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July 9, 2013

ISSUE 47



Greetings!

**Legislative Update: AB 182. Capital Appreciation Bonds  
Lawmakers to end excessive bond practice**July 6, 2013 | By Michael Gardner | [www.utsandiego.com](http://www.utsandiego.com)**EXCERPT:** ... - California lawmakers are on the verge of passing sweeping legislation to rein in school districts that raise money for construction projects by using an expensive and once-obscure financing tool.

These loans obtained through what are called capital appreciation bonds, brought to light in Poway last summer, promise no payments for decades but later hit taxpayers with high-interest balloon payments that can wind up costing as much as 10 times the original principal, if not more. ...

... After months of negotiations, the measure has cleared two key committees with bipartisan - and unanimous - support. The full Senate is expected to take it up in August, after a summer recess. Passage is expected.

Capital appreciation bonds generally work this way: A district needing quick cash to build but with little in the bank works out what amounts to a long-term loan by selling bonds that do not mature for up to 40 years. Voters are then sold on approving the deal with the promise of no immediate increases in the property tax because the first payment is often pushed out for as long as 20 years.

But what voters usually do not realize is that the terms include balloon payments and interest rates far higher than those charged for more conventional school construction bonds. That's because investors are willing to forego profits for two decades in return for reaping big returns in the future. ...

... "Unfortunately, Poway isn't the only district to use and abuse this type of financing," said state Treasurer Bill Lockyer.

For example, a legislative review found that a San Bernardino County district will pay \$6.6 million over 29 years for a \$283,000 bond. Taxpayers in a Kern County district will be responsible for paying \$15.5 million to close out a \$1 million bond in 38 years. ...

... Even the most conventional of tools, called a "Current Investment Bond," carries a 4-1 interest-to-principal debt service, compared to the mostly 2-1 for a typical home mortgage.

Capital appreciation bonds, on the other hand, can run as high as 23-1 in the worst examples found by a state review. Of the 648 CABs issued since 2007, 349 carry a debt-to-principal ratio higher than 3.5 to 1. ...

... District arguments do not sway David Wolfe, the legislative director for the Howard Jarvis Taxpayers Association who supports the bill.

"Nobody cares about the property owners who will have to pay the bills," he said. Wolfe said the new public disclosure rules could help wake up voters, who are sold on the no-tax-increase pledge for 20 years without considering longer term consequences. "People think bonds are free money," he said.

**To read the complete article please visit:**[www.utsandiego.com/news/2013/Jul/06/lawmakers-to-end-excessive-bond-practice](http://www.utsandiego.com/news/2013/Jul/06/lawmakers-to-end-excessive-bond-practice)**AB-182 Bonds: school districts and community college districts**Proposed limits on school bonds

<b>Debt service ratio</b>	<i>Current:</i> No maximum.	<i>Proposal:</i> 4-1.
<b>Interest</b>	<i>Current:</i> Up to 12 percent	<i>Proposal:</i> 8 percent maximum.
<b>Term</b>	<i>Current:</i> 40 years.	<i>Proposal:</i> 25 years.
<b>Prepayment</b>	<i>Current:</i> Negotiated, but not required.	<i>Proposal:</i> Allow payoff after 10 years without penalty

**Text , Votes, History, Analysis, Amendments, Status, & Comments**[leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201320140AB182](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB182)**San Diego Grand Jury Transcripts - Sweetwater & Southwestern  
Whole set of South County transcripts**June 17, 2013 | By Ricky Young | [www.utsandiego.com](http://www.utsandiego.com)**EXCERPT:** U-T Watchdog has been covering the release of grand jury transcripts in the South County corruption case brought by District Attorney Bonnie Dumanis involving more than 200 charges against 15 officials and contractors at two school districts and one community college. ...[utsandiego.com/news/2013/jun/17/south-county-grand-jury-transcripts-compiled](http://utsandiego.com/news/2013/jun/17/south-county-grand-jury-transcripts-compiled)  
**INDEX:** [media.utsandiego.com/news/documents/2013/06/17/GJ\\_Index.pdf](http://media.utsandiego.com/news/documents/2013/06/17/GJ_Index.pdf)**San Diego County Grand Jury Transcripts Released  
Witness: District pushed poor underwriter**June 14, 2013 | By Aaron Burgin | [www.utsandiego.com](http://www.utsandiego.com)**EXCERPT:** A former San Diego County investment officer was taken aback when Sweetwater schools officials pushed to have the least qualified bidder selected to market Proposition O construction bonds, she testified to the grand jury.

Michelle Durgy, now the chief investment officer for the city and county of San Francisco, served on a panel to help select the underwriter.

The committee did not select Gary Allen Cabello, who is now charged with bribing officials at Sweetwater and Southwestern College to obtain multimillion dollar underwriting contracts for his company, Alta Vista Financial. He has pleaded not guilty.

Durgy testified that Sweetwater officials told her Alta Vista would have to be selected.

"And I said, 'Oh no, that is not happening,'" Durgy told the grand jury. ...

... Following the firms' interviews, the selection committee picked two major underwriting firms and two minority-owned firms as their recommendations to the board. The list did not include Alta Vista.

When former Sweetwater Chief Financial Officer Dianne Russo saw this, she quickly objected and said that Alta Vista must be included, Durgy testified.

"At that point, Diane spoke up again and said, 'Oh, (former Sweetwater Superintendent) Dianne Gandara... is not going to like this,'" Durgy said. "And I said, 'Well, too bad. That's who we selected.' She said, 'No, no, Michelle, you don't understand. Alta Vista has to be on that list.'"

Of the 10 firms that interviewed, Durgy said that Alta Vista performed the worst. They were admittedly unprepared and she described their presentation as thin. ...

... Durgy testified that she thought Russo was kidding at first, but then Russo said that not only did Gandara expect them to be on the list - he wanted them to be the lead underwriter.

Durgy said she was eventually overruled by the rest of the selection committee, and Alta Vista was included. ...

... The district attorney is attempting to prove South County officials accepted meals, sporting events, plays and other considerations in exchange for approving contracts. ...

**Link to Volume 5, San Diego County Grand Jury Transcript:**[media.utsandiego.com/news/documents/2013/06/14/Volume\\_5\\_searchable.pdf](http://media.utsandiego.com/news/documents/2013/06/14/Volume_5_searchable.pdf)**In This Issue****Legislative Update: AB 182 CABs**[AB-182 Bonds: school districts and community college districts](#)[AB-182 Bonds: school districts and community college districts](#)[Sweetwater District Pushed Poor Underwriter](#)

CaLBOC Board Meeting

Schedule:

August 9, 2013

November 15, 2013

*Sacramento Chamber of**Commerce, 1 Capitol Mall.**Conference call access*

Information from the

May 10, 2013

CaLBOC Conference

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videos:

[www.youtube.com/](http://www.youtube.com/watch?v=o7moBjmPYCU)[watch?v=o7moBjmPYCU](http://www.youtube.com/watch?v=o7moBjmPYCU)*Joel Thurtell, Reporter Blogger:**We need a Federal ban on CABs*[joelontheroad.com/?p=10608](http://joelontheroad.com/?p=10608)*Kevin Dayton's website/blog:*  
[laborissuessolutions.com/2013-annual-conference-of-california-league-of-bond-oversight-committees-highlights-current-](http://laborissuessolutions.com/2013-annual-conference-of-california-league-of-bond-oversight-committees-highlights-current-)**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.

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