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Cash Out Refunding: Important Considerations

Issue

Has cash out refunding caused taxpayers to be obligated to pay more taxes than stated in original bond measures?

Background

The San Mateo County Civil Grand Jury (2007-2008) (Grand Jury) reviewed the practice of cash out refunding of general obligation bonds. General obligation bonds are issued by an agency, such as a school district or a special district, to finance a specific project or projects. The bonds for a cash out refunding transaction are later issued to replace the original general obligation bonds. Cash out refunding is similar to refinancing a home whereby the homeowner is able to extract cash by refinancing the existing mortgage. In both cases the borrower can pay off the existing loan with the proceeds of a new loan and have some cash left over. The cash proceeds of the new bonds, or mortgage, exceed the outstanding balance of the existing bonds. The additional cash can then be used by the issuer for the project(s) being financed.

Voters must approve the general obligation bond issue for a specified debt amount, but the subsequent larger refunding bond issue is not voted on, and taxpayers are then left with a larger debt than they originally approved. The Grand Jury found that there have been at least seven refunding bond issues by school districts in the County from 2005 to 2007.

Cash out refunding can be used to re-finance any property tax-supported general obligation bonds, including those issued by school districts, cities, counties, health care districts, water districts, and fire districts. In recent years in San Mateo County, only school districts have used cash out refunding. The practice only requires that there be existing general obligation bonds, increasing assessed property values and/or lower market interest rates. In essence, new bonds are issued to pay off the original bonds. If those new bonds pay an interest rate that is higher than that prevailing in the municipal bond market at the time, they can be sold for more than the amount needed to refund the original issue, because investors are willing to pay a premium for the higher interest rate. The refunding bonds therefore generate more cash than is needed to pay off the original bond issue.

The additional cash generated by refunding comes at the cost of a debt obligation greater than that of the original bond issue, thereby increasing the taxpayers' liability without any vote on whether or not the bond amount should be increased. Not all the increased obligation goes to the original purpose. Fees charged by the underwriter, bond counsel, bond insurer, etc. reduce the funds actually realized by the issuing agency. The taxpayers are usually unaware of this increase in their obligation because the tax rate per dollar of assessed value need not change as long as (a) the total assessed value of the taxed property is increasing, and/or (b) interest rates in the municipal bond market are decreasing.¹

It should be noted that the legality of cash out refunding transactions is questionable and that there are important uncertainties in their tax status. The California Attorney General's Office (AG) has been asked to review the legality of cash out refunding, but has not yet issued an opinion. The Internal Revenue Service (IRS) is also reviewing the tax-exempt status of interest earned on a particular type of refunding bonds. If the IRS rescinds the tax-exempt status of such bonds, their market value would be reduced considerably.

Investigation

Members of the Grand Jury conducted interviews with the County Treasurer's Office (Treasurer) and the County Assessor's Office (Assessor). The Treasurer provided the Grand Jury with school district bond issuance information and a white paper on cash out refunding that was written by the Treasurer and presented to the California Association of County Treasurers and Tax Collectors (CACTTC) in a conference on October 4, 2007. Grand Jury members attended that CACTTC conference.

The Grand Jury reviewed and analyzed election data of bond measures voted on by San Mateo County voters over the last twenty years. This election data was provided by the Assessor's office.

The Grand Jury also interviewed a high school district superintendent and reviewed public financial documents provided by the superintendent.

The Grand Jury received and reviewed the actual language of every bond measure of the school districts listed below in Table 1. The actual bond measures, which are public documents, were provided by County Counsel at the Grand Jury's request. The Grand Jury reviewed public financial information put together by the bond counsel of each school district listed below in Table 1.

Members of the Grand Jury reviewed various public sources of information. (See Appendix 1)

¹ <http://treas-tax.co.nevada.ca.us/cacttc/rockhurst/4B-%20CashOutRefunding-1.pdf>

Findings

During the twenty years ending February 2008, there were 124 bond and parcel tax measures on the ballot in the county; 85 were placed on the ballot by county school districts. Sixty-six of those 85 (78%) passed. The majority (68%) of these bond and parcel tax measures were on the ballot between 1998 and 2008. The Grand Jury noted that seven school districts issued refunding bonds between 2005 and 2007. These bonds re-financed general obligation bonds, some of which were originally issued as early as 1995. In all cases, the refunding was applied to bonds that were originally authorized by the voters to fund construction, renovation and/or repair of school facilities.

Table 1 summarizes the seven cash out refundings in the County during the past decade. Column A is the amount authorized by the voters. The original bonds can usually be repurchased (paid off) for an amount (Column B) that is less than the original principal, because the bonds are usually issued in many series, some of which have matured by the time of refunding. Columns C and D show the gross amount received from sale and the cost of issuing the refunding bonds. Column E shows the amount deposited to the school district's building fund. The County Treasurer is required to deposit any net gain from refunding into the fund for which the original bonds were approved. Column F shows the additional obligation placed upon the taxpayers by the refunding; i.e., the difference between what is still owed on the original principal at the time of refunding and the gross proceeds of the refunding. The final column (G) shows the fraction of the added obligation that went to the building fund; i.e., the net gain to the district. In the worst cases, the enablers of refunding (underwriters, bond counsels, bond insurers) took almost half of the additional obligation.

Table 1: Cash Out Refundings – 2005-2007²
Dollars in Thousands (\$ 000)

School District	Original Bond		Refunding Bond				
	A: Original Principal	B: Re- purchase	C: Gross Proceeds	D: Issue Costs	E: To Bldg. fund	F: Added obligation	G: Usable fraction
Belmont-Redwood Shores	12,000	11,620	12,294	283	391	674	58%
Jefferson Union High	5,500	5,163	5,584	200	220	421	52%
Las Lomas Elementary	24,000	22,012	24,619	355	2,253	2,607	86%
Ravenswood City	16,000	14,520	15,561	469	572	1,041	55%
San Mateo-Foster City	79,000	76,752	83,445	937	5,755	6,693	86%
So. San Francisco Unified	40,000	39,062	42,617	563	2,992	3,555	84%
Woodside Elementary	9,500	9,517	10,089	220	352	572	61%
Total	186,000	178,645	194,208	3,028	12,536	15,563	81%

Notes to Columns in Table 1:

- B: Bonds are issued in many series, some with very short maturities that have matured by the time of refunding.
- D: Issue Costs include fees charged by the underwriter, bond counsel, bond insurer, etc.
- E: Net gain to school district, i. e., the additional amount available for construction and renovation. $E = C - B - D$
- F: The additional taxpayer obligation incurred by refunding. $F = (D + E) = (C - B)$
- G: The percentage of the added tax obligation that is deposited to the district's building fund. $G = 100 * E / F$

² Source: See Appendix 2.

The first data row in Table 1 shows the key components of the refunding transaction undertaken by the Belmont-Redwood Shores School District. The original bond issue (Series A, 1997) was approved by the voters for \$12 million. By 2005, the time of refunding, the outstanding principal (payoff amount) owed on the original bonds was \$11.62 million. The new refunding bonds were sold for \$12.294 million. The total cost of issuing the refunding bonds (including bond insurance, underwriting and other fees) was \$283,000. The proceeds of the refunding bonds were used to pay off the original bonds and the issuance costs, leaving a net gain of \$391,000 to be deposited into the District's building fund ($12,294,000 - 11,620,000 - 283,000 = 391,000$). In 2005 at the time of refunding, if the original bonds were allowed to mature as scheduled, the taxpayers' remaining obligation would have been \$11.62 million (the outstanding principal). Instead, the refunding bonds established a new principal amount of \$12.294 million, thereby increasing the taxpayers' obligation by \$674,000. Only 58% of the additional obligation was available to the District ($100 \times 391,000 / 674,000$).³

The Grand Jury found that Sections 53550 – 53569 of the California Government Code was used as authority for school districts to enter into these transactions. (See Appendix 1) While cash out refunding has generated income for underwriters and additional revenue for school districts, the legality of this type of transaction is in question. The California Attorney General's office was asked to provide an opinion on whether or not the Government Code allows cash out refunding, but has yet to do so.

One County school district was given a Preliminary Adverse Determination by the Internal Revenue Service (IRS) pursuant to Section 103 of the Internal Revenue Code, stating that "the interest on the Bonds is not excludable from gross income." Essentially, this is a preliminary ruling that the interest on a particular type of refunding bond is not tax-exempt. (See Appendix 1)

Unlike the original bond issues, cash out refunding transactions have not been approved through a public process. Taxpayers may have been unaware of the transactions, even though their tax obligation increased.

Some school districts that engaged in cash out refunding seemed unaware of its true nature and its potential consequences, although these same school districts understood that such refunding would increase funds available for their projects. Other school districts appear to have knowingly engaged in cash out refunding transactions while understanding their questionable legality, if not their potential consequences.

Conclusions

Cash out refunding has generally escaped public notice, probably because it can be done without voter approval or raising tax rates. Such refunding obligates taxpayers to pay off larger debts than stated in the original bond measures. The principle of full disclosure suggests that taxpayers should be informed of such increases in their obligations. Cash

³ Amounts have been rounded.

out refundings are, effectively, new bond issues that do not go before the voters like any original bond issues.

Furthermore, the legality under California law of cash out refunding is doubtful, according to County officials and other financial experts, and the tax-exempt status of some types of refunding bonds is being questioned by the IRS. Pursuant to Section 103 of the Internal Revenue Code, interest on some types of cash out refunding bonds might be considered gross income and, thus, taxable. One County school district has received a Notice of Preliminary Adverse Determination based on Section 103, which means that the tax-exempt status of its refunding bonds may be in jeopardy.

The Grand Jury hopes this report will make county agencies aware of the potential consequences of engaging in cash out refunding transactions, and will encourage them to be more cautious in the future. The Grand Jury does not intend to suggest in this report that agencies that are able to issue general obligation bonds should not do so when needed.

Recommendations

The San Mateo County Civil Grand Jury (2007-2008) recommends that school districts in San Mateo County:

- 1) Better acquaint themselves with the complexities of:
 - a) cash out refunding transactions
 - b) other types of follow-on bond transactions
 - c) sections 53550-53569 of the California Government Code
 - d) relevant sections of the Internal Revenue Code pertaining to tax-exemption, e.g. Section 103
- 2) Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in a cash out refunding. This process would include public notice and approval by the voters.
- 3) If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's office before engaging in the transaction.
- 4) Inform the constituency in the district of the proposed refunding, if the district is contemplating a cash out refunding. The information to the public should, **at a minimum**, disclose:
 - a) the amount to be originally borrowed
 - b) the amount that will be used to refund the original bond issue
 - c) the premium amount that the district will keep
 - d) the new amount that taxpayers will be obligated to pay
 - e) possible effect on property owner assessments necessary to pay the bond
 - f) status of Attorney General decision regarding legality of refunding bonds

Appendix 1: Source Material

Text documents

1. AP Enterprise, 2006: Schools use controversial practice for extra cash (cash-out refunding), *Bakersfield Californian*, April 29, 2006.
2. Cashing Out in California, *The Bond Buyer*, April 27, 2007.
3. IRS Rules Two California School Issues Taxable, *The Bond Buyer*, November 21, 2007.

Websites

<http://www.icoe.org/NR/rdonlyres/427BB5E0-DBF6-4209-ACDC-626A1D5AF2E7/6689/GORefunding2.pdf>

<http://www.bondbuyer.com>

<http://www.cacommunities.org>

http://www.cacttc.org/downloads/conf_presentation_0607.ppt

<http://www.csba.org>

<http://www.citizensforschoolbondaccountability.com>

<http://www.freerepublic.com>

Government Code sections 53550-53569

<http://www.leginfo.ca.gov/cgi-bin/displaycode?section=gov&group=53001-54000&file=53550-53569>

Appendix 2: Sources & Uses of Funds Statements

Belmont-Redwood Shores School District

EXHIBIT E

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**SOURCES AND USES OF FUNDS
AS OF MARCH 1, 2005**

Sources of Funds:

Par Value of Bonds	\$11,720,000.00
Net Original Issue Premium	574,382.80
Total Sources of Funds	<u>\$12,294,382.80</u>

Uses of Funds:

Beginning Escrow Account Cash Balance	\$0.67
Cost of the Escrowed Securities	11,619,514.00
Building Fund Deposit	391,528.87
Bond Insurance Premium	31,419.26
Underwriter's Discount	128,920.00
Issuance Costs	123,000.00
Total Uses of Funds	<u>\$12,294,382.80</u>

Jefferson Union High School District

SOURCES AND USES OF FUNDS

Golden West Schools Financing Authority
2005 General Obligation Revenue Bonds
Jefferson Union High School District Refunding

Dated Date 08/30/2005
Delivery Date 08/30/2005

Sources:

Bond Proceeds:	
Par Amount	5,660,000.00
Net Original Issue Discount	-76,377.15
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	5,583,622.85

Uses:

Refunding Escrow Deposits:	
Cash Deposit	0.93
SLG Purchases	5,163,221.00
	<hr/>
	5,163,221.93

Cost of Issuance:	
Financial Advisory Fee	55,000.00
POS/OS Printing	10,500.00
Rating	6,000.00
Bond Counsel	33,500.00
Bond Counsel Expenses	2,000.00
Verification Report	3,500.00
Trustee	5,600.00
Misc.	2,000.00
	<hr/>
	118,100.00

Underwriter's Discount:	
Other Underwriter's Discount	56,600.00

Other Delivery Date Expenses:	
Insurance (20 Bps)	18,900.00
Authority Fee	6,605.85
	<hr/>
	25,505.85

Other Uses of Funds:	
Additional Proceeds	220,195.07
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	5,583,622.85

Las Lomas Elementary School District

EXHIBIT E

LAS LOMITAS ELEMENTARY SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS

ESTIMATED SOURCES AND USES OF FUNDS
AS OF OCTOBER 11, 2005

Sources of Funds:

Par Value of Bonds	\$22,129,944.15
Net Original Issue Premium	2,489,096.40
Total Sources of Funds	<u>\$24,619,040.55</u>

Uses of Funds:

Beginning Escrow Account Cash Balance	\$6.10
Cost of the Escrowed Securities	22,011,581.00
Deposit to Building Fund	2,252,854.45
Bond Insurance Premium	38,300.00
Underwriter's Discount	221,299.00
Issuance Costs	95,000.00
Total Uses of Funds	<u>\$24,619,040.55</u>

Ravenswood City School District

WRITTEN REQUEST OF THE AUTHORITY

To U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee") under the Trust Agreement, dated as of October 1, 2006 (the "Trust Agreement"), by and between the Ravenswood City School District School Facilities Financing Authority (the "Authority") and the Trustee. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Trust Agreement.

1. Pursuant to Section 3.01 of the Trust Agreement, the Authority has authorized the execution and delivery of its Revenue Bonds, Series 2006 (Ravenswood City School District General Obligation Bond Program), in the aggregate principal amount of \$15,215,000 (the "Bonds"). The Bonds are dated October 26, 2006 and mature on the dates and in the principal amounts and bear interest at the rates as set forth in Exhibit A attached hereto.

2. You are hereby requested to authenticate \$15,215,000 aggregate principal amount of Bonds, in fully registered form, as requested by Piper Jaffray & Co., the Underwriter of the Bonds (the "Underwriter") pursuant to the Bond Purchase Agreement, dated October 12, 2006 (the "Purchase Contract"), between the Authority and the Underwriter, by executing the Certificate of Authentication appearing thereon, and, on the date hereof, to deliver the Bonds to or upon the order of the Underwriter, upon payment to you of the net purchase price thereof in the amount of \$15,297,337.57 calculated as follows:

Aggregate principal amount.....	\$15,215,000.00
Plus net original issue premium	\$346,334.55
Less underwriter's discount	<u>(\$213,010.00)</u>
Total aggregate purchase price of Bonds	\$15,348,324.55
Less bond insurance premium	<u>(\$50,986.98)</u>
(wired directly to Insurer by Underwriter on behalf of the Authority)	
Net Purchase Price.....	<u>\$15,297,337.57</u>
(Paid by the Underwriter at Closing)	

WIRE INSTRUCTIONS ARE AS FOLLOWS:

Wire to U.S. Bank National Association: \$15,297,337.57

To be deposited as follows:

\$14,520,226.16	Deposit to Local Obligation Purchase Fund to fund GO Bond Escrow
572,111.41	Deposit to Project Fund
<u>205,000.00</u>	<u>Deposit to Costs of Issuance Fund</u>
\$15,297,337.57	Total Deposits

San Mateo–Foster City School District

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds, including proceeds from the sale of the Bonds. See “PLAN OF FINANCE” herein.

Sources of Funds

Principal Amount of Bonds	\$79,975,000.00
Original Issue Premium	<u>3,469,695.60</u>
Total Sources of Funds	\$83,444,695.60

Uses of Funds

Purchase of GO Bonds	\$76,752,425.21
Deposit to Project Fund	5,755,004.00
Costs of Issuance ⁽¹⁾	<u>937,266.39</u>
Total Uses of Funds	\$83,444,695.60

(1) Includes fees and expenses of Bond Counsel, Trustee, Escrow Agents and Verification Agent, Underwriter's discount, printing costs, rating agency fees, bond insurance premium and other miscellaneous costs of issuance.

South San Francisco Unified School District

EXHIBIT G

**SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
SCHOOL FACILITIES FINANCING AUTHORITY
REVENUE BONDS, SERIES 2006
(SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND PROGRAM)**

**ESTIMATED SOURCES AND USES OF FUNDS FOR THE JPA BONDS
AS OF JANUARY 26, 2006**

Sources of Funds:

Par Value of Bonds	\$39,035,000.00
Net Original Issue Premium	3,582,125.15
Total Sources of Funds	<u>\$42,617,125.15</u>

Uses of Funds:

Purchase Price of the Refunding Bonds	\$39,061,644.27
Bond Insurance Premium	81,500.00
Underwriter's Discount	331,797.50
Issuance Costs	150,000.00
Deposit to Capital Projects	2,992,183.38
Total Uses of Funds	<u>\$42,617,125.15</u>

Woodside Elementary School District

2.1 Application of Sale Proceeds and Certain Other Moneys.

The Sale Proceeds will be deposited to the following funds or used to pay the following expenses:

Sources:	
Sale Proceeds	<u>\$10,088,508.55</u>
Applications:	
Costs of Issuance Fund	\$ 96,750.00
Project Fund	351,638.77
Trust Administration Account	1,250.00
Local Obligation Purchase Fund	9,516,692.77
Insurance Premium	20,227.01
Underwriter's Discount	<u>101,950.00</u>
Total	<u>\$10,088,508.55</u>

South San Francisco Unified School District

Response to San Mateo County Grand Jury Report

Cash Out Refunding

Findings:

General responses from the South San Francisco Unified School District to the Grand Jury Report dated July 10, 2008:

The District agrees with the finding that the 2006 general obligation bond refinancing generated approximately \$3 mil of additional funds that were applied to capital projects of the District.

The District disagrees with the finding that its 2006 general obligation bond refinancing increased the tax obligation to the District's taxpayers. By refinancing the District's previously issued general obligation bonds at lower interest rates and reducing the length of repayment than when originally issued, the total payments required on bonds were *reduced* by approximately \$2.7 million. These savings are directly realized by taxpayers within the District.

The District disagrees with the finding that the 2006 general obligation bond refinancing was not approved through a public process. The refinancing was discussed and approved as an action item at the District's December 5, 2005 Board of Trustees meeting, which was properly noticed and held in a location freely accessible to members of the public.

Please find below District responses to Grand Jury recommendations.

Recommendation 1:

Districts should better acquaint themselves with the complexities of: a) cash out refunding transactions; b) other types of follow-on bond transactions; c) sections 53550-53569 of the California Government Code; d) relevant sections of the Internal Revenue Code pertaining to tax-exemption, e.g.- Section 103

SSFUSD Response: Agrees with recommendation

Recommendation had been implemented at the time of the cash out refunding transaction. At the time of the adoption of the bond issuance resolution in December 2005, the SSFUSD Board and administration reviewed the issues related to cash-out refundings.

Moving forward, representatives from SSFUSD will attend a FCMAT-sponsored workshop hosted by the San Mateo County Office on October 30, 2008, on Debt Management. Lori Ranieri with Governmental Financial Strategies, is an expert in this field and will cover many of the topics noted in the Grand Jury report.

Recommendation 2:

Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in a cash out refunding. This process would include public notice and approval by the voters.

SSFUSD Response: Agrees with recommendation

The recommendation for public notice had been implemented at the time of the cash out refunding transaction. The governing board discussed and approved the refinancing at a regularly held and properly noticed public board meeting. The recommendation to seek voter approval requires further analysis. The District will confer with bond counsel before any future cash-out refinancing as the District is not aware of a mechanism under current law to obtain voter approval for a refinancing.

Recommendation 3:

If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's office before engaging in the transaction.

SSFUSD Response: Agrees with recommendation

Recommendation had been implemented at the time of the cash out refunding transaction. Prior to its cash out refunding of January 2006, the South San Francisco Unified School District consulted the renowned San Francisco law firm, Orrick, which, in turn, had numerous conversations/ correspondences with the County Treasurer's office on the District's behalf at the time.

In the future, the District will consult with bond counsel and the Treasurer's office if it is in doubt about the propriety of a proposed refunding transaction in the future.

Recommendation 4:

Inform the constituency in the district of the proposed refunding, if the district is contemplating a cash out refunding. The information to the public should, at a minimum, disclose: a) the amount to be originally borrowed; b) the amount that will be used to refund the original bond issue; c) the premium amount that the district will keep; d) the new amount that the taxpayers will be obligated to pay; e) possible effect on property owner assessments necessary to pay the bond; and, f) status of Attorney General decision regarding legality of refunding bonds.

SSFUSD Response: Agrees with recommendation

Recommendation had been implemented at the time of the cash out refunding transaction. The District informed its constituency of the impact of the cash-out refunding at its December 5, 2005 Board meeting and will inform its constituency of any future cash-out refunding

July 22, 2208

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

Dear Judge Scott

The Hillsborough City School District Board of Trustees has asked me to respond to the Grand Jury's report regarding Cash Out Refunding.

This school district has not done any cash out refunding of its bond. The district does not anticipate the need to do any cash out refunding at this time. It appears that there is no finding about this district and it is not possible to agree or to disagree with findings made about other districts.

1. This District would agree with the Grand Jury's recommendation that if it were to consider this method of financing, the District would have to become much more familiar with the complexities of cash out refunding , other types of follow-up bond transactions, pertinent Government Code and relevant IRS information pertaining to tax exemption.
2. If this District were to consider refinancing our bond, we would want this process to be a transparent as possible. Any process would have to be approved by the Trustees at a public meeting so the process would be a public process with appropriate notice. This District has limited knowledge about the process associated with cash out refunding. As such, it is unclear what procedural steps would be appropriate.
3. This District totally agrees that if there is any question about the legality of a refunding transaction that it would rely heavily on the opinion of Bond Counsel and any other appropriate source to help determine the appropriateness of the action.
4. This District agrees that any financing or refinancing of bonds should be a public process providing the public with pertinent information.

Sincerely,

Marilyn Loushin-Miller
Superintendent, Hillsborough City School District



PVSD

PORTOLA VALLEY SCHOOL DISTRICT

4575 Alpine Road • Portola Valley, CA 94028

Phone: (650) 851-1777 • Fax: (650) 851-3700 • www.pvsd.net

Anne E. Campbell, Superintendent
Tim Hanretty, Asst. Superintendent

Board of Trustees
Donald Collat
Steven Humphreys
Judith Ann Mendelsohn
Ray Villareal
William Youstra

August 18, 2008

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

Dear Judge Scott,

The Portola Valley School District Governing Board has received the Grand Jury's recommendations regarding cash-out refunding and has reviewed them with interest. The Portola Valley School District has not engaged in any such cash-out endeavor and is not one of the districts noted in the Grand Jury Report.

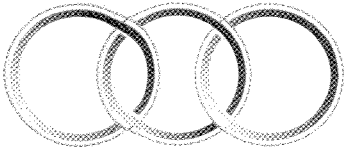
However, at some point in the future should the Portola Valley School District consider engaging in a cash-out refunding transaction, it would carefully consider the recommendations of the Grand Jury before moving forward. The Portola Valley School District Governing Board thoroughly agrees that it has an obligation to keep its constituency well-informed regarding the details of any proposed cash-out refunding.

Thank you for the opportunity to respond regarding this important issue.

Very truly yours,

Ray Villareal
Board President

RV:ac



*Cañada College, Redwood City
College of San Mateo, San Mateo
Skyline College, San Bruno*

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

Office of the Chancellor

August 25, 2008

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

Dear Judge Scott,

The San Mateo County Community College District (“SMCCCD”) is in receipt of a letter from John C. Firton, Court Executive Officer, Superior Court of San Mateo County, dated July 10, 2008 (the “Firton Letter”) along with the Grand Jury’s recent report entitled “Cash Out Refunding: Important Considerations” (the “Report”). The SMCCCD has passed two separate general obligation bond measures—one in 2001 and the second one in 2005, and has issued general obligation bonds pursuant to these measures. Prior to each bond issuance, we consulted with San Mateo County Treasurer Lee Buffington and his staff, informing them about the transactions. As the Report accurately states, we have not engaged in a cash out refunding of our general obligation bonds.

The Firton Letter directs SMCCCD to respond to all Grand Jury findings in the Report and to report its actions with respect to the Grand Jury recommendations in the Report. With respect to the findings, the Report makes a variety of findings relating to entities other than SMCCCD and transactions undertaken by entities other than SMCCCD. Because the findings are unrelated to SMCCCD, we are unable to either agree or disagree with the findings.

Regarding the recommendations:

- 1) With respect to Recommendation #1, SMCCCD will, if contemplating a cash out refunding or other post bond financial transaction, better acquaint itself with the complexities of the listed items.
- 2) With respect to Recommendation #2, SMCCCD will, if contemplating a cash out refunding, consider taking procedural steps that are taken for an original bond issuance, although SMCCCD is unaware of a mechanism under current law to obtain voter approval for a refinancing.

- 3) With respect to Recommendation #3, SMCCCD will consult with its bond counsel and the County Treasurer's Office if it is in doubt about the legality or propriety of a proposed refunding transaction.
- 4) With respect to Recommendation #4, if SMCCCD considers a cash out refunding, SMCCCD will inform the constituency in SMCCCD's jurisdiction of the listed items.

Please contact me if you have any questions about our response.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Holober". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping tail.

Richard Holober
President, Board of Trustees

cc: Clerk, Board of Trustees,
San Mateo County Community College District



Pacifica School District

375 Reina Del Mar Avenue • Pacifica, California 94044
(650) 738-6600 • (650) 557-9672 (fax)

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Joan Weideman

District Administration

James Lianides, Ed.D.
Superintendent
Susan Vickrey
Assistant Superintendent
Josephine Peterson
Chief Business Official

August 28, 2008

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

Re: Cash Out Refunding

Dear Judge Scott:

The Pacifica School District is in receipt of the July 10, 2008 San Mateo Civil Grand Jury Report which contains findings and recommendations regarding Cash Out Refunding.

The Pacifica School District agrees with the findings and submits the following in response to the Grand Jury's recommendations:

1. Recommendation:

School Districts in San Mateo County better acquaint themselves with the complexities of cash out refunding transactions, other types of follow-on bond transactions, sections 53550-53569 of the California Government Code, and relevant sections of the Internal Revenue Code pertaining to tax-exemption, e.g. Section 103.

District Response:

Although the Pacifica School District has not engaged in cash out refunding and this practice has never been discussed or considered by the Board of Trustees, the Governing Board agrees to implement the Grand Jury's recommendation.

2. Recommendation:

School Districts in San Mateo County consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in cash out refunding.

District Response

The Pacifica School District Board of Trustees agrees to implement the Grand Jury's recommendation.

3. Recommendation:

If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's office before engaging in the transaction.

District Response

The Pacifica School District Board of Trustees agrees to implement the Grand Jury's recommendation.

4. Recommendation:

School Districts in San Mateo County inform the constituency in the district of the proposed refunding, if the district is contemplating cash out refunding.

District Response

The Pacifica School District Board of Trustees agrees to implement the Grand Jury's recommendation.

Sincerely,

A handwritten signature in black ink, appearing to read "James Lianides". The signature is written in a cursive style with a horizontal line at the end.

James Lianides, Ed. D.
Superintendent

JL:sc

Cc: Pacifica School District, Board of Trustees



**BURLINGAME
SCHOOL DISTRICT**

Board of Trustees

Michael Barber
Marc J. Friedman
Liz Gindraux
Mark G. Intrieri
Gregory Land

District Administration

Dianne Talarico
Superintendent

Suzanne Hall, Ed.D.
*Assistant Superintendent,
Curriculum & Instruction*

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

Lourdes S. Desai
*Director, Special Education &
Categorical Programs*

September 11, 2008

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

Dear Hon. Scott:

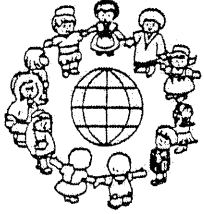
With regards to the Grand Jury report filed on July 10, 2008 pertaining to Cash Out Refunding: Important Considerations Report and the request for information from our public agency, it appears that there is no finding about this district and it is not possible to agree or disagree with findings made about other districts.

With regards to the recommendations, representatives from our district will be attending a FCMAT-sponsored workshop hosted by the San Mateo County Office of Education focused on debt management on October 30, 2008. The presenter, Lori Ranieri with Governmental Financial Strategies, is an expert in this field and will cover many of the items that the Grand Jury mentions in its report. In the future, we will continue to acquaint ourselves with the topics listed using ongoing dialogue and research with both our legal and bond counsel.

The San Mateo County Office of Education has created a form to ensure public notice. Our staff will complete the form and file it accordingly.

Regards,

Dianne Talarico
Superintendent



Jefferson School District

Martin Luther King Jr. Education Center

101 Lincoln Ave. • Daby City, CA 94015

(650) 746-2431 • Fax (650) 992-2265

Web Address: www.jsd.k12.ca.us

Governing Board

Marie Brizuela

Adam Duran

Hans E. Hansen

K. Annette Hipona

Marianne E. Petroni

Annette Hipona

Board President

September 10, 2008

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

RE: Jefferson Elementary School District Comments
2007-2008 Grand Jury's Cash-Out Refunding: Important Considerations Report

Honorable Joseph C. Scott,

The 2007-2008 Grand Jury's Cash-Out Refunding: Important Considerations Report does not appear to have any specific findings or references about Jefferson Elementary School District (JESD). Therefore, the JESD Board of Trustees is not in a position to agree or disagree with findings made about other school districts.

However, the JESD Board of Trustees would like to offer several general comments regarding the Grand Jury Report as follows:

1. The report states that cash-out refunding results in a "debt obligation greater than that of the original bond issue, thereby increasing the taxpayers' liability." According to our bond counsel this is simply not the case. In every instance, the amount of the tax that is levied to pay debt service on the refunding bond issue is reduced. In fact, this is a legal requirement under California law and every bond counsel that is involved in these transactions would have ensured that the legal requirement was met.
2. The Grand Jury Report states that because the Refunding Bonds are issued in a larger principal amount, they "increase" the taxpayers' obligation. In fact, every refunding bond has a larger principal amount and the law expressly permits this. In other words, this is true for cash-out refundings as well as traditional refundings.
3. The Grand Jury Report indicates that the legality of cash-out refundings is "questionable" and notes that the Attorney General has been asked for an opinion on them. In fact, it has been almost two years since the Attorney General was asked to provide an opinion and it's looking like it will never be released. Although our information may not be reliable, we have been informed by someone with inside knowledge that the Attorney General's office has not been able to identify any legal problems with the particular type of cash-out refunding that the commented district implemented.

Also relevant is AB 2197 (Mullin) which has been signed into law. This will change the Education Code to require any district that enters into non-voter approved debt to provide public disclosure information 30 days prior to approval of the debt by the governing board. (Previously it was mandatory for districts in qualified or negative status to provide a 10 working day advance notice to the County Office.) For a copy of the legislation, go to:

<http://leginfo.ca.gov/bilinfo.html> and type AB 2197 into the query box.

4. The Grand Jury Report indicates that these bond issues may be under review by the IRS and that the tax-exempt character of the Bonds may be in question. According to our bond counsel this is true for a single bond issue of the Jefferson Union High School District, which was a very peculiar form of refunding. None of the other refunding bond issues commented in the report are remotely questionable under federal tax law.

The Grand Jury made a series of recommendations for school districts in San Mateo County. The following are the JESD Board of Trustees comments regarding the Grand Jury recommendations:

Recommendation #1 – Better acquaint themselves with the complexities of:

- a. Cash out refunding transactions
- b. Other types of follow-on bond transactions
- c. Sections 53550-53569 of the California Government Code
- d. Relevant sections of the Internal Revenue Code pertaining to tax-exemption, e.g. Section 103

District Comment: The Jefferson Elementary School District does not have any cash out refunding transactions since this report was issued. However, this recommendation has been implemented in past transactions. It is the district's practice to retain the services of qualified legal and bond counsel to ensure ongoing research and dialogue regarding the legal implications of cash-out refunding transactions. In addition, as part of our continuous professional development, the District's Business Services staff attends pertinent workshops and training sessions.

In an ongoing effort to provide continuous professional development to Business Services staff, representatives from Jefferson Elementary School District will attend a FCMAT-sponsored workshop hosted by the County Office on October 30, 2008, on Understanding Debt Issuance. The presenter, Lori Ranieri with Governmental Financial Strategies, is an expert in this field and will cover many of the items that the Grand Jury mentions in its report. In addition,

Recommendation #2 – Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in a cash-out refunding. This process would include public notice and approval by the voters.

District Comment: The Jefferson Elementary School District does not have any cash out refunding transactions since this report was issued. The recommendation regarding public notice will be implemented in future cash out refunding transactions. To assist in the notification process, and also to facilitate compliance with the requirements of AB 2197 (see above), the San Mateo County Office of Education has prepared a form to be used by districts. The form addresses each of the areas that the Grand Jury lists for inclusion in the public disclosure. A copy of the form is attached for your review and use.

The second part of this recommendation regarding approval by the voters will not be implemented. The following are reasons as to why the Jefferson Elementary School District will not implement this recommendation:

1. Currently, according to legal counsel, there is no legal requirement that voter approval be obtained for this type of transactions.

2. The purpose of the cash out refunding is to generate debt service savings which reflects the reduced tax payments required to pay off the bonds after the refinancing
3. The cost of holding an election to obtain voter approval for cash out refunding may outweigh the financial benefit to the District. In addition, it will require human capital to organize an election campaign.

Recommendation #3 – If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer’s Office before engaging in the transaction.

District Comment: The Jefferson Elementary School District does not have any cash out refunding transactions since this report was issued. This recommendation has been implemented in the past and it will be implemented for future transactions. It is the District’s standard procedure to retain the services of legal and bond counsel when considering cash-out refunding transactions. Jefferson Elementary School District will always ensure the propriety of the transaction and will consult with bond counsel and the Treasurer’s Office before engaging in the transaction.

Recommendation #4 – Inform the constituency in the district of a proposed refunding, if the district is contemplating a cash-out refunding. The information to the public should, **at a minimum**, disclose:

- a. The amount to be originally borrowed
- b. The amount that will be used to refund the original bond issue
- c. The premium amount that the district will keep
- d. The new amount that taxpayers will be obligated to pay
- e. Possible effect on property owner assessment necessary to pay the bond
- f. Status of Attorney General decision regarding the legality of refunding bonds

District Comment: The Jefferson Elementary School District does not have any cash out refunding transactions since this report was issued. However, the District will implement this recommendation for future transactions. To assist the district in the notification process, and also to facilitate compliance with the requirements of AB 2197 (see above), the County Office has prepared a form to be used by districts. The form addresses each of the areas that the Grand Jury lists for inclusion.

Sincerely,



Matteo Rizzo
Superintendent



San Mateo-Foster City School District
1170 Chess Drive • Foster City • California • 94404
Office (650) 312-7777 • Fax (650) 312-7736

September 30, 2008

Superior Court of San Mateo County
Hon. Joseph C. Scott
Judge of the Superior Court
Hall of Justice
400 County Center
2nd Floor
Redwood City, CA 94063-1655

RE: Cash Out Refunding: Important Considerations Report

Dear Hon. Joseph C. Scott:

Per your request in your letter dated July 10, 2008, the San Mateo-Foster City School District's Response to the Grand Jury report filed on July 10, 2008 are noted below.

San Mateo-Foster City School District's Response to Findings

The San Mateo-Foster City School District (District) agrees with the 2007-08 Grand Jury finding that the 2005 general obligation bond refinancing generated \$5,755,004 of additional funds that were applied to capital projects of the District.

The District disagrees with the following findings:

- That its 2005 general obligation bond refinancing increased the tax obligation to the District's taxpayers. By refinancing the District's previously issued general obligation bonds at lower interest rates – and by shortening the term of repayment by eight years – the total payments required on bonds were actually reduced by \$3,053,265. These savings are net of all financing costs and will be directly realized by taxpayers within the District through lower property tax levies.
- That the 2005 general obligation bond refinancing was not approved through a public process. The refinancing was discussed at multiple public board meetings all of which were properly noticed and held in a location freely accessible to members of the public. The refinancing was an agenda item at the following board meetings:

Dr. Pendery Clark, Superintendent of Schools

Lory L. Lawson, President Cathy Rincon, Vice President Jack E. Coyne, Clerk Colleen Sullivan, Trustee Mark D. Hudak, Trustee



- **August 18, 2005:** Refinancing and use of cash-out proceeds was discussed as an information item
- **September 1, 2005:** Resolution approving certain legal documents adopted as an action item by the board
- **September 15, 2005:** Resolution approving the issuance of refunding bonds adopted as an action item by the board
- **October 6, 2005:** Resolution approving the Preliminary Official Statement for the refinancing adopted as an action item
- **November 3, 2005:** Summary of the results of the refinancing, including the amount of debt service savings and additional project funds generated by the refinancing presented as an information item

San Mateo-Foster City School District's Response to Recommendations

Response to Recommendation #1:

Practices consistent with this recommendation were in place at the time of the transaction. The Board of Trustees and Administration reviewed the issues related to cash-out refundings.

Response to Recommendation #2:

Practices consistent with this recommendation were in place at the time of the transaction. The governing board discussed and approved the refinancing at multiple, regularly held and properly noticed public board meeting.

The recommendation to seek voter approval requires further analysis. Bond refundings are an extremely time and interest rate sensitive and incurring the cost of an election only to have interest rates change negatively during that time could be an imprudent practice. Our District will, however confer with bond counsel before any future cash-out refinancing is transacted upon.

Response to Recommendation #3:

Practices consistent with this recommendation were in place at the time of the transaction. The District conferred with bond counsel extensively during the process. The District will continue to consult with bond counsel and the Treasurer's office if it is in doubt about the propriety of a proposed refunding transaction in the future.

Dr. Pendery Clark, Superintendent of Schools



San Mateo-Foster City School District
1170 Chess Drive • Foster City • California • 94404
Office (650) 312-7777 • Fax (650) 312-7736

Response to Recommendation #4:

Practices consistent with this recommendation were in place at the time of the transaction. The District informed its constituency of the impact of the cash-out refunding on board meetings on August 18, September 1, and September 15, 2005 prior to the adoption of the issuance resolution. The District has and will continue to inform its constituency of any future cash-out refunding through the board meeting process.

Please contact Micaela Ochoa, Chief Business Official, at 650.312.7274 if you have further questions.

Sincerely,

Pendery A. Clark, Ed.D.
Superintendent

CC: Board of Trustees, San Mateo-Foster City School District
Dr. Jean Holbrook, County Superintendent of Schools
Micaela Ochoa, Chief Business Official
Steve Mak, Director of Fiscal Services

Dr. Pendery Clark, Superintendent of Schools

Lory L. Lawson, President Cathy Rincon, Vice President Jack E. Coyne, Clerk Colleen Sullivan, Trustee Mark D. Hudak, Trustee

September 30, 2008

Honorable Joseph C. Scott
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd floor
Redwood City, CA 94063-1655

Re: Cash Out Refunding: Important Considerations Report

Following are responses from Cabrillo Unified School District regarding the findings, conclusions, and recommendations from this report:

Findings

With respect to Bay Area and San Mateo County Schools, the Grand Jury found:

“During the twenty years ending February 2008, there were 124 bond and parcel tax measures on the ballot in the county; 85 were placed on the ballot by county school districts. Sixty-six of those 85 (78%) passed. The majority of these bond and parcel tax measures were on the ballot between 1998 and 2008. The Grand Jury noted that seven school districts issued refunding bonds between 2005 and 2007. These bonds re-financed general obligation bonds, some of which were originally issued as early as 1995. In all cases, the refunding was applied to bonds that were originally authorized by the voters to fund construction, renovation and/or repair of school facilities.”

Cabrillo Unified School District response to finding:

It appears that this finding does not apply to the Cabrillo Unified School District. Therefore it is not reasonable to expect CUSD to either agree or disagree with findings that pertain to other districts.

Conclusions

Grand Jury:

“... The Grand Jury hopes this report will make county agencies aware of the potential consequences of engaging in cash out refunding transactions, and will encourage them to

be more cautious in the future. The Grand Jury does not intend to suggest in this report that agencies that are able to issue general obligation bonds should not do so when needed.”

Cabrillo Unified School District response to conclusion:

While this conclusion is not applicable to the Cabrillo Unified School District at this point in time, the District does appreciate learning more about the potential issues associated with cash out refunding and will establish a cautionary stance in approaching such transactions in the future.

Recommendations

Grand Jury:

“The San Mateo County Civil Grand Jury (2007-2008) recommends that school districts in San Mateo County:

- 1) Better acquaint themselves with the complexities of cash out refunding transactions...
- 2) Consider taking procedural steps ... if the district knowingly engages in a cash out refunding...
- 3) If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer’s office before engaging in the transaction.
- 4) Inform the constituency in the district of the proposed refunding, if the district is contemplating a cash out refunding...”

Cabrillo Unified School District response to recommendations:

The Cabrillo Unified School District appreciates receiving these recommended guidelines for approaching any sort of future cash out refunding transaction.

Respondent for the Cabrillo Unified School District:

Robert B. Gaskill
District Superintendent

September 25, 2008
Honorable Joseph C. Scott
Judge of the Superior Court
Hall of Justice
2nd Floor
400 County Center
Redwood City, CA 94063-1655

Re: Response to the 2007-2008 Grand Jury Report
Cash Out Refunding: Important Considerations

Our responses appear below each Finding or Recommendation.

Responses to the Grand Jury's Findings

Due to the fact that the San Carlos School District is not one of the districts named in the finding, we find it not possible to agree or disagree with the finding.

Responses to the Grand Jury's Recommendations

1. School Districts better acquaint themselves with the complexities of:
 - a. Cash out refunding transactions
 - b. Other type of follow-on bond transactions
 - c. Sections 53550-53569 of the California Government Code
 - d. Relevant sections of the Internal Revenue Code pertaining to tax-exemption, e.g. Section 103

Response: A representative from our district will attend a FCMAT-sponsored workshop hosted by the County Office on October 30, 2008, on debt management. The presenter is an expert in this field and will cover many of the items that listed in this recommendation. Our district administrator, at the direction of the board, will be diligent in seeking legal and bond counsel on all issues included in this report.

2. Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in a cash out refunding. This process would include public notice and approval by the voters:

Response: If the board of trustees were to decide to use this type of transaction, they would submit a San Mateo County Office of Education Disclosure Of General Obligation Bond Refinance Form.

3. If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's office before engaging in the transaction:

Response: The board agrees with this recommendation.

4. Inform the constituency in the district of the proposed refunding, if the district is contemplating a cash out refunding. The information to the public should, **at a minimum**, disclose:

- a. the amount to be borrowed
- b. the amount that will be used to refund the original bond issue
- c. the premium amount that the district will keep
- d. the new amount that taxpayers will be obligated to pay
- e. possible effect on property owner assessments necessary to pay the bond
- f. status of Attorney General decision regarding legality of refunding bonds

Response: If the district were to consider bond refunding, it would do so after advise of counsel, in a properly posted public meeting, and would publish such agenda in all usual places. As a part of this process the district would submit a San Mateo County Office of Education Disclosure Of General Obligation Bond Refinance Form. Additionally, all agendas and items for the board's consideration are posted on the Internet.

Board of Trustees, San Carlos School District

Sincerely,

Steven G. Mitrovich
Superintendent
San Carlos School District



Millbrae School District

555 Richmond Drive, Millbrae, CA 94030

650-697-5693 • 650-697-6865 (fax) • <http://www.MillbraeSchoolDistrict.org>

SHIRLEY MARTIN
Superintendent

NANCY PALMER
Chief Business Official

SHARON DE BIAGIO
Director of Curriculum

BRIAN INGLESBY
Director of Student Services

September 16, 2008

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

Dear Judge Scott:

The Millbrae School District is in receipt of the 2007-2008 Grand Jury report entitled "Cash Out Refunding: Important Considerations Report."

The District has no basis to agree or disagree with the Findings because the District does not have personal knowledge of the Findings information.

The recommendation is not relevant because the District is not contemplating any cash out refunding.

Sincerely,

Shirley Martin
Superintendent

SM/edm



Brisbane School District
One Solano Street, Brisbane, Ca 94005
Tel: 415-467-0550 Fax: 415-467-2914

Board of Trustees

Joseph Blank
Diane Crampton
Bob Dettmer
Tom Ledda
Ken Walker

Superintendent

Toni Presta

Building Thoughtful Citizens

October 1, 2008

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

Re: Response to Cash Out Refunding: Important Considerations Report

Dear Judge Scott,

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:

It appears that there is no finding about this district and it is not possible to agree or disagree with findings made about other districts.

Recommendations by the Grand Jury:

The San Mateo County Civil Grand Jury (2007-2008) recommends that school districts in San Mateo County:

1. *Better acquaint themselves with the complexities of:*
 - a. *cash out refunding transactions*
 - b. *other types of follow-on bond transactions*
 - c. *sections 53550-5369 of the California Government Code*
 - d. *relevant sections of the Internal Revenue Code pertaining to tax-exemption, eg. Section 103*

The Brisbane District agrees with the recommendation and it will be implemented. The Superintendent and the Finance Officer from the Business Office are attending a FCMAT-sponsored workshop hosted by the County Office of Education on October 30, 2008. The focus of the workshop is on Debt Management. Lori Ranieri, with Governmental Financial Strategies, will be presenting. She is an expert in this and will be covering many of the

items that the Grand Jury mentions in its report. Additionally, the district will have ongoing dialogue with our legal and bond counsel when needed.

2. *Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in a cash out refunding. This process would include public notice and approval by the voters.*

Response included in #4.

3. *If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's office before engaging in the transaction.*

The district will indeed consult with its bond counsel and the Treasurer's office before engaging in any transactions in which the propriety is in doubt. The district has no intention of cash out refinancing.

4. *Inform the constituency in the district of the proposed refunding, if the district is contemplating a cash out refunding. The information to the public should, at a minimum, disclose:*
 - a. *The amount to be originally borrowed*
 - b. *The amount that will be used to refund the original bond issue*
 - c. *The premium amount that the district will keep*
 - d. *The new amount that taxpayers will be obligated to pay*
 - e. *Possible effect on property owner assessments necessary to pay the bond*
 - f. *Status of Attorney General decision regarding legality of refunding bonds*

The district has no intention of cash out refinancing. It has not availed itself of the opportunity because of the cost as well as the status of the request for an Attorney General opinion. Should the AG find cash out is legal, and the district decides to use cash out, it agrees to provide procedural steps as recommended in # 2and #4.

Sincerely,

Toni Presta
Superintendent

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



Jefferson Union High School District

ADMINISTRATIVE OFFICES – SERRAMONTE DEL REY
699 Serramonte Boulevard, Suite 100
Daly City, CA 94015-4132
650-550-7900 • FAX 650-550-7888

Board of Trustees

Jean E. Brink
Maria S. Luna
David K. Mineta
Thomas A. Nuris
Katherine C. Zarate

Michael J. Crilly
Superintendent

October 1, 2008

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

Re: CASH OUT REFUNDING: IMPORTANT CONSIDERATIONS

Dear Judge Scott:

The District has received and read the Grand Jury Report entitled, "*Cash Out Refunding: Important Considerations.*" While we agree with some of the conclusions, there are sections to which we disagree. As requested, the District's response will note each of the "Recommendations" and comment as appropriate.

Recommendation #1 – Schools better acquaint themselves with the complexities of:

- a) cash out refunding transactions
- b) other types of follow-on bond transactions
- c) sections 53550-53569 of the California Government Code
- d) relevant sections of the Internal Revenue Code pertaining to the tax-exemption, e.g. Section 103

The District agrees with this recommendation and believes that districts should continually stay abreast of the complexities of these bond transactions and relevant rules and guidelines. The District currently does this and takes seriously the fiduciary responsibility to administer these funds. The District also believes that it is important to use the expertise of bond consultants and bond counsel to further inform the District on these matters.

Recommendation #2 – Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in a cash out refunding. This process would include public notice and approval by the voters.

The District disagrees with this recommendation. All board discussions and decisions about bond refinancing are done in public meetings, appropriately noticed, and accessible to all. There is no legal requirement to bring such a transaction to a public election for approval and as such, no regulations for passage (simple majority, 55%, or two-thirds). The District will continue to investigate this and, in all cases, follow the letter and spirit of the law.

Recommendation #3 – If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer’s office before engaging in the transaction.

The District agrees with the recommendation and believes the District should always seek out expert advice when engaging in any bond transactions. This would certainly address any concerns of propriety, as well as procedures, rules and applicable laws. This has always been and continues to be, the practice of the Jefferson Union High School District.

Recommendation #4 – Inform the constituency in the district of the proposed refunding, if the district is contemplating cash out refunding. The information to the public should, at a minimum disclose:

- a) the amount to be originally borrowed**
- b) the amount that will be used to refund the original bond issue**
- c) the premium amount that the district will keep**
- d) the new amount that taxpayers will be obligated to pay**
- e) possible effect on property owner assessments necessary to pay the bond**
- f) status of Attorney General decision regarding legality of refunding bonds**

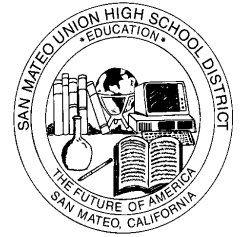
The District agrees that the public should be informed of any proposed bond refunding. The Jefferson Union High School District does this in all cases through the formal public board process. The District would certainly consider an Attorney General’s opinion should one be rendered.

Sincerely,

Michael J. Crilly
Michael J. Crilly
Superintendent

c Board of Trustees

San Mateo Union High School District



David Miller, Ph.D., Superintendent

Elizabeth McManus, Deputy Superintendent

Kirk Black, Associate Supt. Human Resources-Admin. Services

Matt Biggar, Associate Supt. Instructional Services

650 North Delaware Street - San Mateo, CA 94401-1795

(650) 558-2299

(650) 762-0249 FAX

October 3, 2008

The Honorable Joseph C. Scott
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

RE: CASH OUT REFUNDING: IMPROTANT CONSIDERATION REPORT

Dear Judge Scott:

On July 10, 2008, the Grand Jury of San Mateo County published its "Cash Out Refunding: Important Considerations Report". As a School Board, we are charged with setting policies and overseeing the implementation of those policies. The Board takes this responsibility very seriously and has not and will not allow, permit or approve any inappropriate action. The San Mateo Union High School District was not included on the list of school districts that issued a Cash Out Refundings during the years outlined in report. Due to our prudent fiscal oversight, the District continues to execute fiscally-sound decisions that have been fully-analyzed and publicized.

Please find our specific responses in the paragraphs below.

DISTRICT'S RESPONSE TO GRAND JURY'S FINDINGS

The Grand Jury's Findings appear below:

Findings on Page 2:

- Not all general obligation bond refinancings increase tax obligation to taxpayers. By refinancing, a district's previously-issued general obligation bonds at lower interest rates – and by shortening the term of repayment, the total payments required on bonds could potentially be reduced. These savings should be net of all financing costs and would be directly realized by taxpayers within a District through lower property tax levies.
- It is highly probable that general obligation bond refinancings are approved through a public process. It is a requirement that any financial obligation such as a refinancing would be discussed at multiple public board meetings of which are all properly noticed and held in a location freely accessible to members of the public. In some cases school districts televise their board meetings.

Response to Recommendations:

Response to Recommendation #1:

Practices consistent with this recommendation may have been in place at the time of the transaction at the District in questions and should be reviewed in detail.

Response to Recommendation #2:

- Practices consistent with this recommendation may have been in place at the time of the transaction at the district in question and should be reviewed in detail. Recommendation to seek voter approval would require further analysis by each school district. District should confer with bond counsel before any future cash-out refinancing as the District is not aware of a mechanism under current law to obtain voter approval for a refinancing.

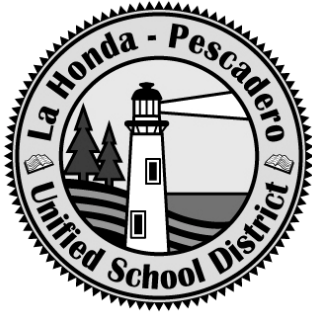
Response to Recommendation #3:

- Practices consistent with this recommendation may have been in place at the time of the various districts transaction and should be reviewed in detail. Standard practice for a school district is to confer with bond counsel during any financing process. Districts should always consult with bond counsel and the Treasurer's Office if it is in doubt about the propriety of a proposed refunding transaction in the future.

In closing, the District, on behalf of its communities and students, would like to thank the members of the Grand Jury for the work that they do to the benefit of the citizens of San Mateo County.

Sincerely,

David Miller, Ph.D.
Superintendent and Secretary to the
Board of Trustees



LA HONDA-PESCADERO UNIFIED SCHOOL DISTRICT
P.O. Box 189 • 620 North Street, Pescadero, CA 94060
650-879-0286 • FAX 650-879-0816

Timothy A. Beard, Superintendent

October 8, 2008

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

RE: Cash Out Refunding

Hon. Judge Scott:

This letter is in reference to the 2007-08 County Grand Jury report on Cash Out Refunding. Although La Honda-Pescadero Unified School District has not engaged in any such cash-out endeavor and is not one of the districts noted in the Grand Jury report, the District has considered the Grand Jury's findings and submits this letter in response to the recommendations to school districts in the County.

Recommendations to school districts in San Mateo County:

Recommendation 1:

Better acquaint themselves with the complexities of cash out refunding transactions, other types of follow-on bond transactions, sections 53550-53569 of the California Government Code, and relevant sections of the Internal Revenue Code pertaining to tax-exemption, e.g. Section 103.

District Response:

Although La Honda-Pescadero Unified School District has not engaged in cash out refunding and this practice has never been discussed or considered by the Board of Trustees, the Governing Board agrees to implement the Grand Jury's recommendation.

Recommendation 2:

Consider taking procedural steps that are usually taken for an original bond issuance, if the district knowingly engages in cash out refunding, including public notice and approval by the voters.

District Response

La Honda-Pescadero Unified School District agrees to implement the Grand Jury's recommendation except for approval by voters which is not a legal requirement of the transaction.

Recommendation 3:

If a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's office before engaging in the transaction.

District Response

La Honda-Pescadero Unified School District agrees to implement the Grand Jury's recommendation.

4. Recommendation 4:

Inform the constituency in the district of the proposed refunding, if the district is contemplating cash out refunding.

District Response

La Honda-Pescadero Unified School District agrees to implement the Grand Jury's recommendation.

Sincerely,

Timothy A. Beard,
District Superintendent



District Office
181 Encinal Avenue
Atherton, California 94027
650-321-7140
FAX: 650-321-7184
www.mpcsd.org

Board of Education
Jeff Child
Deborah Fitz
Bruce Ives
Laura Rich
Terry Thygesen

*A Community of educators, scholars, parents and staff working together
to inspire, serve, challenge and enrich all students*

Kenneth Ranella,
Superintendent

October 2, 2008

Jo Sauer Mitchell,
Asst. Supt./Curriculum &
Instruction

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

Diane White,
Chief Business Official

Re: Has cash out refunding caused taxpayers to be obligated to pay more taxes than stated in original bond measures?

Olivia Mandlik,
Dir. Of Student Services

Jim Bowlby
Dir. Of Technology

In response to the request from the 2007-08 San Mateo County Grand Jury regarding the issue: Has cash out refunding caused taxpayers to be obligated to pay more taxes than stated in original bond measures, the following is submitted for your consideration:

Kathryn Tinio,
Human Resources

- In October 2005, the Board of Education of the Menlo Park City School District authorized the issuance and sale refunding \$13,120,000 of 1998 Series B Facility Bonds

Ahmad Sheikholeslami
Facility Program Manager

- In March 2004, the Board of Education of the Menlo Park City School District authorized the issuance and sale refunding \$5,015,000.

Dennis Hatfield
Supervisor Maintenance,
Transportation,
Operations

- Each of these two refunding transactions returned the savings to the taxpayers reducing the overall interest payments. The composite savings to the taxpayers was approximately \$700,000.

- For both of these actions by the Board of Education, the District retained bond counsel and fully disclosed the District's intent to the public.

Hopefully this response provides the information necessary to close your investigation.

Sincerely,

Kenneth J. Ranella
Superintendent

c: Board of Education



REDWOOD CITY SCHOOL DISTRICT

750 Bradford Street
Redwood City, California 94063-1727
(650) 423-2200

Board of Education

Shelly Masur, President
Maria Diaz-Slocum, Vice-President
Dennis McBride, Clerk
Alisa MacAvoy
Hillary Paulson

October 8, 2008

Jan Christensen
Superintendent

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

Honorable Judge Scott:

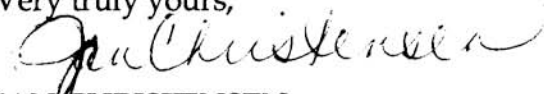
The Redwood City School District ("RCSD") has received and reviewed the Grand Jury report regarding cash-out refunding dated July 10, 2008. RCSD has passed general obligation bond measures in 1997 and another one in 2002. However, RCSD has not engaged in any cash-out refunding since the passing of the bond measure. Since the findings are unrelated to RCSD, the district is unable to agree or disagree with the findings.

In regards to the recommendations and in the event that RCSD is contemplating to engage in cash-out refunding:

1. RCSD agrees to get acquainted with the complexities of cash-out refunding transactions, other types of follow-on bond transactions, sections 53550-53569 of the California Government Code, and relevant sections of the Internal Revenue Code pertaining to tax-exemptions, e.g. Section 103.
2. RCSD agrees to consider taking procedural steps that are usually taken for an original bond issuance. This process would include public notice and approval by the voters.
3. RCSD agrees to consult its bond counsel and the Treasurer's office before engaging in the transaction, especially if in doubt about the propriety of the proposed refunding transaction.
4. RCSD agrees to provide information to its constituency in the district of the proposed refunding. These information include, but not limited to the amount to be originally borrowed, the amount that will be used to refund to original bond issue, the premium amount that the district will keep, the new amount that taxpayers will be obligated to pay, any possible effect on property owner assessments necessary to pay the bond, and status of Attorney General's decision regarding legality of refunding bonds.

Please contact me if you have any questions about this response.

Very truly yours,


JAN CHRISTENSEN
Superintendent



BOARD OF TRUSTEES

Jeni Benelli
Catherine Bonnar
Karen Clancy
Cathy Wright

Dr. Emerita Orta-Camilleri
Superintendent

Penny Weaver
*Assistant Superintendent,
Educational Services and Personnel*

Nellie Hungerford
*Assistant Superintendent,
Business Services and Operations*

CENTRAL SCHOOL
Cori McKenzie, Principal
525 Middle Road, Belmont
650-637-4820

CIPRIANI SCHOOL
Maria Lang-Gavidia,
Interim Principal
2525 Buena Vista Ave, Belmont
650-637-4840

FOX SCHOOL
Chris Marchetti, Principal
3100 St. James Road, Belmont
650-637-4850

NESBIT SCHOOL
Cherie Ho, Principal
500 Biddulph Way, Belmont
650-637-4860

RALSTON MIDDLE SCHOOL
Jennifer Kollmann, Principal
2675 Ralston Ave, Belmont
650-637-4880

SANDPIPER SCHOOL
Linda McDaniel, Principal
801 Redwood Shores Parkway
Redwood City, CA 94065
650-631-5510

**Belmont-Redwood Shores
School District**
2960 Hallmark Drive
Belmont, CA 94002-2999
650-637-4800 - Main
650-637-4811 - Fax

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

September 29, 2008

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

Re: Cash Out Refunding

Dear Judge Scott:

The District agrees with the finding that a portion of the proceeds from the GO Bond Refunding were used to complete projects approved by voters at the time the bonds were originally authorized.

The District disagrees with the finding that taxpayers incurred an obligation greater than the original obligation as a result of the refinancing. The costs of issuance and projects funds generated through the refinancing were made possible through finding investors who would accept a lower interest payment than the original investors. The taxpayers actually have a slightly smaller debt obligation as a result of the District's refinancing and have the additional projects that they originally approved at the time of the bond election as well.

All District actions were taken with review and advice of counsel. In addition, the District had an independent financial advisory as well as the underwriter advising the District on the transaction. Discussion of the District's refinancing plan was made in open session of the Board on January 6, 2005, and was properly posted with the regular agenda of the Board of Education.

We have enclosed a copy of a refunding savings analysis and verification report which confirms that the finding in question is not accurate as it relates to Belmont-Redwood Shores School District.

Based on the enclosed information, we believe the grand jury's most important finding in this matter does not apply to our District and ask that we be removed from the list of agencies for which such a finding was made.

Sincerely,

Dr. Emerita Orta-Camilleri
Superintendent

Enclosures (2)

\$11,945,000

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
REFUNDING OF 1997 BONDS**

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
09/01/2005	500,676.75	500,676.75	536,573.75	35,897.00
09/01/2006	805,995.50	805,995.50	842,245.00	36,249.50
09/01/2007	832,901.50	832,901.50	864,960.00	32,058.50
09/01/2008	848,232.00	848,232.00	880,777.50	32,545.50
09/01/2009	867,320.00	867,320.00	899,865.00	32,545.00
09/01/2010	884,724.00	884,724.00	916,735.00	32,011.00
09/01/2011	905,574.00	905,574.00	941,485.00	35,911.00
09/01/2012	924,363.50	924,363.50	958,535.00	34,171.50
09/01/2013	945,667.50	945,667.50	978,300.00	32,632.50
09/01/2014	964,439.50	964,439.50	998,875.00	34,435.50
09/01/2015	986,169.50	986,169.50	1,021,700.00	35,530.50
09/01/2016	1,005,246.00	1,005,246.00	1,041,500.00	36,254.00
09/01/2017	1,031,904.00	1,031,904.00	1,068,275.00	36,371.00
09/01/2018	1,055,660.50	1,055,660.50	1,091,475.00	35,814.50
09/01/2019	1,076,405.50	1,076,405.50	1,111,100.00	34,694.50
09/01/2020	1,104,029.00	1,104,029.00	1,137,150.00	33,121.00
09/01/2021	1,122,998.00	1,122,998.00	1,159,075.00	36,077.00
09/01/2022	1,153,399.00	1,153,399.00	1,186,875.00	33,476.00
Total	\$17,015,705.75	\$17,015,705.75	\$17,635,501.25	\$619,795.50

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....	456,527.95
Net PV Cashflow Savings @ 3.928%(Bond Yield).....	456,527.95
Contingency or Rounding Amount.....	1,800.81
Net Present Value Benefit.....	\$458,328.76
Net PV Benefit / \$10,930,000 Refunded Principal.....	4.193%
Net PV Benefit / \$11,945,000 Refunding Principal.....	3.837%

Refunding Bond Information

Refunding Dated Date.....	3/01/2005
Refunding Delivery Date.....	3/01/2005

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)**

2005 GENERAL OBLIGATION REFUNDING BONDS

CAUSEY DEMGEN & MOORE INC.

Certified Public Accountants and Consultants

Suite 4650
1801 California Street
Denver, Colorado 80202-2681
Telephone: (303) 296-2229
Facsimile: (303) 296-3731
www.cdmcpa.com

March 1, 2005

Belmont-Redwood Shores School District
2960 Hallmark Drive
Belmont, California 94002

Stradling Yocca Carlson & Rauth
44 Montgomery Street, Suite 4200
San Francisco, California 94104

Piper Jaffray & Co.
1235 Hermosa Avenue, Suite 300
Hermosa Beach, California 90254

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022

California Financial Services
5213 El Mercado Parkway, Suite D
Santa Rosa, California 95403

We have completed our engagement to verify the mathematical accuracy of (a) the computations relating to the adequacy of cash plus U.S. Treasury Securities to be held in escrow to pay the debt service requirements of the Election of 1997 General Obligation Bonds, Series A (herein referred to as the "Refunded Bonds") issued by the Belmont-Redwood Shores School District (San Mateo County, California) (herein referred to as the "District") and (b) the computations supporting the conclusion of Bond Counsel that the 2005 General Obligation Refunding Bonds (herein referred to as the "Refunding Bonds") to be issued by the District are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended. We express no opinion on the attainability of the assumptions or the tax-exempt status of the Refunding Bonds. Our verification was performed solely on the information contained in certain schedules of proposed transactions provided by Piper Jaffray & Co. (herein referred to as the "Underwriter"). In the course of our engagement to verify the mathematical accuracy of the computations in the schedules provided to us, we prepared Exhibits A through D attached hereto and made a part hereof for all purposes.

The scope of our engagement consisted of performing the procedures described herein. These procedures were performed in a manner that we deem to be appropriate.

The accompanying exhibits of proposed transactions were prepared on the basis of assumptions and in accordance with the procedures described herein. We did not independently confirm the information used with outside parties.

OUR UNDERSTANDING OF THE TRANSACTION

The Refunding Bonds are to be issued on March 1, 2005 to advance refund the Refunded Bonds and to finance certain capital improvements. A portion of the proceeds of the Refunding Bonds

CDM

Belmont-Redwood Shores School District
(San Mateo County, California)
March 1, 2005
Page 2

will be used to purchase U.S. Treasury Securities and to provide cash which will be placed into an escrow account to advance refund the Refunded Bonds.

The District will pay the debt service requirements of the Refunded Bonds due on March 1, 2005 from amounts held in the Debt Service Fund for such obligations. The Escrow Agent will pay the debt service requirements of the Refunded Bonds on each scheduled payment date from September 1, 2005 through and including September 1, 2007 and will redeem those Refunded Bonds maturing on September 1, 2008 and thereafter, at a redemption price equal to 102% of par, on September 1, 2007, which is the first optional redemption date for these bonds.

ESCROW ACCOUNT TRANSACTIONS

We verified the mathematical accuracy of the accompanying calculations of the escrow account transactions proposed to advance refund the Refunded Bonds.

The presently outstanding debt service requirements of the Refunded Bonds will be satisfied by the purchase of U.S. Treasury Securities (as described in Exhibit A-2) plus \$0.67 in cash. The securities and cash will be placed in an irrevocable escrow account and held therein until the Refunded Bonds are redeemed as previously described.

We read a copy of the Official Statement for the Refunded Bonds insofar as such obligations are described with respect to principal outstanding, interest rates, maturity dates, and redemption provisions. We assumed this document to be accurate, and all debt service payments on the Refunded Bonds to be current as of March 1, 2005. We compared the above information set forth in such Official Statement with the related information contained in the schedules provided to us and found the information to be consistent.

We compared the subscribed interest rates of the U.S. Treasury Securities (State and Local Government Series) to be purchased and placed in escrow with the maximum allowable interest rates as published in the Department of the Treasury, Bureau of the Public Debt Form PD 4262 for February 4, 2005 and found the subscribed rates to be less than or equal to the maximum allowable rates that were in effect on the subscription date for each respective maturity date.

Based on the procedures and information set forth above, the computations provided to us and represented in Exhibits A through B, which indicate that the cash and securities proposed to be placed in escrow by the District will produce the amounts necessary to provide for the timely payment of the proposed debt payment schedule on the Refunded Bonds, are mathematically correct.

YIELD ON THE REFUNDING BONDS

We verified the mathematical accuracy of the accompanying computations of the yield on the Refunding Bonds as of March 1, 2005. For purposes of this calculation, yield is defined as the rate

of interest which, using the assumptions and procedures set forth herein, discounts the adjusted payments to be made on the Refunding Bonds to an amount equal to the target purchase price of the Refunding Bonds. The computations were made using a 360-day year with interest compounded semi-annually and treated \$574,382.80 as the net original issue premium and \$31,419.26 as the bond insurance premium (which results in a target purchase price of \$12,262,963.54).

In conducting our verification, we assumed that the re-offering prices of the Refunding Bonds are as described in Exhibit C-1, that the Refunding Bonds stated to mature on or before September 1, 2015 are not optionally callable, and that the Refunding Bonds stated to mature on September 1, 2016 and thereafter are optionally callable at par on and after September 1, 2015. We tested to determine whether any combination of optional redemptions of those Refunding Bonds stated to mature on September 1, 2017 and thereafter (which represent the only callable maturities with reoffering prices in excess of the safe harbor limit of 102.500%) (herein referred to as the "Callable Premium Bonds") would result in a lower yield on the Refunding Bonds than that realized by assuming that such bonds are retired on their stated maturity dates. We assumed that all other maturities of the Refunding Bonds would be retired on the dates and in the amounts set forth in Exhibit C-1.

Based upon the procedures and information set forth above, the computations provided to us and represented in Exhibits C and C-1, which indicate that the yield on the Refunding Bonds, assuming the Callable Premium Bonds are redeemed at par on September 1, 2015, is 3.73280%, are mathematically correct. It is our opinion that computing the aforementioned yield on the Refunding Bonds by treating the Callable Premium Bonds as being redeemed at par on September 1, 2015 results in the lowest yield on the Refunding Bonds of all possible payment permutations thereon.

YIELD ON THE INVESTMENT IN THE ESCROWED OBLIGATIONS PURCHASED WITH REFUNDING BOND PROCEEDS

We verified the mathematical accuracy of the accompanying computation of the yield on the investment in the escrowed U.S. Treasury Securities purchased with Refunding Bond proceeds based on an assumed settlement date of March 1, 2005 and a purchase price of \$11,619,514.00. For purposes of this calculation, yield is defined as the rate of interest which, using the assumptions and procedures set forth herein, discounts the cash receipts from the escrowed securities to an amount equal to the purchase price of the escrowed securities. The computations were made using a 360-day year with interest compounded semi-annually and were based on the dates the funds are to be received in the escrow account, and assume that all cash balances are not reinvested.

Based upon the procedures and information set forth above, the computations provided to us and represented in Exhibit D, which indicate that the yield on the escrowed securities purchased with Refunding Bond proceeds is 3.36786% (which is less than the yield on the Refunding Bonds), are mathematically correct.

USE OF THIS REPORT

It is understood that this report is solely for the information of and assistance to the addressees hereof in connection with the offering of the Refunding Bonds and is not to be used, relied upon, circulated, quoted or otherwise referred to for any other purpose without our written consent, except that (i) reference may be made to the report in the Official Statement for the Refunding Bonds in the section captioned "Verification of Mathematical Computations," (ii) reference may be made to the report in the purchase contract or in any closing documents pertaining to the issuance of the Refunding Bonds, (iii) the report may be used in its entirety as an exhibit to the escrow agreement for the Refunded Bonds, (iv) the report may be included in the transcripts pertaining to the issuance of the Refunding Bonds, (v) the report may be relied upon by Bond Counsel in connection with its opinions concerning the Refunded Bonds and the Refunding Bonds, (vi) the report may be relied upon by any rating agency or bond insurer that shall have rated or insured or that will rate or insure the Refunded Bonds or the Refunding Bonds, and (vii) the report may be relied upon by the Escrow Agent for the Refunded Bonds.

The scope of our engagement is deemed by the addressees hereto to be sufficient to assist such parties in evaluating the mathematical accuracy of the various computations cited above. The sufficiency of this scope is solely the responsibility of the specified users of this report and should not be taken to supplant any additional inquiries or procedures that the users would undertake in their consideration of the issuance of the bonds related to the transaction described herein. We make no representation regarding the sufficiency of the scope of this engagement. This report should not be used by any party who does not agree to the scope set forth herein and who does not take responsibility for the sufficiency and appropriateness of such scope for their purposes.

This report has been reviewed by Thomas J. Ruygrok, a certified public accountant licensed in the State of California.

We have no obligation to update this report because of events, circumstances, or transactions occurring subsequent to the date of this report.

Very truly yours,

Causey Dungen & Moore Inc.

EXHIBIT A

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**ESCROW ACCOUNT CASH FLOW
AS OF MARCH 1, 2005**

Date	Total Cash Receipts From U.S. Treasury SLGs (Exhibit A-1)	Cash Disbursements From Escrow (Exhibit B)	Cash Balance
Beginning Balance:			\$0.67
01-Sep-05	\$536,574.03	\$536,573.75	0.95
01-Mar-06	286,121.87	286,122.50	0.32
01-Sep-06	556,122.62	556,122.50	0.44
01-Mar-07	279,979.94	279,980.00	0.38
01-Sep-07	10,897,179.72	10,897,180.00	0.10
	<u>\$12,555,978.18</u>	<u>\$12,555,978.75</u>	

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**CASH RECEIPTS FROM THE ESCROWED SECURITIES
AS OF MARCH 1, 2005**

	\$343,480.00	\$94,957.00	\$367,721.00	\$97,278.00	\$10,716,078.00	
	2.710000%	2.910000%	3.100000%	3.290000%	3.380000%	Total
Payment	SLGS (1)	SLGS (1)	SLGS (2)	SLGS (2)	SLGS (2)	Cash
Date	01-Sep-05	01-Mar-06	01-Sep-06	01-Mar-07	01-Sep-07	Receipts
01-Sep-05	\$348,172.41		\$5,699.68	\$1,600.22	\$181,101.72	\$536,574.03
01-Mar-06		\$97,720.25	5,699.68	1,600.22	181,101.72	286,121.87
01-Sep-06			373,420.68	1,600.22	181,101.72	556,122.62
01-Mar-07				98,878.22	181,101.72	279,979.94
01-Sep-07					10,897,179.72	10,897,179.72
	\$348,172.41	\$97,720.25	\$384,820.04	\$103,678.88	\$11,621,586.60	\$12,555,978.18

- (1) U.S. Treasury Certificate of Indebtedness (State and Local Government Series).
(2) U.S. Treasury Note or Bond (State and Local Government Series).

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**DESCRIPTION OF THE ESCROWED SECURITIES
AS OF MARCH 1, 2005**

Type	Settlement Date	Maturity Date	Par Amount	Coupon Rate	Price	Cost
SLGS	01-Mar-05	01-Sep-05	\$343,480.00	2.710%	100.000000%	\$343,480.00
SLGS	01-Mar-05	01-Mar-06	94,957.00	2.910%	100.000000%	94,957.00
SLGS	01-Mar-05	01-Sep-06	367,721.00	3.100%	100.000000%	367,721.00
SLGS	01-Mar-05	01-Mar-07	97,278.00	3.290%	100.000000%	97,278.00
SLGS	01-Mar-05	01-Sep-07	10,716,078.00	3.380%	100.000000%	10,716,078.00
			<u>\$11,619,514.00</u>			<u>\$11,619,514.00</u>

EXHIBIT B**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS****ESCROW ACCOUNT DISBURSEMENT REQUIREMENTS FOR THE REFUNDED BONDS
AS OF MARCH 1, 2005**

Payment Date	Rate	Payment For				Total
		Maturing Principal	Principal Redeemed	Interest	Premium	
01-Sep-05	4.450%	\$245,000.00		\$291,573.75		\$536,573.75
01-Mar-06				286,122.50		286,122.50
01-Sep-06	4.550%	270,000.00		286,122.50		556,122.50
01-Mar-07				279,980.00		279,980.00
01-Sep-07	Various	305,000.00	\$10,110,000.00	279,980.00	\$202,200.00	10,897,180.00
		<u>\$820,000.00</u>	<u>\$10,110,000.00</u>	<u>\$1,423,778.75</u>	<u>\$202,200.00</u>	<u>\$12,555,978.75</u>

EXHIBIT B-1

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**DEBT SERVICE REQUIREMENTS FOR THE REFUNDED BONDS
ASSUMING NO OPTIONAL REDEMPTIONS PRIOR TO MATURITY
AS OF MARCH 1, 2005**

(FOR INFORMATIONAL PURPOSES ONLY)

Payment Date	Rate	Payment For		Total Debt Payment
		Principal	Interest	
01-Sep-05	4.450%	\$245,000.00	\$291,573.75	\$536,573.75
01-Mar-06			286,122.50	286,122.50
01-Sep-06	4.550%	270,000.00	286,122.50	556,122.50
01-Mar-07			279,980.00	279,980.00
01-Sep-07	4.650%	305,000.00	279,980.00	584,980.00
01-Mar-08			272,888.75	272,888.75
01-Sep-08	4.750%	335,000.00	272,888.75	607,888.75
01-Mar-09			264,932.50	264,932.50
01-Sep-09	4.900%	370,000.00	264,932.50	634,932.50
01-Mar-10			255,867.50	255,867.50
01-Sep-10	5.000%	405,000.00	255,867.50	660,867.50
01-Mar-11			245,742.50	245,742.50
01-Sep-11	5.100%	450,000.00	245,742.50	695,742.50
01-Mar-12			234,267.50	234,267.50
01-Sep-12	5.150%	490,000.00	234,267.50	724,267.50
01-Mar-13			221,650.00	221,650.00
01-Sep-13	5.500%	535,000.00	221,650.00	756,650.00
01-Mar-14			206,937.50	206,937.50
01-Sep-14	5.500%	585,000.00	206,937.50	791,937.50
01-Mar-15			190,850.00	190,850.00
01-Sep-15	5.500%	640,000.00	190,850.00	830,850.00
01-Mar-16			173,250.00	173,250.00
01-Sep-16	5.500%	695,000.00	173,250.00	868,250.00
01-Mar-17			154,137.50	154,137.50
01-Sep-17	5.500%	760,000.00	154,137.50	914,137.50
01-Mar-18			133,237.50	133,237.50
01-Sep-18	5.500%	825,000.00	133,237.50	958,237.50
01-Mar-19			110,550.00	110,550.00
01-Sep-19	5.500%	890,000.00	110,550.00	1,000,550.00
01-Mar-20			86,075.00	86,075.00
01-Sep-20	5.500%	965,000.00	86,075.00	1,051,075.00
01-Mar-21			59,537.50	59,537.50
01-Sep-21	5.500%	1,040,000.00	59,537.50	1,099,537.50
01-Mar-22			30,937.50	30,937.50
01-Sep-22	5.500%	1,125,000.00	30,937.50	1,155,937.50
		<u>\$10,930,000.00</u>	<u>\$6,705,501.25</u>	<u>\$17,635,501.25</u>

EXHIBIT C

BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS

YIELD ON THE REFUNDING BONDS
AS OF MARCH 1, 2005

Payment Date	Total Debt Payment (Exhibit C-1)	Callable Premium Bond Adjustments	Adjusted Debt Service	Present Value at
				March 1, 2005 Using a Semi-Annually Compounded Yield of 3.73280%
01-Sep-05	\$526,568.75		\$526,568.75	\$516,920.93
01-Mar-06	242,368.75		242,368.75	233,568.73
01-Sep-06	587,368.75		587,368.75	555,671.26
01-Mar-07	237,193.75		237,193.75	220,282.19
01-Sep-07	617,193.75		617,193.75	562,686.75
01-Mar-08	231,493.75		231,493.75	207,182.69
01-Sep-08	636,493.75		636,493.75	559,213.16
01-Mar-09	225,418.75		225,418.75	194,420.61
01-Sep-09	665,418.75		665,418.75	563,399.35
01-Mar-10	218,818.75		218,818.75	181,875.78
01-Sep-10	693,818.75		693,818.75	566,115.97
01-Mar-11	209,318.75		209,318.75	167,662.73
01-Sep-11	729,318.75		729,318.75	573,475.43
01-Mar-12	198,918.75		198,918.75	153,547.30
01-Sep-12	753,918.75		753,918.75	571,294.51
01-Mar-13	185,043.75		185,043.75	137,650.87
01-Sep-13	780,043.75		780,043.75	569,629.58
01-Mar-14	175,375.00		175,375.00	125,721.71
01-Sep-14	810,375.00		810,375.00	570,292.52
01-Mar-15	162,675.00		162,675.00	112,383.23
01-Sep-15	847,675.00	\$5,670,000.00	6,517,675.00	4,420,205.00
01-Mar-16	148,975.00	(134,275.00)	14,700.00	9,786.70
01-Sep-16	883,975.00	(134,275.00)	749,700.00	489,976.54
01-Mar-17	134,275.00	(134,275.00)		
01-Sep-17	924,275.00	(924,275.00)		
01-Mar-18	116,500.00	(116,500.00)		
01-Sep-18	961,500.00	(961,500.00)		
01-Mar-19	97,487.50	(97,487.50)		
01-Sep-19	1,002,487.50	(1,002,487.50)		
01-Mar-20	77,125.00	(77,125.00)		
01-Sep-20	1,047,125.00	(1,047,125.00)		
01-Mar-21	55,300.00	(55,300.00)		
01-Sep-21	1,095,300.00	(1,095,300.00)		
01-Mar-22	28,000.00	(28,000.00)		
01-Sep-22	1,148,000.00	(1,148,000.00)		
	<u>\$17,455,143.75</u>	<u>(\$1,285,925.00)</u>	<u>\$16,169,218.75</u>	<u>\$12,262,963.54</u>

Dated Date: 01-Mar-05
Delivery Date: 01-Mar-05

The above aggregate present value of the future payments equals the following:

Par Value of the Issue	\$11,720,000.00
Net Original Issue Premium	574,382.80
Bond Insurance Premium	(31,419.26)
Proceeds on Delivery Date	<u>\$12,262,963.54</u>

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**REFUNDING BOND DEBT SERVICE REQUIREMENTS AND PRODUCTION
AS OF MARCH 1, 2005**

Payment Date	Rate	Payment For		Total Debt Payment	Reoffering Price	Original Issue Premium/ (Discount)	Total Production
		Principal	Interest				
01-Sep-05	3.000%	\$280,000.00	\$246,568.75	\$526,568.75	100.569%	\$1,593.20	\$281,593.20
01-Mar-06			242,368.75	242,368.75			
01-Sep-06	3.000%	345,000.00	242,368.75	587,368.75	101.322%	4,560.90	349,560.90
01-Mar-07			237,193.75	237,193.75			
01-Sep-07	3.000%	380,000.00	237,193.75	617,193.75	101.569%	5,962.20	385,962.20
01-Mar-08			231,493.75	231,493.75			
01-Sep-08	3.000%	405,000.00	231,493.75	636,493.75	101.834%	7,427.70	412,427.70
01-Mar-09			225,418.75	225,418.75			
01-Sep-09	3.000%	440,000.00	225,418.75	665,418.75	101.475%	6,490.00	446,490.00
01-Mar-10			218,818.75	218,818.75			
01-Sep-10	4.000%	475,000.00	218,818.75	693,818.75	106.077%	28,865.75	503,865.75
01-Mar-11			209,318.75	209,318.75			
01-Sep-11	4.000%	520,000.00	209,318.75	729,318.75	105.563%	28,927.60	548,927.60
01-Mar-12			198,918.75	198,918.75			
01-Sep-12	5.000%	555,000.00	198,918.75	753,918.75	111.565%	64,185.75	619,185.75
01-Mar-13			185,043.75	185,043.75			
01-Sep-13	3.250%	595,000.00	185,043.75	780,043.75	99.046%	(5,676.30)	589,323.70
01-Mar-14			175,375.00	175,375.00			
01-Sep-14	4.000%	635,000.00	175,375.00	810,375.00	104.011%	25,469.85	660,469.85
01-Mar-15			162,675.00	162,675.00			
01-Sep-15	4.000%	685,000.00	162,675.00	847,675.00	103.030%	20,755.50	705,755.50
01-Mar-16			148,975.00	148,975.00			
01-Sep-16	4.000%	735,000.00	148,975.00	883,975.00	102.153%	15,824.55	750,824.55
01-Mar-17			134,275.00	134,275.00			
01-Sep-17	4.500%	790,000.00	134,275.00	924,275.00	105.305%	41,909.50	831,909.50
01-Mar-18			116,500.00	116,500.00			
01-Sep-18	4.500%	845,000.00	116,500.00	961,500.00	104.514%	38,143.30	883,143.30
01-Mar-19			97,487.50	97,487.50			
01-Sep-19	4.500%	905,000.00	97,487.50	1,002,487.50	104.252%	38,480.60	943,480.60
01-Mar-20			77,125.00	77,125.00			
01-Sep-20	4.500%	970,000.00	77,125.00	1,047,125.00	103.731%	36,190.70	1,006,190.70
01-Mar-21			55,300.00	55,300.00			
01-Sep-21	5.250%	1,040,000.00	55,300.00	1,095,300.00	111.540%	120,016.00	1,160,016.00
01-Mar-22			28,000.00	28,000.00			
01-Sep-22	5.000%	1,120,000.00	28,000.00	1,148,000.00	108.505%	95,256.00	1,215,256.00
		<u>\$11,720,000.00</u>	<u>\$5,735,143.75</u>	<u>\$17,455,143.75</u>		<u>\$574,382.80</u>	<u>\$12,294,382.80</u>

EXHIBIT D

**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS**

**ESCROW YIELD CALCULATION
AS OF MARCH 1, 2005**

Date	Total Cash Receipts From U.S. Treasury SLGs (Exhibit A)	Present Value at March 1, 2005 Using a Semi-Annually Compounded Yield of 3.36786%
01-Sep-05	\$536,574.03	\$527,688.13
01-Mar-06	286,121.87	276,723.73
01-Sep-06	556,122.62	528,948.75
01-Mar-07	279,979.94	261,889.22
01-Sep-07	10,897,179.72	10,024,264.17
	<u>\$12,555,978.18</u>	<u>\$11,619,514.00</u>

Total Cost of Securities

\$11,619,514.00

EXHIBIT E**BELMONT-REDWOOD SHORES SCHOOL DISTRICT
(SAN MATEO COUNTY, CALIFORNIA)
2005 GENERAL OBLIGATION REFUNDING BONDS****SOURCES AND USES OF FUNDS
AS OF MARCH 1, 2005****Sources of Funds:**

Par Value of Bonds	\$11,720,000.00
Net Original Issue Premium	574,382.80
Total Sources of Funds	<u>\$12,294,382.80</u>

Uses of Funds:

Beginning Escrow Account Cash Balance	\$0.67
Cost of the Escrowed Securities	11,619,514.00
Building Fund Deposit	391,528.87
Bond Insurance Premium	31,419.26
Underwriter's Discount	128,920.00
Issuance Costs	123,000.00
Total Uses of Funds	<u>\$12,294,382.80</u>



“OUR CHILDREN – OUR FUTURE”

Ravenswood City School District

2120 Euclid Avenue, East Palo Alto, California 94303
(650) 329-2800 Fax (650) 323-1072

Board Members:

M. F. Chester Palesoo , President
Larry Moody, Vice President
Marcelino López, Clerk
John Bostic, Member
Jacqueline Wallace Greene, Member

María M. De La Vega
Superintendent

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

Re: Finding on Grand Jury Report – Cash out Refunding

Background:

The San Mateo County Civil Grand Jury (2007-2008) (Grand Jury) had reviewed and issued a report regarding some San Mateo County school districts’ practice of cash out refunding of their general obligation bonds. The Grand Jury report contains findings and recommendation pertaining to Ravenswood City School District, one of the seven districts listed in the Grand Jury report (attachment No.1).

The cash out refunding is similar to the refinancing of a home whereby the homeowner is able to extract cash by refinancing the existing mortgage. The cash out refunding allows districts to replace some or all of their outstanding general obligation bonds by the new bonds while generating additional cash to spend on capital projects. The old general obligation bonds are referred as the “refunded” bonds while the new bonds as the “refunding” bonds.

The cash out refunding practice only requires that there be existing general obligation bonds, higher assessed property values than projected when bonds were originally issued and/or lower market interest rates. When a district issues the refunding bonds to save money, the savings can be captured in one of the two following ways:

- (1) Over-Time - Reduces annual debt service, which lowers tax rates; or
- (2) Up-Front - Generates a premium to pay for the additional authorized capital projects while also lowering tax rates.

Although the cash out refunding practice may be legal, critics of the practice said it can be abused and questionable, mainly:

- (1) The legal uncertainty of cash out refunding structures;
- (2) The additional obligation placed upon the taxpayers.

What happened in Ravenswood during 2006 to 2007

(1) Resolution No. 893 (Board meeting 09-28-06) authorized the issuance of Refunding Bonds and sale of the Refunding Bonds to the JPA.

(2) A new Joint Powers Authority (JPA), the Ravenswood City School District School Facilities Financing Authority (the Authority), was set up.

The JPA was set up and the participants are (a) Ravenswood School District (District) and (b) the California Municipal Finance Authority (CMFA). The governing board of the JPA is identical to the District's sitting Board at any time.

(3) The JPA Authority purchased all the Refunding Bonds and sold its Revenue Bond to the Underwriter for public offering to the public.

A sum of \$572,111.00, under the title of the Authority, was generated and deposited in the Escrow account.

On October 3, 2007, the Authority claimed the refinancing fund \$588,215.39 by citing the "Modernization and Relocation of San Francisco 49ers Academy to Costano" which had been previously completed.

A check payable to Ravenswood City School District for \$596,855.58 was received by the Authority On October 11, 2007 and deposited District's account with the County Office.

The finding:

In order to respond the Grand Jury report, the District reviewed its cash out refunding process which took place during 2006 to 2007, the findings are as follow:

- (1) For the legal uncertainty of cash out refunding structures, there are several bond structures available for districts to use for the cash out refunding bonds.
 - a) **Premium Refunding Bond Structure** (the most common and risky structure), this most common technique involves simply selling refunding bonds for more than the face amount and keeping the difference. There is a **FUNDAMENTAL FLAW** in this premium bonds structure and the district did not use it.
 - b) **Option Sale Structure**, some bond counsel created and used an alternative structure that involved a **SECOND TRANSACTION, SIMULTANEOUS** with the refunding bond sale in order to provide a legal vehicle for transferring bond premium to the district. This Option sale Structure may involve sale to a Joint Powers Authority ("JPA") or an underwriter of district's right to optionally redeem the original bonds. It is **UNCLEAR** whether the district has any legal right at all to sell such an option, to do so, to do so without taking public bids, or to use the proceeds of sale for anything other than paying debt service on the original bonds. Therefore,, the district did not use this technique.
 - c) **Revenue Bonds Structure (used by Ravenswood)**, Ravenswood's bond counsel, Orrick had developed and implemented an alternative legal structure to overcomes the significant infirmities occur in applying the structures described above.

This Revenue Bonds Structure will have **TWO** bond issues. Each of these bonds will be issued under its own **UNAMBIGUOUS AUTHORIZING STATUTE**. The district sold its refunding bonds to a joint powers authority **AT PAR**; that is at price no more than the stated principal amount of the bonds.

The district's refunding bonds will bear above-market interest rates. The JPA will buy and hold the refunding bonds as the owner. The JPA sells a larger amount of **ITS OWN JPA REVENUE BONDS** to investors.

The application of two bonds in this Revenue Bond Structure is immeasurably more sound than either the "premium bond" or the "option Sale" structure. The Revenue Bond Structure is to rely on the JPA's independent legal status and authority constrained only by its governing statute. It provides great confidence, backed by a California Supreme Court decision (in *Rider v City of San Diego*, 18 Cal. 4th 1035 (1988)).

- (2) For the additional obligation placed upon the taxpayer issue, there is a growing concern in the public about the potential additional obligation in excess of what the taxpayers originally authorized, as part the General Obligation Bond election.

Some critics argued that the refunding of General Obligation Bond and the including of "cash out" provisions is simply a device to increase the amount of money derived from a voter-approved measure to allow bonds to be issued. It may result in issuing bonds exceeding the **ORIGINAL AMOUNT** approved by the voters; and thus obligating the property taxpayers for the General Obligation Bond far in excess of the original intent.

For Ravenswood's cash out refunding transaction, an extra \$596,855.58 was eventually generated and received in October 2007 and applied to the S.F. 49ers Academy to Costano Project. Ravenswood was the **ONLY** district among the seven listed in Grand Jury report with Gross Proceeds \$15,561 (column C) smaller than the Original Principal \$16,000 (column A). Ravenswood had not eventually added any additional debt obligation to what its taxpayer intended to have.

Ravenswood's bond counsel, Orrick is well aware there are certain legal and practical limits to the amount of money a district can generate using the JPA structure. The JPA law imposes an outside limit on the "spread" between what the district pays to the JPA in debt service on its refunding bonds and what the JPA pays to investors on its revenue bonds. The difference in yield on the two issued can be no more than 1%. **THIS LIMITATION ACTUALLY ADDS GREATLY TO THE LEGAL CONFIDENCE IN THE REVENUE BOND STRUCTURE. THE LEGISLATURE HAS ALREADY IDENTIFIED AND ACTED TO CURB CERTAIN ABUSE IN CASH OUT REFUNDING.**

**Table 1 : Cash Out Refunding – 2005-2007
Dollars in Thousand (000)**

School District	Original Bond		Refunding Bond				
	A: Original Principal	B: Re- purchase	C: Gross Proceeds	D: Issue Costs	E: To Bldg. Fund	F: Added Obligation	G: Usable fraction
Belmont-Redwood Shores	12,000	11,620	12,294	283	391	674	58%
Jefferson Union High	5,500	5,163	5,584	200	220	421	52%
Las Lomas Elementary	24,000	22,012	24,619	355	2,253	2607	86%
Ravenswood City	16,000	14,520	15,561	469	572	1041	55%
San Mateo – Foster City	79,000	76,752	83,445	937	5,755	6693	86%
So San Francisco Unified	40,000	39,062	42,617	563	2,992	3,555	84%
Woodside Elementary	9,500	9,517	10,089	220	352	572	61%
Total	186,000	177,645	194,208	3,028	12,536	15,563	81%

Source: Grand Jury Report P. 3

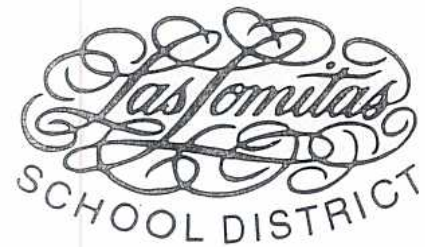
The Conclusions:

Based on the findings of its cash out refunding transaction, Ravenswood City School District believes it had tried it best to take most of the necessary steps, if not all, in good faith to pursuit the best interest of its students. The District is aware of the complexities, potential consequences and even controversies associated to the cash out refunding practice.

The District welcomes and agrees with all the recommendations stated in the Grand Jury Report except Ravenswood believes it had not added additional debt obligation to its taxpayers.

Sincerely,

Fil Guzman
Chief Business Official



Administrative Offices
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 12, 2008

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

Dear Judge Scott:

At its regular meeting on September 10, 2008, the Board of Trustees of the Las Lomas Elementary School District held a public discussion on the Grand Jury Report "Cash Out Refunding: Important Considerations."

The discussion yielded the following responses.

RESPONSE TO FINDINGS

The District disagrees with the findings that the 2005 general obligation bond refinancing increased the tax obligations to the District's taxpayers. By refinancing the District's previously issued general obligation bonds at lower interest rates and reducing the length of repayment than when originally issued, the total payments required on bonds were reduced by \$313,621. These savings are directly realized by taxpayers within the District.

The District disagrees with the finding that the 2005 general obligation bond refinancing was not approved through a public process. The refinancing was discussed and approved as an action item at the District's August 10, 2005 board meeting which was properly noticed and held in a location freely accessible to members of the public.

The District agrees with the finding that the refinancing generated \$2,252,854 of additional funds that were applied to capital projects that had been approved by the voters.

RESPONSE TO RECOMMENDATIONS

1. Grand Jury recommends that districts better acquaint themselves with the complexities of cash out refunding transactions, other types of follow-on bond transactions, sections 53550-53569 of the California Government Code, and relevant sections of the IRS Code pertaining to tax exemption.

District Response: The recommendation has been implemented. The practices the District followed at the time of the adoption of the bond resolution in August 2005 were consistent with this recommendation. The Board and administration reviewed the issues related to cash-out refunding at public meetings. The funds from the transaction were spent only on projects approved by the voters.

A representative or representatives from the District will be attending a FCMAT sponsored workshop on Debt Management at the County Office of Education in October 2008.

2. Grand Jury recommends that districts consider taking procedural steps that are usually taken for an original bond issuance if the district knowingly engages in a cash out refunding. This process would include public notice and approval by the voters.

District Response: The recommendation has been implemented. The governing board discussed and approved the refinancing at a regularly held and properly noticed public board meeting. Bond counsel was present for the discussion. The recommendation to seek voter approval requires further analysis. The District will confer with bond counsel before any future cash-out refinancing as the District is not aware of a mechanism under current law to obtain voter approval for refinancing.

The County Office of Education has prepared a form to be used by districts. This form addresses each of the areas listed for inclusion in the public disclosure.

3. Grand Jury recommends that if a district is in doubt about the propriety of a proposed refunding transaction, it should consult with its bond counsel and the Treasurer's Office before engaging in the transaction.

District Response: The recommendation has been implemented. Practices consistent with this recommendation were followed at the time of the District's transaction. Bond counsel attended a public board meeting where discussions regarding the refunding took place. In the future, the District will consult with the Treasurer's Office if it is in doubt about the propriety of a proposed refunding transaction.

4. Grand Jury recommends that the constituency in the district be informed of the proposed refunding. The information to the public should, at a minimum, disclose the amount to be originally borrowed, amount that will be used to refund the original bond issue, premium amount the district will keep, new amount that taxpayers will be obligated to pay, possible effect on property owner assessments necessary to pay the bond, and status of the Attorney General decision regarding legality of refunding bonds.

District Response: The recommendation has been implemented. Practices consistent with this recommendation were in place at the time of the transaction. The District informed the public of the impact of the cash-out refunding at its August 10, 2005 board meeting and will inform its constituency of any future cash-out refunding. The District will also use a County Office of Education form, which addresses each of these areas, for any future cash-out funding transactions.

Sincerely,



Eric Hartwig
District Superintendent



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

September 17, 2008

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

Dear Judge Scott,

The Woodside Elementary School District Governing Board has received the Grand Jury's recommendations regarding general obligation bond cash out refunding.

The Governing Board agrees with the findings of the Grand Jury and responds as follows:

In response to Recommendation #1 representatives from the District will attend a FCMAT-sponsored workshop on Debt Management. The presenter, Lori Ranieri with Governmental Financial Strategies, is an expert in this field and will cover many of the items that the Grand Jury mentions in its report. In addition, the District Superintendent and Chief Business Official will acquaint themselves with the topics listed by the Grand Jury, including ongoing research and dialogue with your legal and bond counsel.

Central to the Grand Jury's recommendations is ensuring adequate public notice. (Recommendations 2 and 4.) To assist the District in that regard and also to facilitate compliance with the requirements of AB 2197, the San Mateo County Office of Education has prepared a form for our use. The form addresses each of the areas that the Grand Jury lists for inclusion in the public disclosure. The District will utilize this form and the associated process should the need arise in the future.

Thank you for the opportunity to respond regarding this important issue.

Very truly yours,

Bettina U. Pike, Board President

BOARD OF TRUSTEES

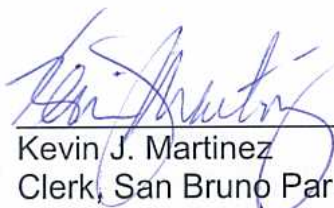
Jennifer Blanco
Russ Hanley
William J. Henderson Jr.
Kevin J. Martinez
James R. Prescott



ADMINISTRATION
David E. Huff, Ed.D.
Superintendent
Lynn Orong
Chief Business Officer

Response to Recommendation

The Respondent agrees with the finding. San Bruno Park School District uses School Services of California and Fiscal Crisis Management and Assistance Team (FCMAT) as professional sources of school business operations; including, but not limited to, the complexities of "cash-out refunding." Bond issuances authorized by the San Bruno citizenry, has not been considered for "refundng" because of the prospective and inherent risks and liabilities to the original bond issuance.



Kevin J. Martinez
Clerk, San Bruno Park School District
Governing Board

08/13/08

Date



AYSHORE SCHOOL DISTRICT

ONE MARTIN STREET, DALY CITY, CA 94014
TEL: 415-467-5443 FAX: 415-467-1542

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1 December 2008

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

Dear Judge Scott:

The Bayshore Elementary School District is in receipt of the 2007-2008 Grand Jury report entitled "Cash Out Refunding: Important Considerations Report."

The District has no basis to agree or disagree with the findings since the District does not have any outstanding bonds, has not in recent memory had any bonds, and does not contemplate in the near future the issuance of bonding capacity. Any recommendations are therefore not relevant to the District at this time.

Sincerely,

Norman D. Fobert
Superintendent

CC: Bayshore Board of Trustees
grandjury@sanmateocourt.org