CalBOC

California League of Bond Oversight Committees

Our Role in School Bond Financing & Oversight

By
Anton Jungherr and Alicia Minyen

CaLBOC

Providing Training and Support for School Bond Oversight Committees

Knowledge Equals Effective Oversight Benefitting Taxpayers & Our Students

About CaLBOC

- The California League of Bond Oversight Committees (CaLBOC). CaLBOC is an all volunteer, non-partisan association of Citizen Bond Oversight Committee (CBOC) members, current and past, who are interested in helping other Citizens' Bond Oversight Committee members.

- CaLBOC was formed in 2006 by CBOC members trying to find better training to help them perform their duties. Our first training session was held in San Jose in 2007, and we incorporated in the State of California in 2008. In 2009 we were recognized as a 501(c)3 charitable organization by the IRS.

Proposition 39

- In November 2000, 53.3% of California voters voted yes for Proposition 39, a Constitutional Amendment. This initiative allows property tax increases to pay for school facility bonds by a 55% vote rather than the required two-thirds vote of the local electorate.

Proposition 39 requires school districts that pass Proposition 39 bonds to seat a Citizens' Bond Oversight Committee (CBOC) to assure the community that bond funds are expended in the fashion outlined in the district's bond resolution. The CBOC must meet at least once a year and inform the public about the expenditure of bond revenues. The CBOC shall actively review and report on the proper expenditure of taxpayers' money for school construction.

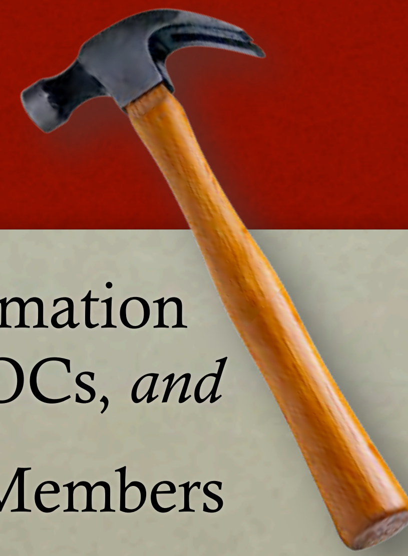
Our Mission Statement

To promote school district accountability by improving the training and resources available to California's Proposition 39 School Bond Oversight Committees and educating the state legislature, local school boards and the public about the oversight and reporting powers these Citizens' Bond Oversight Committees (CBOCs) have, and to advocate on a state level, where appropriate, on issues of common concern to all CBOCs.

Our Purpose

1. **To provide the general public with informational and educational materials and activities on local School Bond Oversight Committees that will help increase public awareness of the valuable role that CBOC's play in the Prop 39 school bond process,** ***and***
2. **To promote comprehensive training and orientation of all new CBOC members throughout the state,** ***and***
3. To promote adequate funding, staffing and other support as typically required by CBOCs to be provided in all districts throughout the state with Prop 39 Bonds pursuant to fulfilling their lawful duties, *and*
4. To promote the preservation of all CBOC reports throughout the state in both the county of origin education office and a centralized state archive repository accessible to the public, *and*
5. To advocate public distribution of all CBOC reports, *and*

Our Purpose
(continued)



6. To maintain a website to provide current information concerning issues, events and activities of CBOCs, *and*
7. To sponsor a statewide conference of CBOC Members and interest parties, *and*
8. To work toward the preservation and enhancement of the CBOC system by sponsoring needed legislation, *and*
9. To undertake any other efforts consistent with the foregoing that will increase the public knowledge of the CBOC system and the contribution it makes, and continues to make, to California taxpayers and toward good government.

Training & Support

CaLBOC.org is our a new website. It is regularly updated with pertinent information for bond oversight.

- CaLBOC has started a series of online Training videos

- Free membership
- A free weekly newsletter with current news and legislative updates
- CaLBOC receives and responds directly to questions from bond oversight members. Concerns include oversight committee compliance, bond finance, and other related issues.

Legislative Program

CaLBOC Co-Sponsored Legislation

- **Senate Bill No. 1473, Chapter 294, Sept. 23, 2010.** An act to add Section 15286 to the Education Code, relating to school facilities. Wyland. School facilities bond proceeds: performance audits. **This bill would require a financial and performance audit to be conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States.**
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- **Assembly Bill No. 1199, Chapter 73, July 10, 2012.** An act to amend Section 15282 of the Education Code, relating to school bonds. Brownley. School bonds: citizens' oversight committee. …Existing law also requires members of a citizens' oversight committee to serve for a term of 2 years without compensation and for no more than 2 consecutive terms. **This bill would instead provide that members of a citizens' oversight committee serve for a minimum term of 2 years without compensation and for no more than 3 consecutive terms.**

Upcoming

- **CaLBOC is soliciting suggestions for their 2013 Legislative Program.** This program will be a topic at the Nov. 9. 2012 CaLBOC board meeting. **Please email proposals by Oct. 31, 2012 to calboc1@aol.com**

- **Recruiting for the Board of Advisors.**
  Nominate someone or nominate yourself.
  The Board of Advisors consists of citizens who are passionate about Citizens' Bond Oversight Committees having independent training and the capacity to provide independent oversight of Proposition 39 bond construction projects. There are no meeting requirements for Board of Advisor members. Members will be requested to provide advice from time to time on various training courses, programs, website, proposed legislation and publications. Communication will be via email and occasional conference calls.

CaLBOC

School Debt in California

- **Since 2000, there has been about $83 billion in general obligation bonds ("GO") issued by school and community college districts.***
- About 25% of school district GO bonds are Capital Appreciation Bonds (CABs.) *
- Over 9,000 CABs issued by California school districts will mature between 2013 to 2052.**
- Over 900 CABs issued by California community college districts will also mature between 2013 to 2052.**
- About $5 Billion in CABs sold with maturities over 25 years.***
- The California Debt and Investment Advisory Commission (CDIAC) does not track the cost of CABs.

School Debt in California
(Continued)

- A sample of 59 school and community college districts bonds with a total principal of $2.1 billion will have a maturity value of $8 billion.**
- Mini CABs imbedded within the sample cost is as high as 105 times par.
- 45% of Calif. districts have sold CABs (447 districts out of 977).**
- 71% of California community college districts have sold CABs (52 districts out of 72). **
- 73% of all school CABs issued in the US with 25 year+ terms were sold by California schools. **
- 48% of all school CABs issued in the US were sold by Calif. schools (9,488 CA schools out of 19,776 US schools). **

* *Figures provided by the California Debt Investment Advisory Commission "CDIAC").*
** *www.emma.msrb.org*
*** *Thomson Reuters Data*

Oversight of School Bonds

The Effectiveness of CBOCs and Obstacles

Since the passage of Prop 39 local California districts have issued over $83 billion in school bonds, the main oversight over these bond programs are CBOCs.

- CBOCs may have untrained volunteers that may have conflict of interest issues. Members are appointed by school board members and school districts, that may wish to influence their bond program and financing oversight.
- Therefore CBOCs may have conflicts, may be friends and/or friends of the benefactors receiving bond proceeds. Districts may decide what bond program information is given to CBOCs.
- CBOCs members may not be qualified, have adequate training, and may not perform the work necessary for adequate oversight. CBOC members may have ulterior motives and may use their position to influence projects at their children's schools or in specific neighborhoods.

Oversight of School Bonds
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- CBOCs sometimes participate in the selection and engagement of contractors. This compromises CBOC independence.
- Districts lack adequate internal controls to mitigate and detect misuse of bond proceeds.
- CBOCs may not be reviewing financial statements and back up documents such as invoices, general ledger detail, and transaction journals. CBOCs may put too much reliance on the auditor's work pertaining to the financial and performance audit.
- CBOCs may fail to provide an annual report or is not provided timely.
- CBOCs may allow the school districts to run their meetings, and they allow the district to determine what information will be available to the public.
- Districts disband CBOCs early and before all bond proceeds have been spent and the final performance audit is completed.
- **Environment ripe for fraud:**
  Motivation, Rationalization and Opportunity.

Oversight of School Bonds
School Bond Oversight Duties

- Audits must be reviewed by March 31st of each year.
- Shall advise the public as to whether a school district or community college district is in compliance with the CA Constitution.
- CBOCs shall actively review and report on the proper expenditure of taxpayers' money for school construction.
- Ensure bond proceeds cannot be used for any administrative or teacher salaries or other school operating expenses.
- CBOCs must meet at least once a year and inform the public about the expenditure of bond revenues.
- A report shall be issued at least once a year.
- CBOCs must promptly alert the public to any waste or improper expenditure of bond proceeds.

CBOC Roles in School Financing

Education Code 15278(c)(5) provides various review areas that a CBOC "*may engage*" to undertake, however most don't review the bond finances

- **CBOCs should review financing deals <u>before</u> and <u>after</u> bonds are sold.**

- **Look out for Red Flags and Costly Terms:**
- Review contracts for compensation terms and services provided
- CBOCs should obtain justification for utilizing CABs
- Bonds always sold on a negotiated basis
- Unrealistic growth rate projections of assessed valuations
- Use of CABs and CIBs where interest and/or principal is deferred for more than 15 years.
- Bond exceeds the district's debt limit.

CBOC Roles in School Financing
(Continued)

Review the bond offering and documents:

- Bond Resolution (Note type of bond to be issued, maturity term; interest rate/yield; and estimated cost of issuance).
- Ensure use of bond proceeds disclosed in the Bond Resolution is consistent with projects list disclosed to voters in the ballot.
- Reasons for a Negotiated sale of bonds should be justified in the Bond Resolution and prior to execution of the purchase agreement.

CBOC Roles in School Financing
(Continued)

Preliminary and Final Official Bond Statement - Note:

- Proposed use of bond proceeds are consistent with projects list and Bond Resolution
- Debt Service Schedule and Cost of Bond,
- Determine if bond premium was diverted for unauthorized uses.
- Pay to play: Ascertain if the Financial Adviser or Bond Underwriter contributed to a bond ballot election
- Disclose any possible misuse of bond premium and conflict of interests to the public.

Examples of Misuse of School Funds

"Ex-Construction Execs Plead No Contest in School Funds Fraud Case" March 2012. Three former executives of a construction firm hired by Santa Barbara County school district diverted $3.6 million to lease expensive cars, throw parties, buy artwork, and pay themselves exorbitant cash bonuses. When the firm began to run short on cash, it began submitting false invoices to the district. **The person at the district in charge of the project knew the invoices were fraudulent, but paid them anyway since she had planned on working for the construction company after she left the district.**

Sweetwater Unified - 1/12 – Certain school board members accused of **pay-to-play** transactions with certain contractors awarded work paid by school bonds. The contractor wined and dined certain Board members. In addition, a law firm hired by the district is under investigation - his contract was so broad and invoices showed that the law firm was paid for services not provided or barely related to district business.

Laws that Influence Financing Methods

- Debt Limit *(Statutory Law)*: May not exceed 2.5% of the taxable property of the district. *(Ed. Code 15270)*
- Tax Rate Limit (Constitutional Law) – Levies cannot exceed *(Section 18 of Article XVI):*
  - *Unified School Districts: $60 per $100k of assessed values*
  - *Elementary School Districts: $30 per $100k of assessed values*
  - *Community College Districts: $25 per $100k of assessed values*
- Ballot Disclosure: School Districts promise no increase in taxes *(Sec: 9400 of CA Elections Code)*

Costly School Financing

- CABs *(greater than 15 years and cost over 3 times principal)*
- CIBs *(greater than 30 years with principal deferred for more than 25 years)*
- Bond Anticipation Notes ("BANs"): School Obligations*
  (notably BAN's sold by Alvord Unified and Fontana Unified)
- Certificates of Participation ("COPs"): School Obligations*
  (Notably COPs sold by Twin Rivers Unified and Western Placer Unified)
- Lease Revenue Bonds ("LRBs"): School Obligations*

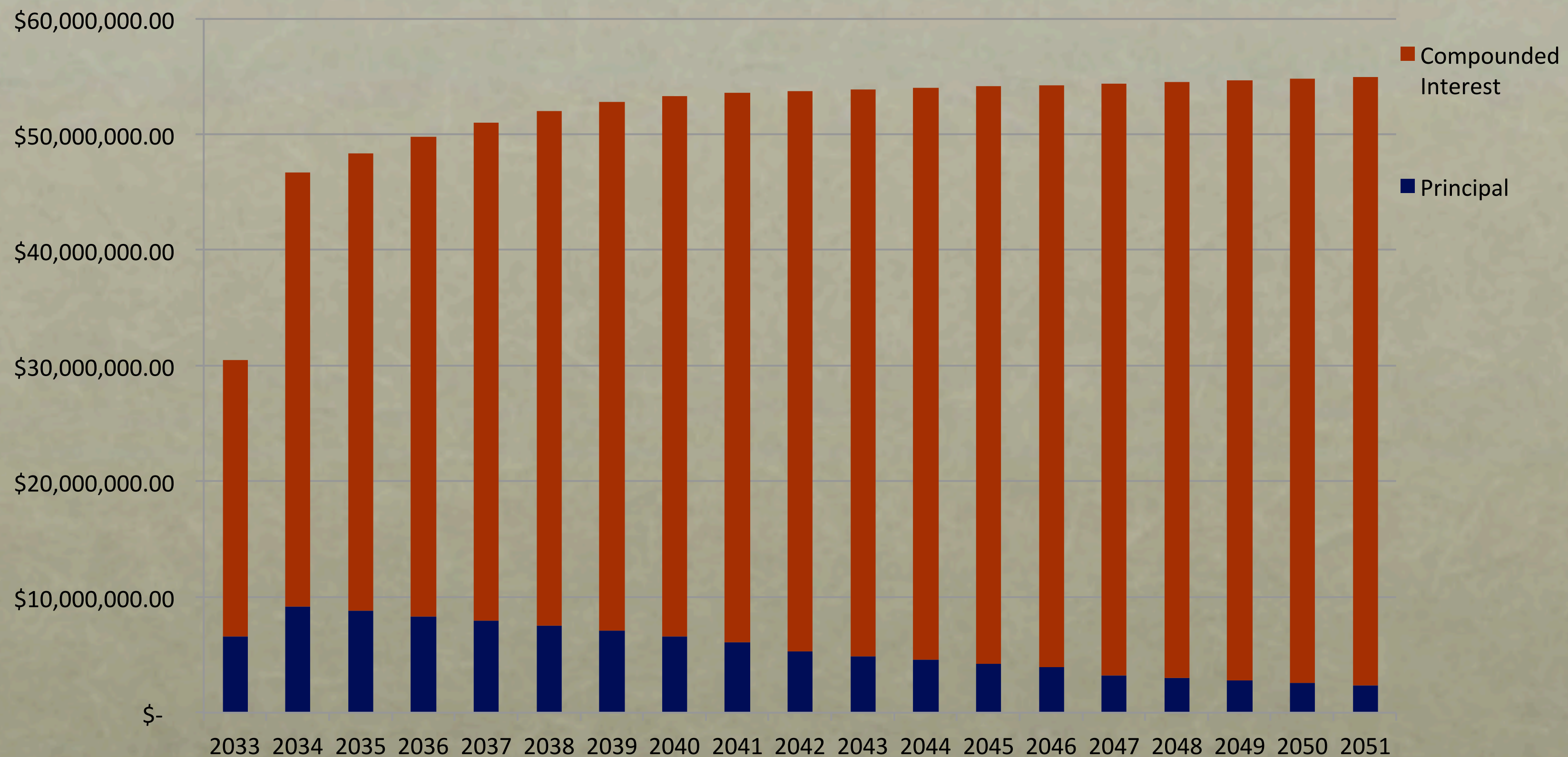
Toxic CABs

1. Poway Unified School District: Sold $13.9 million CAB that will cost $321 million **(23 times principal)**
2. Oceanside Unified School District: Sold $7.3 million CAB that will cost $108 million **(14 times principal)**
3. Santee School District: Sold $1.7 million CAB that will Cost $40 million **(24 times principal)**
4. **Patterson Joint Unified School District: Sold a $78 thousand CAB that will cost $8.1 million (105 times principal)**
5. Aromas - San Juan Unified School District: Sold a $326 thousand CAB that will cost $8.7 million **(26 times principal)**
6. Stockton Unified School District: Sold $1.5 million CAB that will cost $25 million **(16 times principal)**

Toxic CABs
(Continued)

7. Westside Union School District: Sold $3.2 million CAB that will cost $50.6 million. **(15 times principal)**
8. Sutter Union High School District: Sold $1.2 million CAB that will cost $22 million **(18 times principal)**
9. Ceres Unified School District: Sold $567 thousand CAB that will cost $10 million **(17 times principal)**
10. **Hartnell Community College District: Sold $167 thousand CAB that will cost $14.25 million (86 times principal)**
11. Yuba California Community College District: Sold $3.4 million CABs that will cost $51.5 million **(14 times principal).**
12. Victor Valley Community College District: Sold $7.4 million CAB that will cost $125 million **(17 times principal).**

Poway • Debt Service Schedule



NOTE: Debt Service is ZERO from 2011 to 2032. Total Debt Service Reported on Official Bond Statement: $982,562,328 (The debt service figures charted above come from the Official Bond Statement at the link provided on the prior slide).

Poway Unified
A Case Study

Motivation for $1 Billion CAB: General Fund Bailout
$105 million borrowing plan that will cost $1 billion

- 2004: Proposition 55 provided state matching funds to schools – Poway's strategy is obtain maximum Prop. 55 matching funds.
- 2004: Poway sells expensive $100 million COP to obtain State Matching Funds.
- Downside to COP: $100 million COP provides only $76 million for building improvements
- Downside to COP: A Capital Appreciation Loan – deferred to 2014.
- 2002 Proposition U, $198 million voter approved GO Bond
  - Jan '03: Sells $75 million (Conventional Bonds)
  - Jan '06: Sells $119 million (CIBs)
  - Jan '09: Sells $3.7 million (5 year CABs)
  - Generates $11 million in Bond Premium
- $80.7 million of Proposition U paid the 2004 COP

Poway Unified
A Case Study
(Continued)

- Proposition U only provided $128 million for new building projects since $80 million was used to pay the COP.
- Lease Revenue Bonds, $136 million
  - June ‘07: Sells $34.7 mil (CABs up to 32 years)
  - June ‘08: Sells $92.6 mil (CABs up to 20 years)
  - July ‘09: Sells $9 million (CABs up to 30 years)
- Overall, LRBs sold at lower yields than the Prop C, Series B $1 billion CABs.
- Some of the LRBs CANNOT be redeemed early.
- 2008 Prop C, $179 voter approved GO Bond
  - Jan ‘09: Sells $74 million (CABs/CIBs)
  - Aug ‘11: Sells $105 million (CABs)

Poway Unified
A Case Study
(Continued)

- Generates $31 million in Bond Premium
  - About $98 million of Proposition C is used to payoff the 2007 and 2008 LRBs. (However, some LRBs have no optional redemption.)
  - About $14 million of Prop C is used to payoff the 2004 COP.
  - About $9 million is used to pay “Bond Advancement Costs”
  - 2010 Bond Anticipation Note, $25 million Due Dec ’11
    (an obligation of Poway, not the taxpayer)
  - Proposition C, Series B $1 billion CAB is used to pay off the $25 million 2010 BAN, plus its interest of about $1.5 million.

Poway Unified
Violations of Law and other Issues

- Poway misused Prop. C bond proceeds to pay debt service on prior debt *(i.e., the COP and LRBs).*
- Prop C's Project List does not disclose that bond proceeds would be used to pay LRBs or COP.
- COP and LRBs proceeds not subject to Prop. 39 rules. Proceeds may not have been spent on projects listed.
- Poway's CBOC website missing Prop. U's financial and performance audit for 2003, 2004, 2005, 2008, and 2009.
- Poway's CBOC website missing Prop. C financial and performance audits for 2009.
- Questionable BAN. Education Code 15150 states that a BAN may be sold IF it is in the *best interest* of the district.
- BAN unnecessary since CAB was needed anyway to meet ballot disclosure promise of maintaining the tax rate at $55 per $100k.

Alford Unified
A Case Study

- 2007 Proposition U: $196 million voter approved GO Bond.
- 2008 Alvord sells first $60M under Proposition U.
- 2009 Alvord reaches tax rate limit. Sells $60M BAN.
- 2010 Alvord's assessed valuation continues to decline. Sells another BAN $52M.
- 2011 Alvord sells $57M CAB under Prop. U with a 12% Bond Premium.
- 2011 Alvord uses Prop. U proceeds & Bond Premium to payoff 2009 $60M BAN.
- 2011 Alvord's sale of Prop. U. CAB causes it to EXCEED the debt limit.
  Waiver granted for 2.6% instead of 2.5%.
- Alvord needs to sell Prop. U bonds to payoff 2010 BAN,
  but can't because it has exceeded the tax rate and debt limit.
- Alvord is now seeking a new bond ballot measure this November.
  But have failed to obtain a debt limit waiver from the State.
- **Failure to pay the 2010 BAN puts Alvord at risk of receivership.**

How Can Treasurers Help CBOCs?

- Offer assistance to school districts with its financing to ensure taxpayers receive best financing terms on a deal by deal basis.
- Include CBOCs on any correspondence to the district regarding any financing *concerns (Correspondence to the CBOC must be posted on the CBOC website pursuant to the law as a means to keep the public informed)*
- Maintain requests for bond proceeds, disbursement records and ensure disbursement requests *(such as in the form of Journal Entry Forms)* provide a complete description and explanation so that the purpose of any bond proceed disbursements can be deciphered. *(Some school districts refuse to provide detail financial records regarding disbursed funds to CBOCs. Treasurers can be a secondary resource to CBOCs to obtain such detailed records).*
- Research any financing concerns expressed by CBOCs and intervene where appropriate.

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CALIFORNIA LEAGUE OF BOND OVERSIGHT COMMITTEES

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Role in School Bond Financing

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PROVIDING TRAINING AND SUPPORT FOR SCHOOL BOND OVERSIGHT COMMITTEES

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A CBOC must be created within 60 days of the date that the governing board enters the election results on its minutes. A CBOC should consist of at least 7 members, including a taxpayer rep.

California Education Code Section 15264:"It is the intent of the Legislature that all of the following are realized: **(a)** Vigorous efforts are undertaken to ensure that the expenditure of bond measures, including those authorized pursuant to paragraph (3) of subdivision (b) of Section 1 of Article XIIIA of the California Constitution, are in strict conformity with the law. … "

Article XIIIA requires accountability requirements: Bond proceeds must be spent only on the construction, repair, and replacement of school facilities; equipping and furnishing schools (such as technology); and the acquisition or lease of real property for school facilities. Bond proceeds must only be spent on those projects specified in the bond ballot and in the resolution approved by the Board. An annual financial audit and performance audit to ensure that bond proceeds have been expended only on the specific projects listed.

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CABs allow districts to borrow money on future tax revenues and rely on property values to grow in the future before the loan comes due, which may be 40 years out. At that point the money borrowed may have accrued interest many times the principal.
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- A report shall be issued at least once a year.
- Ensure bond proceeds cannot be used for any teacher or administrative salaries or other school operating expenses. *(See AG Opinion 04-110)*
- CBOCs must promptly alert the public to any waste or improper expenditure of bond proceeds.
- The Unauthorized expenditures of school construction revenues are vigorously investigated, prosecuted, and that the courts act swiftly to restrain any improper expenditures. (*See Education Code 15284(a) – "School Bond Waste Prevention Action")*

CBOC Roles In School Financing

Education Code 15278(c)(5) provides various review areas that a CBOC "*may engage*" to undertake, however most don't review the bond finances .

- Education Code 15278(c)(5)(A) states "in furtherance of the CBOCs' purpose, the CBOC may Review efforts by the school district or community college district to maximize bond revenues by implementing cost-saving measures, including:
  Mechanisms designed to reduce costs of <u>professional fees</u>.
- Professional fees includes "cost of issuance" paid to bond counsel, financial advisers, and bond underwriters.
- CBOCs should review financing deals <u>before</u> and <u>after</u> bonds are sold.
- **Look out for Red Flags and Costly Terms:**
  - Review contracts for compensation terms and services provided – recalculate fees.
  - CBOCs should obtain justification for utilizing CABs since they more costly than conventional bonds. *For example, underwriters may charge 65 basis points for CABs vs. 40 basis points for CIBs.*
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- Ensure use of bond proceeds disclosed in the Bond Resolution is consistent with projects list disclosed to voters in the ballot.
- Reasons for a Negotiated sale of bonds should be justified in the Bond Resolution and prior to execution of the purchase agreement.
- Bond Resolution (also Note if a Credit Enhancer will be purchased and determine natural rating of bond. Determine if this is cost effective.)

Preliminary and Final Official Bond Statement - Note:

- Proposed use of bond proceeds are consistent with projects list and Bond Resolution
- Type of bond consistent with Bond Resolution
- Debt Service Schedule and Cost of Bond,
- Extrapolate Growth Rate projections and determine if reasonable.
- Sources and Uses of Funds Schedule to determine total bond proceeds raised from the sale of bonds, including Original Issue Premium.
- Sources and Uses of Funds Schedule to determine allocation of bond proceeds among the Building Fund, Debt Service Fund, and Cost of Issuance)
- Review Assessed valuations for properties in district territory
- Determine if bond premium was diverted for unauthorized uses.
- If so, ensure Budget reflects additional receipt of bond proceeds in the form of bond premium.
- Pay to play: Ascertain if the Financial Adviser or Bond Underwriter contributed to a bond ballot election via a PAC or directly.
- Disclose any possible misuse of bond premium and conflict of interests to the public.
- Ensure the Board approves Final Terms (rather than giving staff full discretion and power to carry out final sale without board approval)
- Official Transcript (verify final deal terms, bond proceeds received, and cost of issuance)
- Reconcile bond proceeds and cost of issuance shown on Transcript to the CBOC Budget to ensure that the District is disclosing all bond proceeds received.

Examples of Misuse of School Funds

- ***"Ex-Construction Execs Plead No Contest in School Funds Fraud Case" 3/2012***. Three former executes of a construction firm hired by Santa Barbara County school district diverted $3.6 million to lease expensive cars, throw parties, buy artwork and pay themselves exorbitant cash bonuses. When the construction company began to run short on cash, it began submitting false invoices to the district. **The person at the district in charge of the project knew the invoices were fraudulent, but paid them anyway since she had planned on working for the construction company after she left the district.**
- ***"US Attorney General's Office" 4/24/12*** – Construction Giant perpetrates overbilling scheme by charging for hours not worked from 1999 to 2009. Falsified timesheets were submitted listing unworked hours for laborers when laborers were actually absent.
- ***Sweetwater Unified - 1/12*** – Certain school board members accused of pay-to-play transactions with certain contractors were awarded work paid by school bonds. The contractor wined and dined certain Board members, including giving them trips to Napa. In addition, a law firm hired by the district is under investigation - his contract was so broad and invoices showed that the law firm was paid for services not provided or barely related to district business.

Laws that Influence Financing Methods

1. Debt Limit (Statutory Law): May not exceed 2.5% of the taxable property of the district. (Ed. Code 15270)
2. Tax Rate Limit (Constitutional Law) - Levies cannot exceed (Section 18 of Article XVI):
   - *Unified School Districts: $60 per $100k of assessed values*
   - *Elementary School Districts: $30 per $100k of assessed values*
   - *Community College Districts: $25 per $100k of assessed values*
3. Ballot Disclosure: School Districts promise no increase in taxes (Sec: 9400 of CA Elections Code)

Costly School Financing

1. CABs (greater than 15 years and cost over 3 times principal)
2. CIBs (greater than 30 years with principal deferred for more than 25 years)
3. Bond Anticipation Notes ("BANs"): School Obligations* *(notably BAN's sold by Alvord Unified and Fontana Unified)*
4. Certificates of Participation ("COPs"): School Obligations* *(Notably COPs sold by Twin Rivers Unified and Western Placer Unified)*
5. Lease Revenue Bonds ("LRBs"): School Obligations*

Toxic CABs

1. Poway Unified School District: Sold $13.9 million CAB that will cost $321 million **(23 times principal)**
2. Oceanside Unified School District: Sold $7.3 million CAB that will cost $108 million **(14 times principal)**
3. Santee School District: Sold $1.7 million CAB that will Cost $40 million **(24 times principal)**
4. Patterson Joint Unified School District: Sold $78 thousand CAB that will cost $8.1 million **(105 times principal)**
5. Aromas- San Juan Unified School District: Sold $326 thousand CAB that will cost $8.7 million **(26 times principal)**
6. Stockton Unified School District: Sold $1.5 million CAB that will cost $25 million **(16 times principal)**
7. Westside Union School District: Sold $3.2 million CAB that will cost $50.6 million. **(15 times principal)**
8. Sutter Union High School District: Sold $1.2 million CAB that will cost $22 million **(18 times principal)**
9. Ceres Unified School District: Sold $567 thousand CAB that will cost $10 million **(17 times principal)**
10. Hartnell Community College District: Sold $167 thousand CAB that will cost $14.25 million **(86 times principal)**
11. Yuba California Community College District: Sold $3.4 million CABs that will cost $51.5 million **(14 times principal).**
12. Victor Valley Community College District: Sold $7.4 million CAB that will cost $125 million **(17 times principal).**

Poway Unified School District • A Case Study

Motivation for $1 Billion CAB: General Fund Bailout

$105 million borrowing plan that will end up costing taxpayers almost $1 billion

- 2004: Proposition 55 provided state matching funds to schools – Poway's strategy is obtain maximum Prop. 55 matching funds.
- 2004: Poway sells expensive $100 million COP to obtain State Matching Funds.
- Downside to COP: $100 million COP provides only $76 million for building improvements
- Downside to COP: A Capital Appreciation Loan – deferred to 2014.
- 2002 Proposition U, $198 million voter approved GO Bond
  - Jan '03: Sells $75 million (Conventional Bonds)
  - Jan '06: Sells $119 million (CIBs)
  - Jan '09: Sells $3.7 million (5 year CABs)
  - Generates $11 million in Bond Premium
- $80.7 million of Proposition U paid the 2004 COP
- Proposition U only provided $128 million for new building projects since $80 million was used to pay the COP.
- Lease Revenue Bonds, $136 million
  - June '07: Sells $34.7 million (CABs up to 32 yrs)
  - June '08: Sells $92.6 million (CABs up to 20 years)
  - July '09: Sells $9 million (CABs up to 30 years)
- Overall, LRBs sold at lower yields than the Proposition C, Series B $1 billion CABs.
- Some of the LRBs CANNOT be redeemed early.
- 2008 Proposition C, $179 voter approved GO Bond
  - Jan '09: Sells $74 million (CABs/CIBs)
  - Aug '11: Sells $105 million (CABs)
- Generates $31 million in Bond Premium
  About $98 million of Proposition C is used to payoff the 2007 and 2008 LRBs. (However, some LRBs have no optional redemption.)
  - About $14 million of Proposition C is used to payoff the 2004 COP.
  - About $9 million is used to pay "Bond Advancement Costs"
  - 2010 Bond Anticipation Note, $25 million Due Dec '11 (an obligation of Poway, not the taxpayer)
  - Proposition C, Series B $1 billion CAB is used to pay off the $25 million 2010 BAN, plus its interest of about $1.5 million.

Violations of Law and other Issues:

- Poway misused Prop. C bond proceeds to pay debt service on prior debt (i.e., the COP and LRBs).
- Prop C's Project List does not disclose that bond proceeds would be used to pay LRBs or COP.
- COP and LRBs proceeds not subject to Prop. 39 rules. Proceeds may not have been spent on projects listed.
- Poway's CBOC website missing Prop. U's financial and performance audit for 2003, 2004, 2005, 2008, and 2009.
- Poway's CBOC website missing Prop. C financial and performance audits for 2009.
- Questionable BAN. Education Code 15150 states that a BAN may be sold IF it is in the *best interest* of the district.
- BAN unnecessary since CAB was needed anyway to meet ballot disclosure promise of maintaining the tax rate at $55 per $100k.

Alvord Unified School District • A Case Study

At Risk for Receivership

- 2007 Proposition U: $196 million voter approved GO Bond.
- 2008 Alvord sells first $60M under Proposition U.
- 2009 Alvord reaches tax rate limit. Sells $60M BAN.
- 2010 Alvord' assessed valuation continues to decline. Sells another BAN $52M.
- 2011 Alvord sells $57M CAB under Prop. U with a 12% Bond Premium.
- 2011 Alvord uses Prop. U proceeds and Bond Premium to payoff 2009 $60M BAN.
- 2011 Alvord's sale of Prop. U. CAB causes it to EXCEED the debt limit. Waiver granted for 2.6% instead of 2.5%.
- Alvord needs to sell Prop. U bonds to payoff 2010 BAN, but can't because it has exceeded the tax rate and debt limit.
- Alvord is now seeking a new bond ballot measure this November. But have failed to obtain a debt limit waiver from the State.
- Failure to pay the 2010 BAN puts Alvord at risk of receivership.

How Can Treasurers Help CBOCs?

- Offer assistance to school districts with its financing to ensure taxpayers receive best financing terms on a deal by deal basis.

- Include CBOCs on any correspondence to the district regarding any financing concerns (Correspondence to the CBOC must be posted on the CBOC website pursuant to the law as a means to keep the public informed)

- Maintain requests for bond proceeds, disbursement records and ensure disbursement requests (such as in the form of Journal Entry Forms) provide a complete description and explanation so that the purpose of any bond proceed disbursements can be deciphered. (Some school districts refuse to provide detail financial records regarding disbursed funds to CBOCs. Treasurers can be a secondary resource to CBOCs to obtain such detailed records).

- Research any financing concerns expressed by CBOCs and intervene where appropriate.
