

## Controversial School Bonds Create 'Debt for the Next Generation'

Jan. 31, 2013 | By Trey Bundy & Shane Shifflett | [californiawatch.org](http://californiawatch.org)

**EXCERPT:** Herb Calderon stood on the campus of Hillcrest High School, staring at a wall that cost \$10 million to build. ...

... The school, including the wall, cost \$110 million to build, but by 2046, when it is finally paid for, it will have cost taxpayers at least \$485 million.

Alvord is one of at least 1,350 school districts and government agencies across the nation that have turned to a controversial form of borrowing called capital appreciation bonds to finance major projects, a *California Watch* analysis of bond financing data in the U.S. shows. Relying on these bonds has allowed districts to borrow billions of dollars while postponing payments in some cases for decades.

This form of borrowing has created billions of dollars in debt for taxpayers and hundreds of millions of dollars in revenue for financial advisers and underwriters. Voters are usually unaware of the bonds' high interest. At least one state, Michigan, has banned their use.

In California, where rules governing the loans are among the loosest, more than 400 school districts and other agencies have racked up greater capital appreciation bond debt in the past six years than in any other state. ...

... The decision to issue these bonds instead of traditional bonds typically is made by district officials after voters have approved bond measures, and the public usually has no knowledge of how much they will cost to repay.

... According to state records, Piper Jaffray was the busiest underwriter since 2008, brokering 165 capital appreciation bonds for a price of \$31.4 million. Goldman Sachs made \$1.6 million on a single deal with the San Diego Unified School District. Both firms declined to comment for this story. ...

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

**To Read the Complete Article Please Visit:**

[californiawatch.org/k-12/controversial-school-bonds-create-debt-next-generation-18795](http://californiawatch.org/k-12/controversial-school-bonds-create-debt-next-generation-18795)

## Limiting Capital Appreciation Bonds - Legislation Bill Aims to Limit Schools' Use of Expensive Bonds

January 28, 2013 | By Dan Weikel | [www.latimes.com](http://www.latimes.com)

**EXCERPT:** Two state lawmakers have moved to crack down on a costly method of finance that hundreds of school districts have been relying on to pay for new construction.

Assembly members Ben Hueso (D-San Diego) and Joan Buchanan (D-Alamo) introduced legislation Friday that seeks to check the use of long-term capital appreciation bonds, which can carry debt payments many times the amount borrowed to build schools, classrooms and sports facilities.

Fiscal watchdogs, including county treasurers and California Treasurer Bill Lockyer, have warned repeatedly that the bonds are risky and reminiscent of the lending and Wall Street excesses that contributed to the Great Recession.

"We have been very careful to draft the bill in a way that will solve the problem," Hueso said. "All the points we put together should address any potential abuse in financing strategies."

The legislation would reduce the maximum maturity of capital appreciation bonds, or CABs, from 40 years to 25 years and limit a school district's repayment ratio to no more than \$4 in interest and principal for every \$1 borrowed. ...

... According to a Times analysis, at least 200 school and community college districts in California have borrowed billions of dollars using the long-term notes since 2007. The bonds have saddled them with staggering debts that will eventually have to be paid off by district property owners who are assessed a tax per bond issue. ...

**To Read the Complete Article Please Visit:**

[www.latimes.com/news/local/la-me-costly-bonds-20130128,0\\_2698452.story](http://www.latimes.com/news/local/la-me-costly-bonds-20130128,0_2698452.story)

## Legislative Update: Capital Appreciation Bonds

Introduced by Assembly Members Buchanan and Hueso (Principal coauthors: Senators Block and Wyland)

**AB 182, as introduced, Buchanan. Bonds: school districts and community college districts.** AB 182 (Joan Buchanan) was officially introduced January 24, 2013. This is the official CAB reform bill supported by the State Treasurer and Tax Collectors.

**Brief description:** Limits the length of a CAB bond to no more than 25 years. Bonds for school districts and community colleges. Requires the ratio of total debt service to principal not to exceed 4:1. Poway was almost 9:1, a typical bond is 2:1. Allows a CAB issued within the last ten years to be repurchased.

**Link to complete text of bill:** [leginfo.ca.gov/pub/13-14/bill/asm/ab\\_0151-0200/ab\\_182\\_bill\\_20130124\\_introduced.htm](http://leginfo.ca.gov/pub/13-14/bill/asm/ab_0151-0200/ab_182_bill_20130124_introduced.htm)

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[AB182 - Legislation to Limit CABS](#)

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CaLBOC Board Meeting

Friday 10am-3pm

February 8, 2013

Sacramento Chamber of

Commerce, 1 Capitol Mall

**AGENDA** 140 KB, 5 pages

**Packet** 6 MB, 72 pages

[Conference call access](#)

CaLBOC Board Meeting

Schedule:

May 10, 2013

August 9, 2013

November 15, 2013

### 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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