital Appreciation Bonds: Ticking Time Bombs" will be presented by Superintendent Ghysels for approval by the Governing Board.

RECOMMENDED ACTION: The Board approves the District response to the San Mateo County Grand Jury Report.

▼ [Supporting Documents](#)



[MPCSD Grand Jury Response 8.20.13](#)

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Motion Made By : Laura Rich.

Motion Seconded By : Jeff Child.

Jeff Child - **Yes**

Terry Thygesen - **Yes**

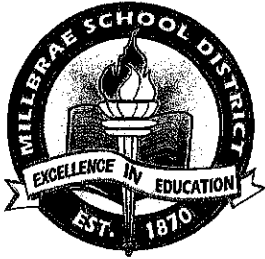
Laura Rich - **Yes**

Maria Hilton - **Yes**

Joan Lambert - **Yes**

[← PREVIOUS ITEM](#)

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Millbrae School District ♦ 555 Richmond Drive ♦ Millbrae, CA 94030
650-697-5693 ♦ 650-697-6865 (fax) ♦ millbraeschooldistrict.org

Linda Chin Luna
Superintendent

Wendy Richard
Chief Business Official

Vahn Phayprasert
Assistant Superintendent
Educational Services

Anita Allardice
Director
Special Education

26 November 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Dresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: Review and Comments on San Mateo County Grand Jury Report
"Grand Jury Capital Appreciation Bonds: Ticking Time Bonds"

To the Honorable Richard C. Livermore,

The San Mateo County Grand Jury Report referenced above has been reviewed.

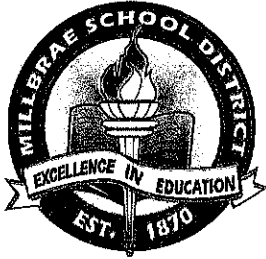
The District is in general agreement with the Grand Jury's primary message: School districts should implement bond programs in ways that are fair to local taxpayers using processes that are open and transparent. Providing our students with the kind of facilities they need and deserve is an expensive proposition. We appreciate that these projects are by and large funded by our local community and we take our responsibility to our taxpayers very seriously.

There are three indications that demonstrate the Millbrae School District's bond program has been prudently implemented.

First, the future debt service to principal ratio in connection with our 2008 Measure X bond program as a whole is less than 2.14 to 1. This is well within the 4 to 1 ratio that is featured in recent proposed legislation on school district bond financings (AB 182). Of the total \$30 million in bonds issued under the 2008 Measure X bond program, only \$2.9 million (or 9.7% of the 2008 Measure X bond program) were comprised of capital appreciation bonds. In fact, a portion of the \$18 million Series B bond that's mentioned in the report is a Qualified School Construction Bond that helped us take advantage of an opportunity to participate in a federal program to attract over \$4.8 million in federal stimulus dollars to lower interest expense for our taxpayers.

Second, we have met our tax rate targets in each and every year of our bond program. State law requires us to estimate the maximum annual tax rate required to support a bond measure at the time of the election and to disclose this information to voters in the ballot material. Although these estimates are non-binding, we take care in meeting them. The estimated maximums we provided in our tax rate statements were \$29.84 per \$100,000 assessed value for 2004 Measure X and \$28.72 for 2011 Measure N. Annual tax rates have never exceeded these estimated maximums for either measure and our projections indicate that they won't in the future.

BOARD OF TRUSTEES
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An Equal Opportunity Employer



Millbrae School District ♦ 555 Richmond Drive ♦ Millbrae, CA 94030
650-697-5693 ♦ 650-697-6865 (fax) ♦ millbraeschooldistrict.org

Linda Chin Luna
Superintendent

Wendy Richard
Chief Business Official

Vahn Phayprasert
Assistant Superintendent
Educational Services

Anita Allardice
Director
Special Education

As other school districts have mentioned, there are some notable errors in the grand jury report. However, we understand the general concern behind the grand jury report and feel that we have been particularly responsible in implementing our bond program. It is very important to us that we implement our bond program in such a way that we continue to receive the generous support of our local community and taxpayers.

In the final report, the San Mateo County Grand Jury recommends that the Board of Trustees of each school district in San Mateo County do the following:

Recommendation R3: Adopt prudent loan parameters in the connection with the issuance of school bond financing.

District Response: The issuance of the District's general obligation bonds has been and will continue to be in compliance with all applicable laws in effect on the date of such issuance. Prudent loan parameters are considered to be the legal requirements at the time of issuance.

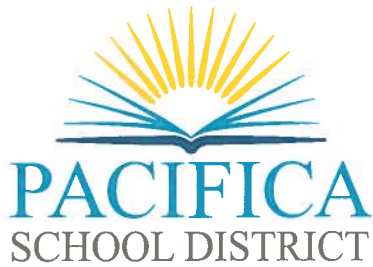
Recommendation R4: Post on the school district's website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due on maturity, and other relevant details.

District Response: The recommendation is reasonable and will be implemented.

The Board of Trustees has discussed this topic at a public meeting and will continue to do so as it issues bonds. Respectfully, it is requested that future Grand Jury reports contain more accurate, researched information prior to publication. The Board of Trustees approved this response at their regularly scheduled meeting on November 25, 2013.

Sincerely,

Linda C. Luna, Superintendent



BOARD OF TRUSTEES

Richard Faust
Andrea Gould
Matthew Levie
Eric Ruchames
Joan Weideman

DISTRICT ADMINISTRATION

Wendy S. Tukloff, Ed.D.
Superintendent
Ray S. Avila, Ed.D.
Associate Superintendent,
Human Resources/Integrated Services
Josephine Peterson
Chief Business Official
Tina Van Raaphorst
Director, Special Projects

ADDRESS

375 Reina del Mar Ave
Pacifica, CA 94044
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F 650.557.9672
www.pacificasd.org

September 20, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs"

Dear Judge Livermore:

Pacifica School District

Approved: September 18, 2013, Public Board of Education Meeting

Pacifica School District agrees that school districts should implement bond programs in ways that are fair to local taxpayers using processes that are open and transparent. Providing our students with the kind of facilities they need and deserve is an expensive proposition. We appreciate that these projects are by and large funded by our local community and we take our responsibility to our taxpayers very seriously.

At Pacifica School District, we have done a good job in this regard. The District's bond program has been prudently implemented:

- Although the District Series C issuance has a debt ratio of 4.77 to 1, the future debt service to principal ratio in connection with our original bond program as a whole was less than 2.70 to 1. This is well within the 4 to 1 ratio that is featured in recent proposed legislation on school district bond financings (AB182). However, future issuances will be looked at on a single issue and not averaged as a whole. We will also be repaying all of our bonds by 2030.
- Our tax rates in connection with our bond program have been relatively level over the last 8 years and our projections indicate that tax rates will continue to be around this range moving forward in the future. There are no "massive balloon-type payments" that will make tax rates spike in our future.
- Pacifica School District completed a \$61 million facilities modernization plan several years ago. Funding came from the \$30 million bond proceeds and proceeds from the sale of two vacant sites. All school sites have state-of-the-art facilities designed for instruction in the 21st century. All projects were completed on budget and on-time.
- Pacifica School District did have a Bond Review Committee comprised of community members who met regularly during the modernization process.

Honorable Judge Richard C. Livermore

Page 2

September 20, 2013

Response to Recommendations:

- I. Pacifica School District will adopt prudent loan parameters in connection with the issuance of school bond financing.
- II. Pacifica School District's website will contain basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.
- III. The Board of Trustees will discuss options for oversight that may include reinstating a Bond Review Committee made up of community members that had been in place during the modernization process.

Sincerely,

A handwritten signature in black ink, appearing to read "Wendy S. Tukloff". The signature is fluid and cursive, with a large loop at the end.

Wendy S. Tukloff, Ed.D.
Superintendent

WST:sr

cc: Pacifica School District Board of Trustees

Portola Valley School District

Ormondale School (K-3) • Corte Madera School (4-8)

Board of Trustees: Caitha Ambler, Jocelyn Swisher, Karen Tate, Linda Wong and William Youstra

Lisa Marie Gonzales, Ed.D., Superintendent

October 8, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

To The Honorable Richard C. Livermore:

In response to the findings and recommendations of the Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs", the Board of Trustees of the Portola Valley School District approved the following comments;

- 1) The Portola Valley School District Board of Trustees agrees with the findings.
- 2) The recommendation has not been implemented, but will be implemented in the future. The Board of Trustees will be presented with a board policy regarding loan parameters as stated in R3 by November 13, 2013. The bond information will be posted on the District's website no later than November 1, 2013.

Respectfully Submitted,



Lisa M. Gonzales, Ed.D., Superintendent

cc: Jocelyn Swisher, President, Board of Trustees
Linda Wong, Clerk, Board of Trustees
Karen Lucian, Administrative Coordinator



"OUR CHILDREN – OUR FUTURE"

Ravenswood City School District

2120 Euclid Avenue, East Palo Alto, California 94303
(650) 329-2800 Fax (650) 322-9454

Board Members:

Ana Maria Pulido, President
Marco Chavez, Vice President
Evelyn Barajas-Luis, Clerk
Sharifa Wilson, Member
Marcelino Lopez, Member

Dr. Gloria M. Hernandez
Superintendent

January 9, 2013

The Honorable Richard c. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Livermore,

The Ravenswood City School District has received and reviewed the 2012-2013 Grand Jury Report entitled "Capital Appreciation Bonds: Ticking Time Bombs."

The Ravenswood City School District currently has no outstanding Capital Appreciation Bonds and is not listed in the Grand Jury Report. Ravenswood City School District is therefore responding only to your recommendations.

RECOMMENDATIONS

1. *Adopt prudent loan parameters in connection with the issuance of school bond financing.*

The recommendation will be implemented. The Ravenswood City School District currently has \$10.8 million in General Obligation Bonds and no outstanding Capital Appreciation Bonds. The Ravenswood City School District will adopt prudent loan parameters in connection with financing through school bonds.

2. *Post on the school district's website basic information on all bonds issued by the district that outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.*

The recommendation has been implemented. The Ravenswood City School District currently has \$10.8 million in General Obligation Bonds and no outstanding Capital Appreciation Bonds. The Ravenswood City School District will post the date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity and other relevant details on the district website.

Please do not hesitate to contact me if you have questions or require additional information

Sincerely,

Dr. Gloria M. Hernandez
Superintendent

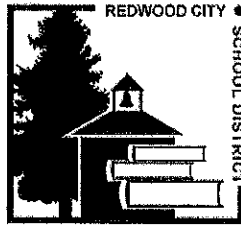
mc

REDWOOD CITY SCHOOL DISTRICT

750 Bradford Street • Redwood City • CA 94063 (650) 423-2200 FAX: (650) 423-2204

Board of Education

Shelly Masur, President
María Díaz-Slocum, Vice President
Dennis McBride, Clerk
Alisa MacAvoy
Hilary Paulson



Superintendent
Jan Christensen

September 30, 2013

The Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charles Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Livermore,

The Redwood City School District (RCSD) has received and reviewed the 2012-13 Grand Jury Report entitled "Capital Appreciation Bonds: Ticking Time Bombs."

At its September 25, 2013 board meeting, the Redwood City School District School Board presented its response to the Grand Jury Report dated July 11, 2013 to the public.

Attached hereto, please find the Redwood City School District's fully executed response to the July 11, 2013 Grand Jury Report.

Respectfully,

A handwritten signature in black ink, appearing to read "Eliana Garcia", written over a faint, larger signature.

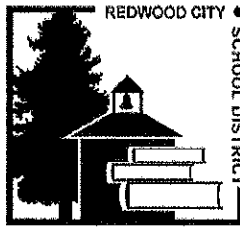
Eliana García
Assistant to the Superintendent

REDWOOD CITY SCHOOL DISTRICT

750 Bradford Street • Redwood City • CA 94063 (650) 423-2200 FAX: (650) 423-2204

Board of Education

Shelly Masur, President
María Díaz-Slocum, Vice President
Dennis McBride, Clerk
Alisa MacAvoy
Hilary Paulson



Superintendent

Jan Christensen

September 30, 2013

Redwood City School District's Response to the July 11, 2013 Grand Jury Report

A report issued on July 11, 2013 by the 2012-13 San Mateo County Civil Grand Jury contains erroneous information about Measure A, a 1997 bond issued by the Redwood City School District (RCSD). The total remaining repayment on RCSD's Measure A is \$48,691,200, not \$135,323,618 as stated in the Grand Jury Report.

\$42,632,418 in principal and interest has already been paid back

RCSD agrees with the Grand Jury Report that the total debt service for Measure A is \$91,323,618. On page 11 of the Report, it appears that the Grand Jury incorrectly added the original bond amount of \$44 million to the total debt service amount of \$91,323,618, which already included that amount. Therefore, the total amount due was \$91,323,618, not \$135,323,618. Out of the total \$91,323,618 due, \$42,632,418 in principal and interest has already been paid back.

Measure A will be completely paid off by 2022

Over the next 9 years, RCSD will pay the remaining balance of \$48,691,200 and Measure A will be completely repaid by 2022. (see chart below) The current payback ratio on the borrowed amount is 2.02, very similar to the ratio paid by an average homeowner on a 30-year mortgage. Repaying a major facility project over 25-30 years is standard procedure for any

**1997
General
Obligation
Bond
(Measure
A)**

Issue	Date Issued	Final Maturity	Original Principal Issued	Original Total Interest Cost (%)	Currently Outstanding Principal	Remaining Repayment (Principal & Interest)	Payback Ratio of Remaining Debt
1997 Current Interest Bond (CIB)	8/1/97	8/1/16	\$34,970,000		\$15,050,000	\$17,076,200	1.13
1997 Capital Appreciation Bond (CAB)	8/1/97	8/1/22	9,025,195		9,025,195	31,615,000	3.50
			43,995,195	5.32%	24,075,195	48,691,200	2.02

business or public enterprise. The district's 1997 bonds will be fully repaid within 25 years of the original issuance; the community will be using these facilities for many years beyond that.

Combining 25-year CIB and CAB bonds kept tax rates low

Voters approved Measure A, a \$44 million General Obligation Bond, in 1997. At the time of the election, the District made a commitment to voters to build and renovate facilities and to keep tax rates at or below \$30 per \$100,000 of assessed values. Using a combination of 25-year Current Interest Bonds (CIB) and 25-year Capital Appreciation Bonds (CAB) enabled RCSD to keep the tax rate at or below \$30 per \$100,000 of assessed value, and complete the projects promised to voters. RCSD issued \$34,970,000 of Current Interest Bonds (CIB) and \$9,025,195 of Capital Appreciation Bonds (CAB). The district began making payments immediately on Measure A in 1998, and has paid interest and principal annually on the debt since that time. The final payment for Measure A will be made in 2022, as promised to voters in 1997.

Combining CIBs and CABs is a common practice that allows school districts to structure payments in a way that keeps the tax rate down for property owners. RCSD used a CAB for \$9 million of its \$44 million General Obligation Bond so that it could delay paying off part of the

bond, while it made regularly scheduled payments on the CIB, thus keeping the tax rate lower for individual property owners.

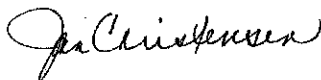
½ percent difference between CIB and CAB in 1997

Local school boards are responsible for structuring the loan parameters to ensure that total debt service does not exceed the district and community's ability to pay off the loan. In the case of RCSD, in 1997 the interest rate for the \$9 million CAB was only 1/2 percent higher than the \$35 million CIB over 25 years. The RCSD School Board of Trustees voted to approve the bond issuance in 1997, and the District has made every payment on time.

The Redwood City School District has followed prudent loan parameters so that the community can invest in safe, modern and attractive neighborhood schools without incurring significant financial risk.

The RCSD has posted the repayment status of all outstanding bonds on the district website: <http://www.rcsd.k12.ca.us/Page/4483>.

Sincerely,



Jan Christensen
Redwood City School District Superintendent

BOARD OF TRUSTEES

Jennifer Blanco
Patrick J. Flynn
Kevin J. Martinez
James R. Prescott
Henry Sanchez, M.D.



ADMINISTRATION

David E. Hutt, Ed.D.
Superintendent

Steven J. Eichman
Chief Business Officer

Ellen Merritt
Director of Student Services and
Special Education

September 12, 2013

The Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063

Re: Your letter of July 11, 2013

Dear Judge Livermore:

In your letter of July 11, 2013, you requested a response to the San Mateo Grand Jury's findings and recommendations in their report of July 11, 2013 concerning "Capital Appreciation Bonds."

Enclosed with this letter is our response.

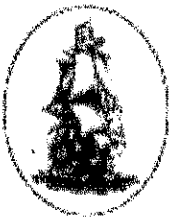
We agree with the findings. The San Bruno park School District has not used the cited approach to address the significant fiscal shortfall of revenue. Additionally, we indicate to you that the San Bruno Park School District has not, and does not consider the use of Capital Appreciation Bonds (CAB) to be a practical and prudent fiscal "tool." We do have a serial CAB Bond, but none of the series exceeded the debt ratio of 1.9%

If you have additional questions or comments, feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. E. Hutt', is written over a large, light-colored scribble or mark.

David E. Hutt, Ed.D.
Superintendent



SAN CARLOS SCHOOL DISTRICT

Craig Baker, Ed.D., Superintendent
Robert Porter, Chief Operations Officer
Mary Jude Doerpinghaus, Assistant Superintendent

1200 Industrial Road, Unit 9
San Carlos, CA 94070
Voice: (650) 508-7333
Fax: (650) 508-7340
www.sancarlos.k12.ca.us

October 3, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs"

On August 29, 2013, the Governing Board ("Board") of the San Carlos School District ("SCSD") in its regularly scheduled public meeting discussed and agreed on the following response to the above referenced Grand Jury report ("Report").

Response:

We find the Report issued on July 11, 2013 by the 2012-13 San Mateo County Civil Grand Jury ("Grand Jury") to be seriously flawed in that:

- a. Contains erroneous information about bonds issued by the SCSD;
- b. Disregards basic principles of finance and time value of money;
- c. Ignores existing restrictions on school bond finance programs, particularly Proposition 39 bonds;
- d. Ignores the reality with respect to the usable life of school facilities;
- e. Ignores use of different bond forms in context of a larger portfolio of issuances;
- f. Implies one-size-fits all solutions for different and unique circumstances and markets

These errors and omissions cast doubt as to the integrity and factual due diligence applied to the Report. Its resulting findings and Report issued is a disservice to the public interest. The Grand Jury has contributed to the misunderstanding of the public and many policy makers as well as stoked unnecessary fear and doubt in responsible public agencies. Such irresponsible reports like this promote legislation that would actually harm both school districts and taxpayers. We ask that the Grand Jury withdraw its Report and restart its investigation, taking into account all available facts as well as leverage both experts in finance, as well as experts and elected representatives from public agencies.

Factual Errors:

GO Bonds, Election 1997 Series 2005

The Report states that SCSD issued \$250,000 in capital appreciation bonds ("CABs") on 3/31/2005. In fact this issuance was entirely current interest bonds and issued on 4/14/2005. The total amount of repayment is \$351,528, not \$601,528. The Grand Jury added principal plus debt service (which includes principal plus interest). Thus the total amount due at maturity was overstated by \$250,000. In addition, the Report states that the year due is 2024 for a term of 19 years when in fact the year due is 2025 for a term of 21 years. It should also be noted that the header of the Report's table in Appendix A states "Year Due." Along with other narrative statements in the Report, the Report seems to imply that CABs are not paid until the end of the bond term. In SCSD's case, debt service is paid down prior to the end of the bond term as opposed to a single principal and interest payment made at the end of the bond term.

GO Bonds, Election 2005 Series 2006

SCSD issued \$32,818,665 in bonds on 5/11/2006, and the Grand Jury implies the entire issue was composed of CABs; yet only \$4,318,665 (13.2%) of these bonds were CABs. The total amount of repayment is \$63,605,913, not \$85,576,410. Again, the principal amount was double-counted and overstated by \$32,818,665. The final payment date is 10/1/2030, not 2024; term is 25 years, not 18 years and repayment ratio is 1.94 to 1, not 1.6 to 1.

GO Bonds, Election 2005 Series 2008

SCSD issued \$5,181,332 on 7/1/2008, not 6/18/2008, of which \$4,036,332 (77.9%) of these bonds were CABs. The total amount of repayment is \$15,601,890, not \$20,783,222. Again, principal amount was double counted and overstated by \$5,181,332.

A total of \$8,354,997 was issued in CABs of the \$38,000,000 voter approved GO Bonds Election 2005, representing about 22% of the authorization. The authorization as a whole had a repayment ratio of 2.08 to 1.

Response to Findings:

Findings F1: School Districts need to follow prudent loan parameters before issuing CABs.

Response: Certainly school districts should follow prudent loan parameters before issuing any form of public or private debt. It is important to note that Proposition 39 bonds already have taxpayer protection in that there is a tax rate limit for each elementary school district bond election, equal to \$30 per year per \$100,000 of assessed value. This limit already protects taxpayers. However, the Board agrees with this finding and notes that CABs often comprise a portion of a district's bond program in order to keep tax rates at or below this \$30 limit. SCSD has prudently employed the use of CABs to preserve the capacity of its bond programs and pays close attention to their term to maturity and debt ratio. The Report makes no mention how districts establish bond programs to layer in repayment schedules to create level tax burdens, which typically are of shorter duration than the life of the facilities being built. As stated earlier in this response, the Report also seems to imply that all CABs are paid at the end of a bond financing. This is not always the case and as an example, SCSD's \$4,318,665 in CABs are paid off annually from 2008 through 2019, as opposed to all being due in 2019.

Findings F2: The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County

Response: The Board disagrees with this finding. Given that all bond issuances only affect the residents within such district's jurisdiction, there is no particular value to a singular source of information. Bond issuances in one jurisdiction have no effect on residents in another district, so such information would be irrelevant. Such responsibility should rest -- and does rest -- with individual governmental agencies. As an elected body charged with the governance of the SCSD, the Board has a fiduciary responsibility to see that the District employs prudent judgment in all fiscal affairs and holds District administration accountable for such.

In regards to bond programs, SCSD (a) seeks and obtains financial advice from experts within the financial field; (b) bifurcates responsibilities between financial advisors and bond underwriters, and; (c) has citizen oversight committees for all bond programs. The San Mateo County Treasurer was also consulted in the District's most recent bond financing issuance.

Response to Recommendations:

R3. Adopt prudent loan parameters in connection with the issuance of school bond financing

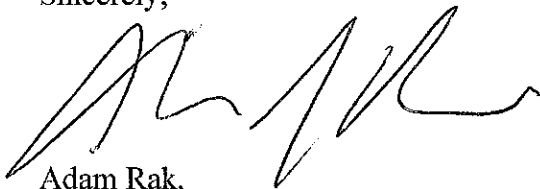
Response: The Board agrees with this recommendation, has adopted parameters in the past, but has also requested staff to return with a draft of such updated parameters and implementation by January 11, 2014.

R4. Post on the school district's website basic information on all bonds issued by the district that are outstanding, including the date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

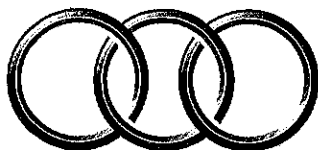
Response: The Board agrees with this recommendation and this will be implemented by January 11, 2014.

The Board would also like to comment that considerable staff time has been spent on reviewing the Report. Although perhaps well intentioned, the Report's significant factual errors, omissions, and inflammatory verbiage caused media inquiries that further burdened staff resources. Much of this could have been reduced or eliminated if the Grand Jury exercised greater due diligence in its investigation. Not one school district Superintendent, Business Officer or Trustee from SCSD much less within the County was interviewed. Given the importance of this topic, we are extremely disappointed that the Grand Jury did not employ more assiduousness in truly researching, understanding, and analyzing all of the issues involved.

Sincerely,



Adam Rak,
Acting President, Governing Board of the San Carlos School District



September 12, 2013

Honorable Richard Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

To the Honorable Judge Livermore,

In response to the Grand Jury report titled "Capital Appreciation Bonds: Ticking Time Bombs," there are several statements in the Report on which the San Mateo County Community College District (SMCCCD) would like to comment. First, the report states that "CABs [Capital Appreciation Bonds] had been around for years, but because of their high debt service cost, they were not typically used. Instead, standard CIBs [Current Interest Bonds] were more common." While CIBs were and are a more common financing tool used by tax-exempt debt issuers, CABs have been used routinely for many years by all types of issuers.

In fact, an issuer that needs to finance a bond payback with a defined revenue stream (like projected property taxes based upon an assumed constant tax rate levy and assessed valuation that is estimated to grow over a long period of time) may need to use CABs if it cannot leverage the revenue stream solely with CIBs. For example, many school districts, including SMCCCD, prefer to use a constant property tax levy and assume some level of annual assessed valuation (AV) growth that will drive the property tax revenue stream to repay general obligation bonds over time. Because CIBs have a fixed coupon payment that is typically paid semi-annually, at some level of escalation (assuming a reasonable coupon) an issuer will not be able to structure debt service to match an escalating revenue stream because the interest required to be paid on the CIBs will utilize all of the revenue projected to be available. For example assuming, over a 30 year period, that a revenue stream grows by only 2.3% annually, an issuer would not be able to efficiently structure debt service to escalate at the same rate without the use of CABs. In the case of GO Bonds, where most issuers prefer to assume a conservatively estimated constant tax rate over time (and use that figure on a tax rate statement provided to voters), without CABs, an issuer may have to assume a changing tax rate over time if a reasonable assessed value escalation rate is assumed, which is nearly impossible to do accurately.

While some school district issuers may have turned to CABs because steep property value declines pushed their tax rates to levels at or above their tax rate statement or statutory limits, and hence used CABs (back loaded after other debt service) to continue funding projects, SMCCCD has never been in that position. Rather, SMCCCD has used CABs simply as a structuring mechanism to achieve a certain debt service escalation rate (e.g., 4% annual growth) and thus achieve a more level tax rate, which is beneficial, in our view, to tax payers.

Honorable Richard Livermore
September 12, 2013
Page 2

The report states that financing projects with CABs is similar to making payments only at or near the end of a project's useful life. This statement fails to recognize that CABs are typically used to fund only a portion of a project or projects. CIBs and CABS are most typically used together to achieve some specific finance structuring result, and while CABs may be sold in certain maturities, an issuer may be making CIB payments prior to or after a CAB matures. A GO Bond authorization is more accurately viewed in its entirety, and typically an issuer sells multiple GO bond series during the course of an authorization. By isolating only the CABs sold to fund a portion of an authorization, or one issue for that matter, the report ignores the overall financing efficiency of a financing program that includes CABs.

Finally, the report discusses San Mateo County school district GO bonds issues and states that "Three of the twenty CABs fall outside of prudent loan parameters, where the debt service is greater than four times the amount borrowed," citing reports by Santa Clara and San Diego grand juries that used that metric. In the current interest rate environment, debt service that is greater than four times the amount borrowed would not be prudent; however, this result could also be generated in high interest rate environments for long-dated CIBs. Similarly in an inverted yield curve environment, CABs could theoretically produce a lower ratio than CIBs.

Recommendations:

R3: The San Mateo County Community College District agrees with this recommendation. The District is adding the following to its policy on Bond Oversight Committee and Accountability Measures:

"When issuing or refinancing general obligation bonds, staff will evaluate multiple financing options, review them with the Board and make decisions based upon the District's specific financing objectives."

R4: The District agrees with this recommendation. Information about SMCCCD's bonds is available as part of the District's annual audit and is posted publicly at:
<http://www.smccd.edu/accounts/smccd/financialservices/auditreports.php>.

This response was approved by the Board of Trustees of the San Mateo County Community College District at its public meeting on September 11, 2013.

Sincerely,



Karen Schwarz
President, Board of Trustees



San Mateo-Foster City School District

October 3, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Dresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: Review and Comments on San Mateo County Grand Jury Report
“Grand Jury Capital Appreciation Bonds: Ticking Time Bonds”

To the Honorable Richard C. Livermore,

The July 11, 2013 San Mateo County Grand Jury Report referenced above has been reviewed. In the final report, the San Mateo County Grand Jury recommends that the Board of Trustees of each school district in San Mateo County do the following:

Recommendation R3:

“Adopt prudent loan parameters in the connection with the issuance of school bond financing.”

District Response:

The issuance of the District’s general obligation bonds will be in compliance with all applicable laws in effect on the date of such issuance. Prudent loan parameters are considered to be the legal requirements at the time of issuance.


Recommendation R4:

“Post on the school district’s website basic information on all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due on maturity, and other relevant details.”

District Response:

The recommendation is reasonable and will be implemented.

The Board of Trustees has discussed these topics at public meetings and will continue to do so as it issues bonds. The Board of Trustees approved this response at their regularly scheduled meeting on October 3, 2013.

Sincerely,

Cynthia S. Simms, Ph.D.
Superintendent

cc: San Mateo-Foster City School District Board of Trustees
grandjury@sanmateocourt.org

Board of Trustees:
Julie S. Chan
Lory Lorimer Lawson
Audrey Ng
Colleen Sullivan
Ellen Mallory Ulrich

Superintendent:
Cynthia S. Simms, Ph.D.

1170 Chess Drive
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San Mateo Union High School District

Scott Laurence, Superintendent

Elizabeth McManus, Deputy Superintendent Business Services

Kirk Black, Ed.D., Associate Supt. Human Resources & Admin. Services

Andy Parsons, Ed.D., Associate Supt. Instructional Services



September 12, 2013

**To: Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655**

Re: Grand Jury Report "Capital Appreciation Bonds: Ticking Time Bombs"

The July 11, 2013, Grand Jury's "Report on Capital Appreciation Bonds: Ticking Time Bombs" is a poorly researched and sensationalistic report, riddled with errors and inaccuracies. Clearly, from the onset the Grand Jury did not comprehend the mechanics of General Obligations Bonds, and specifically, Capital Appreciation Bonds (CABs). One example among many is the Grand Jury's characterization of CABs as having "massive balloon payments" due only in later years. For the record, although the start of payments or interest may be deferred, school districts typically amortize these bonds over many years, not in single balloon payments. The bonds typically include maturities of current interest bonds.

In addition, we are dismayed and alarmed that the Grand Jury acted so irresponsibly in never contacting any of the entities in question, reviewing their source documents, or interviewing members of their finance departments. With this input, the Grand Jury would have understood the rationale behind CABs and their specific bond structures, which would have allowed the Grand Jury to provide accurate information and analysis to the community. Without this data, the Grand Jury has instead produced a report with useless, incorrect, and meaningless conclusions leading to flawed recommendations.

Further, the report was provided to the District with only one day notice prior to its release. Nevertheless, we sounded the alarm loudly and vigorously about the inaccuracies and misrepresentations in the report. The Grand Jury chose to ignore the errors, which completely compromised the integrity of the report and was an enormous disservice to the community. Moreover, the Grand Jury, with the release of this poorly researched and defective report, has recklessly impugned the reputations of many highly respected and responsible organizations, their Boards of Trustees, and staff.

The District is taking this opportunity to correct errors and inaccuracies in the report so the community has accurate information regarding its bond program. The Board of Trustees has been and will continue to be careful stewards of the District's bond financings and the taxpayers' funds.

Bond finance is complex, but the Grand Jury made no attempt to explain to taxpayers even the most basic elements that public officials must consider when undertaking capital projects that taxpayers have approved at the ballot box. As with any financing over multiple years, interest must be paid on the amount borrowed. In

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addition, elected Boards of Trustees must consider the tax rate to be charged to property owners to meet these interest costs. Put in a more simplistic, but somewhat analogous context, the interest paid on a 15-year home mortgage is significantly less than the interest paid on a 30-year term, but the monthly payments on the 15-year mortgage are significantly higher. School district Boards of Trustees and City Councils balance these elements of length of financing term and payments, sometimes making difficult choices, in structuring bond finance packages. The Grand Jury completely ignored this essential balancing in its report.

The report states on page 1 that the District issued three CABs in 2010 and 2011 in the aggregate principal amount of \$190,109,353, creating a “total debt service of close to \$1 billion dollars that will come due between 2034 and 2050”; that is egregiously incorrect. The report erroneously states that the “Election of 2006, Series 2010B” for \$65,110,000 consisted of CABs when in fact these are federally subsidized 100% current interest bonds issued as Build America Bonds, available under the American Recovery and Reinvestment Act of 2009 and saved District taxpayers millions of dollars when compared to a traditional tax-exempt bond financing.

Further, the District issued two bond financings in 2010 and 2011 consisting of CABs. The total principal amount issued in these two 2010-11 financings is \$124,999,353 with a total debt service cost of \$592,731,659, not the \$1 billion number incorrectly stated in the report. The report goes on to state incorrectly that payments on these two financings will not be made until 2034 and 2051. Payments began in March 2012 and will end in 2042 and 2051 for each of the two financings.

The Grand Jury’s lack of bond finance knowledge and failure to interview District finance staff is clear in its misrepresentation on page 5 showing that the District issued its Series 2011A with a debt repayment ratio of 7 to 1. This table omits mention of the District’s simultaneous issuance of Series 2011A-1 bonds, which were issued as federally-subsidized Qualified School Construction Bonds in the amount of \$25 million. The District took advantage of this federal subsidy bond program and was able to achieve a 0% interest cost for its taxpayers, resulting in significant savings. Due to the parameters of this federal program, these bonds had to be issued as 100% current interest bonds with a financing term not exceeding 16 years. Meeting these requirements is what resulted in Series 2011A including some CABs. When the Series 2011A and Series 2011A-1 are combined, which is the more accurate and conventional representation of this financing, the debt repayment ratio is 4.51 to 1. The Election of 2006, Series 2010A and 2010B were issued simultaneously as well and should thus be viewed as a single financing. This is consistent with the perspective of the Internal Revenue Service, which says that financings issued simultaneously are considered a single financing. The table below outlines all of the District’s Election of 2006 and Election of 2010 Bonds.

	Election of 2006				Total Measure M	Election of 2010
	Series 2008A	Series 2010A & 2010B ⁽¹⁾	Series 2011A & 2011A-1 ⁽¹⁾	Series 2012A		Series 2011A
Par:	\$ 62,700,000	\$ 70,000,000	\$ 59,999,364	\$ 10,895,752	\$ 203,595,116	\$ 89,999,989
Total Debt Service/Repayment:	\$ 114,301,764	\$ 126,327,228 ⁽²⁾	\$ 270,651,992 ⁽³⁾	\$ 25,592,680	\$ 536,873,664	\$ 347,079,667
Repayment Ratio:	1.82 to 1	1.80 to 1	4.51 to 1	2.35 to 1	2.64 to 1	3.86 to 1
% Current Interest Bonds:	100.0%	100.0%	55.5%	53.6%	84.4%	37.9%
% CABs:	0.0%	0.0%	3.4%	46.4%	3.5%	6.7%
% Convertible CABs:	0.0%	0.0%	41.1%	0.0%	12.1%	55.4%
Issue Date:	June 2008	February 2010	July 2011	February 2012		June 2011
First Payment Date:	March 2009	September 2010	March 2012	September 2012		March 2012
Term:	24 Years	25 Years	40 Years	28 Years		31 Years

⁽¹⁾ Financings issued simultaneously.

⁽²⁾ Includes federal subsidy of \$29,735,461 for Build America Bond program.

⁽³⁾ Includes federal subsidy of \$12,726,597 for Qualified School Construction Bond program.

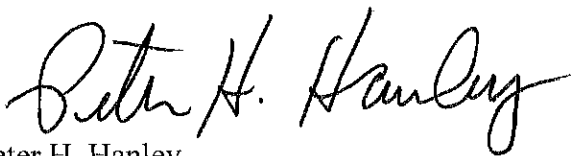
It is extremely important to note that the District's Measure M bond program has an aggregate debt repayment ratio of **2.64 to 1**. Ignored in the report is the fact that a bond measure typically involves issuing multiple financings. To single out one financing from simultaneous financings, rather than assessing the aggregate, is a gross misrepresentation that provides an inaccurate picture of the financing. Other pages in the Grand Jury's report repeat this error multiple times.

The Grand Jury recommends that individual school districts adopt "prudent loan parameters in connection with the issuance of school bond financing," after presenting multiple misleading examples of how school districts in San Mateo County and the San Mateo Union High School District, have acted in the past. As such, the Grand Jury's so-called investigation offers no foundation for such parameters. Setting parameters in the abstract is no easy task. Interest rate environments, individual school district bond ratings, previous debts incurred, and statutory limits under Proposition 39, which covers most school bonds passed in California in recent years, are all factors to be considered. What is prudent now may not be prudent five or ten years later. Establishing arbitrary debt ratios could needlessly handicap a school district and prevent it from proceeding with an urgently needed capital improvement project that voters have approved and expect will be completed. This is largely a solution in search of a problem as school districts, with a few notable exceptions, have been prudent in bond financing activities as doing so is in their ultimate self-interest. We, of course, agree that school districts should maximize value to the taxpayer, and we have done so in our bond programs.

Regarding the Grand Jury's second recommendation, to publicize all basic information on the district's bonds that are outstanding on our web site, this has always been our practice, and continues to be our practice. The Board of Trustees has held several study sessions specifically on the bond program, most recently on June 25, in addition to receiving detailed reports during regular board meetings. These documents, with updates on the individual bonds, are always available online. Our annual bond performance audits from 2007 to 2012, which contain not only the bond information, but also the expenditures from the proceeds of the bonds, are also posted on the web site.

The District's Board of Trustees, administration and finance staff have been prudent and conservative in the issuance of general obligation bonds and CABs. The Board of Trustees began discussing the potential changes to school bond financings under Assembly Bill 182 in February of this year and have had multiple subsequent meetings/study sessions to discuss this important topic. The Board of Trustees has always been and remains committed to issuing bond financings in a manner that is prudent, cost effective, and transparent for the taxpayers and constituents.

Sincerely,



Peter H. Hanley
SMUHSD Board President

Approved by the Board of Trustees on September 12, 2013

SEQUOIA UNION HIGH SCHOOL DISTRICT

480 JAMES AVENUE, REDWOOD CITY, CALIFORNIA 94062-1098

ADMINISTRATIVE OFFICES (650) 369-1412

BOARD OF TRUSTEES

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JAMES LIANIDES
SUPERINTENDENT

August 29, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; Second Floor
Redwood City, CA 94063-1655

Re: Grand Jury Report: "Capital Appreciation Bonds: Ticking Time Bombs"

Dear Judge Livermore:

This letter is in response to the Civil Grand Jury Report, "Capital Appreciation Bonds: Ticking Time Bombs." This report was sent out to all San Mateo County school districts and, per statute, each school district needs to respond to the report.

The report makes two findings and two recommendations that pertain to San Mateo County school districts:

Findings

- F1. School districts need to follow prudent loan parameters before issuing a Capital Appreciation Bond (CAB).
- F2. The public would benefit from having one convenient source to consult regarding the details of all CABs issued within the County.

Recommendations for San Mateo County School Districts

- R3. Adopt prudent loan parameters in connection with the issuance of school bond financing.
- R4. Post on the school district's website basic information on all bonds issued by the school district that are outstanding including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

Response of the Sequoia Union High School District

Finding #1

The district agrees with the finding. For the record the Sequoia Union High School District has never issued a CAB and wishes to point out that the Civil Grand Jury Report erroneously lists the December 1, 2005, issuance by SUHSD as a CAB when it is not. This particular issuance has paid down capital beginning in Year 1. The district also notes that its overall debt ratio is 1.64 for all bond issuances, which is one of the lowest ratios in the county.

Hon. Richard C. Livermore
August 29, 2013
Page 2

Finding #2

The district agrees with the finding and will make all of its bond issuance information available to the San Mateo County Office of Education.

Recommendation #3

The district will review and align its policies regarding school bond financing with AB182 upon its enactment.

Recommendation #4

The district will post complete bond issuance information on its website in accordance with the recommendation of the Civil Grand Jury.

The Sequoia Union High School District Board of Trustees approved this response to the San Mateo County Civil Grand Jury at its meeting on August 28, 2013.

Respectfully,

James Lianides, Ed.D.
Superintendent

c: Enrique Navas
Board of Trustees



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SUPERINTENDENT
Alejandro Hogan

BOARD OF TRUSTEES
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Shirlee J. Hoch
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Phillip J. Weise

September 26, 2013

San Mateo County Civil Grand Jury
400 County Center
Redwood City, CA 94063

RE: District response to Grand Jury Report on Capital Appreciation Bonds

To whom it may concern,

The SSFUSD has reviewed the July 11, 2013 Grand Jury Report on Capital Appreciation Bonds (CABs). Following is the District's response to the report:

Background

On July 11, 2013, the San Mateo County Grand Jury issued a report entitled Capital Appreciation Bonds: Ticking Time Bombs. Pursuant to California law, the District's response to the report is due by October 9, 2013. Specifically, the District must respond to the Report's findings and recommendations, which are further discussed, below.

The Grand Jury Report expresses a generally negative view of a capital appreciation bonds ("CABs"), a financing vehicle that allows bond issuers to defer payments of interest and principal to future years, most typically at maturity. The Report expresses the Grand Jury's concern that CABs "don't require any payment (principal or interest) until they are due," and that they "create a disconnect between when borrowed money is spent and when (and by whom) it is paid back."

The Report indicates that some school districts in the County (but not the South San Francisco Unified School District) have issued CABs and that some of the CABs fell outside of "prudent loan parameters." These parameters (specifically, that total repayments on the bonds will not exceed more than four times the original principal issued) are based on the terms of Assembly Bill 182, legislation intended to curb school districts' use of CABs, which recently passed out of the Legislature and is awaiting the Governor's consideration.

Grand Jury Report Findings and Recommendations

The Grand Jury Report concludes with two findings, as well as two recommendations to school districts within the County. Specifically, the Report finds that (1) "school districts need to follow prudent loan parameters before issuing a CAB;" and (2) "the public would benefit from having one convenient source to consult regarding details of all CABs issued within the County."

As to the boards of trustees of school districts within the County, the Report recommends that boards (1) "adopt prudent loan parameters in connection with the issuance of school bond financing;" and (2) "post on the school district's website basic information on all bonds issued by the district that are outstanding, including the date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details."

Discussion and Staff Recommendation

Staff has reviewed the Grand Jury Report and discussed it with other County school district personnel and we understand that the report contains some factual and conceptual errors, including the following:

- some of the financings listed in the report as CABs are actually current interest bonds
- the listing of CABs financings in the report inflates the total repayment cost by double counting principal amounts issued
- the report references "loan parameters declared prudent by elected officials, school boards and other Grand Juries in California," but does not acknowledge that these parameters were made available only recently and have not yet been finalized

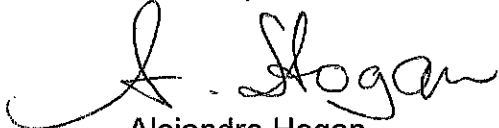
As noted, the Legislature recently adopted Assembly Bill 182, which imposes a number of restrictions on CABs, including the following:

- limit the terms of CABs to a maximum term of 25 years and an 8% interest rate
- require CABs to have a call option after no later than ten years from the date of issuance
- limit the total ratio of total debt service to principal to no more than 4 to 1 on all bond sales
- require detailed public disclosure about any proposed uses of CABs and that any board resolutions approving the sale of CABs be presented at two consecutive governing board meetings

The South San Francisco Unified School District is very prudent in its bond issuance and, as the Grand Jury Report notes, the District has not issued CABs. We will continue to be prudent stewards for the taxpayers.

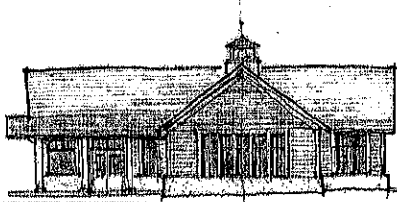
In light of the foregoing, the District agrees with the Grand Jury Report's findings discussed above. Further, staff has implemented the recommendation to post basic information regarding bonds issued by the District on its website and update the information as needed.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Hogan". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Alejandro Hogan
Superintendent

cc: South San Francisco Board of Trustees
John Nibbelin, County Counsel



Woodside Elementary School District
3195 Woodside Road, Woodside, CA 94062
650-851-1571 ~ fax: 650-851-5577
www.woodside.k12.ca.us

August 20, 2013

Hon. Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

From: Woodside Elementary School District
Re: Capital Appreciation Bonds

Dear Judge Livermore:

The Woodside School District Governing Board is in receipt of the Grand Jury's recommendations regarding the use of Capital Appreciation Bonds.

The Woodside School District Governing Board is in agreement that the public is entitled to clear and easily accessible information about Capital Appreciation Bonds issued within the county.

While the Woodside School District Governing Board agrees that we need to follow prudent parameters before issuing a CAB, we do not agree with the findings as they pertain to the existing Woodside School District CABs.

Response as prepared by Joanna Bowes, Keygent LLC:

In response to the San Mateo Civil Grand Jury Report that published, incorrectly, the District's outstanding capital appreciation bonds, I have provided a summary of Woodside Elementary School District's outstanding debt.

The District has 4 outstanding general obligation bonds:

- 1) The 2005 General Obligation Refunding bonds that are all current interest bonds.
- 2) The Series 2006 General Obligation Bonds that were initially current interest bonds and capital appreciation bonds. These bonds were partially refunded in 2007. The 2030 year capital appreciation that was converted into a current interest bond. A small amount of CABS were left outstanding in 2014-2016.
- 3) The Series 2007 General Obligation Bond that were all capital appreciation bonds.
- 4) The 2007 General Obligation Refunding bonds that are all current interest bonds.

The District also has a revenue bond that is all current interest bonds that report incorrectly published as capital appreciation bonds.

The Grand Jury Report incorrectly states the total debt service of the 2006 CABS by doubling the principal amount. The correct total debt service for the 2006 bonds when they were issued is \$18,588,698 (today it is \$615,000). The report also incorrectly stated that the 2007 revenue bonds are CABS – they are all current interest bonds (and are not a taxpayer obligation.) The report neglected to include the Series 2007 General Obligation bonds that are all CABS. I can only assume whoever did the summary mixed up the two transactions. The chart below shows only the general obligation bonds and details of the transactions from the date of issuance.

The second chart is the current outstanding debt service. The primary changes in this chart are the reduced par amount that has matured in the 2005 and 2007 refunding bonds, and change in par amount for the Series 2006 bonds. Again, those current interest bonds and the 2030 year CAB maturity were refunded in 2007 into all current interest bonds.

Your highest ratio is the Series 2007 bonds as they are all capital appreciation bonds. The remaining 2006 bonds are all capital appreciation bonds that mature by 2016 and are somewhat of a distortion because you converted the long 2030 maturity into current interest bonds leaving only the non-callable CABS.

In response to the recommendations made by the Grand Jury the Woodside School District Trustees have every intention of adopting prudent parameters in connection with the issuance of school bond financing.

We are also able and willing to provide basic information on our website about all bonds issued by the district that are outstanding, including date of issue, bond amount, maturity date, interest rate, total debt service, amount due at maturity, and other relevant details.

Sincerely,



Dr. Beth Polito
Superintendent/Principal

As Originally Issued:

	2005 Refunding	Series 2006	Series 2007	2007 Refunding
Par:	\$ 5,415,000	\$ 9,499,999	\$ 2,499,999	\$ 9,516,698
Total Debt Service/Repayment:	\$ 7,969,704	\$ 18,588,698	\$ 9,640,000	\$ 17,774,149
Repayment Ratio:	1.47 to 1	1.96 to 1	3.86 to 1	1.87 to 1
% Current Interest Bonds:	100.0%	92.9%	0.0%	100.0%
% CABS:	0.0%	7.1%	100.0%	0.0%
Issue Date:	4/14/2005	4/13/2006	2/15/2007	2/15/2007
Final Payment Date:	10/1/2024	10/1/2030	10/1/2037	10/1/2030
Term:	20 Years	25 Years	31 Years	24 Years

Currently Outstanding:

	2005 Refunding	Series 2006	Series 2007	2007 Refunding
Par:	\$ 3,750,000	\$ 300,467	\$ 2,499,999	\$ 9,123,698
Total Debt Service/Repayment:	\$ 4,803,965	\$ 615,000	\$ 9,640,000	\$ 14,536,209
Repayment Ratio:	1.28 to 1	2.05 to 1	3.86 to 1	1.59 to 1
% Current Interest Bonds:	100.0%	0.0%	0.0%	100.0%
% CABS:	0.0%	100.0%	100.0%	0.0%
Issue Date:	4/14/2005	4/13/2006	2/15/2007	2/15/2007
Final Payment Date:	10/1/2024	10/1/2016	10/1/2037	10/1/2030
Partially Refunded By:	-	2007 Refunding	-	-

E