association of california
school administrators

January 24, 2013

Dear Superintendents and School Business Officials:

Like you, ACSA received a copy of the joint letter sent by State Treasurer Bill Lockyer and Superintendent of Public Instruction Tom Torlakson to all County and District Superintendents regarding your potential use of Capital Appreciation Bonds, CABs, to help fund your school facility needs. I want to let you know that ACSA has been involved in all of the discussions regarding the use of CABs and was surprised to learn of this letter being sent.

Last year, several newspapers from around the state have scrutinized the use of CABs by school districts due to the perception that the cost to taxpayers is too high. The higher interest rate and longer term of borrowing can often lead to a higher repayment ratio. In addition to the higher interest rate, the lack of transparency of how the bonds are used and paid for has been highlighted. What was not discussed in any of these articles is the use of CABs by all municipalities, why they are used, and how they are part of an overall financing package.

ACSA and other members of the education community have been meeting for the past several months with Assembly Member Joan Buchanan (Chair of the Assembly Education Committee), Assembly Member Ben Hueso, and State Treasurer Bill Lockyer to discuss reforming the use of CABs by school districts and community college districts. It is not a matter if reforms will be made but what those reforms will be and their potential unintended consequences to financing school facilities. In addition to the legislators and State Treasurer, several county treasurers have inserted themselves into these discussions with the desire to have oversight of school district and community college district use of this financing instrument.

As a result of these meetings, ACSA formed a working group comprised of superintendents and school business officials in order to review and make recommendations to the various proposals being discussed. Our working group recently outlined the reforms that can be supported, those that we seek amendments to, and those that we will oppose. No legislation has been introduced yet so we were led to believe we had time to get our recommendations fully vetted from our members prior to submitting our comments. There was to be information presented to both superintendents at our upcoming Superintendents Symposium and to our Board of Directors at our February 8th meeting.

ACSA believes that the use of CABs can be an effective tool to fully fund the commitments school districts have made to their communities when passing local bonds to construct and modernize school facilities. Since most school bonds have been passed with a 55 percent vote threshold, there is a limit on the amount that can be assessed by your home owners. This amount along with increased costs of school construction and no current state bond funds all contribute to a need for additional borrowing to complete school facility commitments. ACSA agrees with the need for additional transparency and

office locations

sacramento
1029 J Street, Suite 500, Sacramento, CA 95814
Tel 916.444.3216 • 800.608.2272
Fax 916.444.3739

burlingame
1575 Bayshore Highway, Burlingame, CA 94010
Tel 650.692.4300 • 800.608.2272
Executive Office Fax: 650.692.1508
Educational Services Fax: 650.692.6858
Financial Services Fax: 650.259.1029
Member Services Fax: 650.692.7297

ontario
3602 Inland Empire Blvd., Suite A-230, Ontario, CA 91764
Tel 909.484.7503 • 800.608.2272
Fax 909.484.7504

web site
www.acsa.org

can support many of the technical financing reforms being discussed. We also propose adjusting the Proposition 39 (55 percent vote) limitations on assessed value so that the use of CABs are limited. We remain concerned that small school districts and those districts with low property rates will be disproportionally impacted by their limitation. We do not support the approval of their use by a third party but are considering a neutral third party review. And we believe school district superintendents and governing boards are responsible to their parents and education communities and are held accountable for ensuring adequate school facilities are available to house their students while being fiscally prudent.

Suggesting an immediate moratorium by school districts on the use of CABs highlights the lack of understanding by state officials with regard to recent bond passage commitments. Just this past June and November, numerous school districts passed local bonds to meet their school facility needs. The various financing of those bonds has already been determined by many of those districts. A moratorium could mean your bonds become less attractive for investors, could slow down or halt many of your facility commitments to your voters, and delaying construction and modernization always results in higher costs.

ACSA believes that superintendents, business officials, governing boards along with your financing team, need to honor commitments made to your voters and it is you who are ultimately responsible and accountable.

Should you have any questions about this issue, I encourage you to contact me at lpreston@acsa.org. Should you have specific questions that you would like our working group to consider, please forward them to me and I assure you your questions will be presented to our working group for discussion.