

La Mesa-Spring Valley
School District
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COUNTY GRAND JURY

July 19, 2013

Honorable Robert J. Trentacosta
Presiding Judge of the San Diego Superior Court
220 West Broadway
San Diego, CA 92101

RE: Review and Comments on San Diego County Grand Jury 2012/2013 Report
"School District Dilemma—Bonds or Bondage?"

Dear Judge Trentacosta:

Our District has have reviewed the Facts, Findings and Recommendations in "School District Dilemma—Bonds or Bondage?" from the San Diego County Grand Jury 2012/2013 Final Report. We agree with the overall findings of the Grand Jury that includes greater citizen oversight of bond requirements and increased transparency of total bond costs and future outlays. In fact, our District adopted Board Policy 7214.1(a) (attached) on September 4, 2012 that includes many of the recommendations of the report.

In the final report, the San Diego County Grand Jury recommends that the La Mesa-Spring Valley School District do the following:

Recommendation 13-79:

Structure future loans to offer more flexibility by allowing a variety of financing options to include:

- *Limit the maturity of a bond to no more than 25 years*
- *Early prepayment of bonds*
- *A callable feature in all debt issuances*
- *No interest rates greater than 8%*
- *A debt ratio not to exceed 4 to 1*
- *Using the Education Code rather than Government Code.*

District Response:

Much of this recommendation has been implemented and is included in our policy. Our current policy does not specify an specific interest rate. While the recommendation of a rate not greater than 8% is reasonable in the current market, that rate may not be a reasonable target in the future. Our Board will discuss the interest rate target in a future Board meeting for possible inclusion in our policy.

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Recommendation 13-80:

Hold public meetings to discuss the financial impact on the school district for all future bond proposals. The discussion should include:

- *The bond amount*
- *Interest rate*
- *Terms*
- *Cost to homeowners in increased property taxes*
- *Total repayment amount*
- *What the new issue may do to future bond requirements.*

District Response:

Again, this recommendation has been implemented and is included in the above-mentioned Board policy.

Recommendation 13-81:

For all future bond proposals send public notices to all district residents to ensure that the community has adequate notice of school board meetings where bond proposals will be discussed. Meeting notices must be posted in several public locations (e.g., school bulletin boards, school websites, school offices, classrooms and district offices), as defined by the Brown Act.

District Response:

Our District prides itself on our desire to be as transparent as possible in all matters. All discussions regarding the use of public funds are held during a regularly scheduled public meeting of the Board. In addition, Board Policy 7214.1(a) states that:

1. *Prior to the sale of any District sponsored bonds or other financing tools (Certificates of Participation etc.), the Board and the public shall be fully apprised, during a regularly scheduled public Board meeting, of all relevant documents and financial assumptions used to prepare such documents, including all costs incurred by the sale of, and any repayment obligations of, these bonds or financing tools. The Board and voters shall also be informed of the financial impact of any "deferred" payment structure of CABs and the future cost implications of such CABs to taxpayers.*
2. *A notice of this meeting shall be posted on the front page of the district's website (with a link to all relevant supporting documents) at least 72 hours in advance of this Board meeting.*

Recommendation 13-81 asks the District to send a public notice to all district residents. This district posts our agenda on-line and in over 20 public buildings within the district. We also email the meeting notice and agenda to over 150 individuals. We feel we are honoring the spirit of the recommendation.

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Recommendation 13-82:

For all future bond proposals encourage the PTA or similar organizations to educate their membership in school board policies and procedures. Suggested featured speakers could be school or financial experts who can answer questions and share relevant bond information.

District Response:

The recommendation is reasonable and will be implemented. In the La Mesa-Spring Valley School District we hold a monthly meeting with our PTA presidents. I personally attend this meeting each month and use this meeting to speak to and educate our PTA presidents and others regarding any of the myriad of issues and projects that are facing the District. In addition, our Bond Policy requires the Board to use the Citizen Bond Oversight Committee to review our proposal before any CABs can be used.

On behalf of the La Mesa-Spring Valley School District, we share your interest in ensuring that our community understands what is included in school bonds.

Sincerely,



Brian Marshall
Superintendent

cc: Laura Nicks, Coordinator, S.D. County Grand Jury

GENERAL OBLIGATION BONDS AND OTHER OPEN MARKET FINANCING METHODS

It is the desire of the Board to be as transparent as possible in all matters. To that end, the Board of Trustees of the La Mesa-Spring Valley School District adopts the following policy regarding General Obligation Bonds and other open market financing methods.

1. Prior to the sale of any District sponsored bonds or other financing tools (Certificates of Participation etc.), the Board and the public shall be fully apprised, during a regularly scheduled public Board meeting, of all relevant documents and financial assumptions used to prepare such documents, including all costs incurred by the sale of, and any repayment obligations of, these bonds or financing tools. The Board and voters shall also be informed of the financial impact of any “deferred” payment structure of CABs and the future cost implications of such CABs to taxpayers.
2. A notice of this meeting shall be posted on the front page of the district's website (with a link to all relevant supporting documents) at least 72 hours in advance of this Board meeting.
3. District staff shall consult with the office of the San Diego County Treasurer-Tax Collector's Office and the County Superintendent of Schools regarding the range of financing alternatives and to review any bond resolutions prior to making a recommendation to the Board and/or bringing a bond resolution for approval.
4. Capital Appreciation Bonds should only be pursued if it can be demonstrated that their use will result in less debt service than other bond structures or other financial alternatives. The structured repayment ratio for any CABs issued by the District shall fall within the acceptable range (i.e., not greater than 4:1) of the San Diego County Treasurer-Tax Collector's debt repayment guidelines as stated below:
 - A. Unacceptable – CAB transactions with a debt repayment ratio greater than 7:1
 - B. Cautionary – CAB transactions with a debt repayment ratio between 5:1 and 7:1
 - C. Acceptable – CAB transactions with a debt repayment ratio not greater than 4:1
5. Alternative financing options should be presented to the Board to allow the comparison of these alternatives to the potential use of Capital Appreciation Bonds.
6. Defensible assumptions in assessed value shall be used for the development of any proposed financing method. The District shall also provide written confirmation to the San Diego County Treasurer-Tax Collector's Office that reasonable assumptions for growth of assessed value have been used to determine the size of any General Obligation bond financing.

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7. District will inform the public of the anticipated interest rate and repayment ratio for any Capital Appreciation Bonds considered by the Board.
8. Prior to any future legislative changes on this matter, the District shall provide a written statement signed by the School Board President and the Superintendent of Record to the San Diego County Treasurer-Tax Collector approving the use of CABs with a repayment term longer than 25 years. Absent extraordinary conditions, any school district bonds should be structured to be fully paid within 25 years.
9. District should consider the use of bonds with prepayment or refinancing options to provide the maximum fiscal flexibility to future Boards.
10. District should not authorize the sale of any form of Capital Appreciation Bonds without the review of the District's Citizens Bond Oversight Committee.