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May 31, 2013

ISSUE 46



Greetings!

### May 10th - Second Annual CalBOC Statewide Conference

## On Campus: A map to the school bond

May 15, 2013 | By Nan Austin | [www.modbee.com](http://www.modbee.com)

**EXCERPT:** ... The disconnect of paying and spending isn't lost on California League of Bond Oversight Committees co-founder **Michael Day**, who calls it one of two central problems with the school bonds process.

First, he said, "The districts that make the spending decisions are not the ones paying the bill." He uses an example of a district paying for a \$200,000 energy upgrade that results in \$5,000 annual savings. "What rational organization would ever do that - where annual savings is less than the debt service? Cost-benefit (analysis) doesn't work if you're not paying for the bond."

His second beef: Project designers - architects and contractors - are paid a percentage of the contract, meaning the larger the contract, the larger the fee.

This doesn't mean board members ignore costs or architects lard the contract, just that the system rewards those who do. Citizen oversight in theory keeps everything in line, but the complexities of bonds and contracts can befuddle volunteers. ...

... Speakers at Friday's CalBOC conference in Sacramento hammered home a theme of public awareness, especially of often high-cost capital appreciation bonds, or CABs. "What is a reasonable interest rate on these types of issues? Two to one? Four to one? When it starts to get to be 24 to one, you know something's wrong," said state Treasurer **Bill Lockyer**. ... About 20 percent of school districts in the state have issued CABs, Lockyer said, many having long terms, balloon payments, little transparency and no way to refinance. ...

A bill by Assemblywoman **Joan Buchanan**, D-Danville, would limit school districts' ability to issue high-cost bonds. It would limit CABs to 25 years. Property owners could be put on the hook for only four times the amount of bond principal, and after 10 years, districts would have to be able to refinance them. ...

More than \$74 billion in school bonds have been sold since the passage of Proposition 39 in 2000, which lowered the threshold to pass a school bond from 67 percent to 55 percent but also insisted on community oversight with bond oversight committees.

The initiative had a provision that the bond's cost stay under \$60 tax per \$100,000 of a property's assessed value, which led to the proliferation of pay-later capital appreciation bonds. Districts often take out a two-pack of loans, one with payments starting now, like a standard mortgage, and a CAB, where the money comes out but the bill comes later, typically after paying off the first bonds. ... **To read the complete article please visit:**

[www.modbee.com/2013/05/15/2717741/a-map-to-the-school-bond.html](http://www.modbee.com/2013/05/15/2717741/a-map-to-the-school-bond.html)

### 2012/2013 San Diego County Grand Jury Report - May 22, 2013

## "School District Dilemma - Bonds or Bondage?"

**EXCERPT:** ... **INTRODUCTION** - The Grand Jury received numerous citizen complaints alleging impropriety about the Poway Unified School District's use of CABs to fund a variety of school construction projects between the years 1999 - 2011. CABs have become a highly controversial issue as a variety of news stories outlined the cost of the 2008 Poway Unified School District's Proposition C, a \$179 million bond measure. Due to the passage of Proposition C, \$74 million in bonds were sold in 2009 and an additional \$105 million in 2010. Both of these bond sales generated premiums (additional proceeds available) of \$9.5 million and \$21 million, respectfully. The eventual cost to the taxpayer to repay just the \$105 million bond is almost \$1 billion over a period of 40 years, a payoff ratio of over 9 to 1 . Other school and college districts in the County have bonds with even higher payoff ratios. ...

**Finding 01:** Bond initiatives and propositions typically do not provide information as to the cost of principal and interest payments. This amount can be exponentially larger than the original principal in bond measures that employ a CAB structure.

**Finding 02:** When school districts divert premiums to unauthorized uses and by artificially inflating interest rates to generate the premium, they are not acting consistent with statutory law and are incurring debt beyond what voters authorized in violation of the California Constitution.

**Finding 03:** AB 182, if enacted, will require governing boards of school and community college districts to provide greater transparency to voters concerning:

- Whether CABs are proposed and the reasoning for them
- Cost comparisons between CIBs and CABs
- Total debt service to principal ratios
- Mandatory early redemption guarantees
- Analysis of the overall bond cost
- Underwriter disclosure.

This mandatory reporting will provide greater bond referendum clarity for the taxpayers. ... **Link to the complete report:**

[sdcounty.ca.gov/grandjury/reports/2012-2013/School\\_District\\_Dilemma\\_Bonds\\_Bondage.pdf](http://sdcounty.ca.gov/grandjury/reports/2012-2013/School_District_Dilemma_Bonds_Bondage.pdf)

### Judge Releases San Diego County Grand Jury Testimony

## Contractor: 'They drank all my liquor'

### He says South County officials favored vendors who gave

May 28, 2013 | Jeff McDonald | [www.utsandiego.com](http://www.utsandiego.com)

**EXCERPT:** Some officials wanted lobster. Others wanted campaign cash. At least one wanted no part of the gifts and dinners and trips that were routinely paid for by contractors doing business with South County schools.

According to thousands of pages of grand jury testimony released Tuesday, Sweetwater schools and Southwestern College operated a brazen pay-to-play contracting practice that saw millions of dollars of work go to contractors willing to pick up the tab for trustees and administrators.

"I know for a fact that -- for a fact -- that they selected contractors that were contributing to their, to their re-election, and doing whatever they wanted them to do," testified contractor Hector Romero, not a defendant in the case.

At another point, he said some of the dinners were excessive.

"They drank all my liquor," he testified about one August 2010 gathering.

The transcripts were released over the objections of numerous defense attorneys, who argued that allowing the public to see the unrebuted witness testimony could undermine their clients' right to a fair trial. The defendants have pleaded not guilty. ...

...The documents, which could only be read in person and not photocopied, portray an interlinking network of elected officials and administrators who made no secret of requesting food, travel and other amenities from people who did business with the district. ...

...Not everyone accepted gifts or campaign donations from contractors. Former Sweetwater Trustee Jaime Mercado, not a defendant, testified that he ran for office in 2004 to put a stop to what he heard was a culture of corruption at Sweetwater. "One of the things I really, really objected to, and I told that to the superintendent at the time, was stop buying board members, stop co-opting their votes, stop getting gifts for them, contributions, donations," he told the grand jury. ...

...In all, about 3,000 pages of the 4,200 pages of testimony were released Tuesday. Most of the rest will be made available in a week or two, once about 18 pages of redacted materials are blacked out. ...

**To read the complete article, please visit:**

[utsandiego.com/news/2013/may/28/they-drank-all-my-liquor-south-county-probe?Watchdog](http://utsandiego.com/news/2013/may/28/they-drank-all-my-liquor-south-county-probe?Watchdog)

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[School Districts Cannot Spend Bond Money on Projects Not Disclosed](#)

### May 10, 2013 - 2nd Annual CalBOC Conference

[www.calboc.org/may10.html](http://www.calboc.org/may10.html)

#### Speaker Profiles:

[www.calboc.org/may10/May10.2013bios.pdf](http://www.calboc.org/may10/May10.2013bios.pdf)

#### Speaker Presentations

**Michael Bishop & Joe Dixon**

*Santa Ana Unified School District.*

*Accountability in School Facilities Programs:*

[www.calboc.org/may10/DixonBishop\\_ppt.pdf](http://www.calboc.org/may10/DixonBishop_ppt.pdf)

#### Kevin Carlin:

*The Pros & Cons of Lease Leasebacks:*

[www.calboc.org/may10/CarlinPresentation.pdf](http://www.calboc.org/may10/CarlinPresentation.pdf)

#### Joel Thurtell:

*Breaking the CAB Story*

[www.calboc.org/may10/JoelThurtell2013.pdf](http://www.calboc.org/may10/JoelThurtell2013.pdf)

#### MEDIA COVERAGE:

*Nan Austin - Modesto Bee,*

*ON CAMPUS:*

*School Bonds That Bind:*

[www.modbee.com/2013/05/11/2711120/on-campus-school-bonds-that-bind.html](http://www.modbee.com/2013/05/11/2711120/on-campus-school-bonds-that-bind.html)

*A Map to the School Bond:*

[www.modbee.com/2013/05/15/2717741/a-map-to-the-school-bond.html](http://www.modbee.com/2013/05/15/2717741/a-map-to-the-school-bond.html)

*Theresa Harrington, reporter*

*Bay Area News Group (BANG) Youtube videos:*

[www.youtube.com/watch?v=o7moBjmPYCU](http://www.youtube.com/watch?v=o7moBjmPYCU)

*Joel Thurtell, Reporter and Blogger: We need a*

*Federal ban on CABs*

[www.joelontheroad.com/?p=10608](http://www.joelontheroad.com/?p=10608)

*Kevin Dayton's website/blog:*

[laborissuessolutions.com/2013-annual-conference-of-california-league-of-bond-oversight-committees-highlights-current-controversies-on-municipal-bond-sales-for-schools-and-high-speed-rail](http://laborissuessolutions.com/2013-annual-conference-of-california-league-of-bond-oversight-committees-highlights-current-controversies-on-municipal-bond-sales-for-schools-and-high-speed-rail)

### CaLBOC Board Meeting

Schedule:

August 9, 2013

November 15, 2013

*Sacramento Chamber of Commerce, 1*

*Capitol Mall. Conference call access*

### Join Our Mailing List!

### 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.

### Archived Newsletters

To view all with topics visit:

[calboc.org/reviews.html](http://calboc.org/reviews.html)

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[ISSUE 43 - April 24 2013](#)

[ISSUE 42 - Feb 19 2013](#)

[ISSUE 41 - Feb. 4, 2013](#)

[ISSUE 40 - Jan.22 2013](#)

[ISSUE 39 - Jan. 9, 2013](#)

[ISSUE 38 - Dec 31 2012](#)

[ISSUE 37 - Dec 17, 2012](#)

[ISSUE 36 - Dec 11, 2012](#)

[ISSUE 35 - Dec. 4, 2012](#)

[ISSUE 34 -Nov 27,2012](#)

[www.CaLBOC.org](http://www.CaLBOC.org)

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