

SAN DIEGO COMMUNITY COLLEGE DISTRICT

3375 Camino del Rio South
San Diego, California 92108-3883
619-388-6500

CITY COLLEGE | MESA COLLEGE | MIRAMAR COLLEGE | CONTINUING EDUCATION

Board of Trustees: Rich Grosch, Mary Graham, Bernie Rhinerson, Maria Nieto Senour, Ph.D.,
Peter Zschiesche

Chancellor: Constance M. Carroll, Ph.D.

July 18, 2013

The Honorable Robert J. Trentacosta
Presiding Judge, Superior Court
County of San Diego
220 West Broadway
San Diego, California 92101

Re: San Diego Community College District Response to Grand Jury Report

Dear Judge Trentacosta:

Pursuant to California Penal Code §933.05(e), the San Diego community College District Board of Trustees and its District leadership have provided the enclosed response to the findings and recommendations of the Grand Jury Report, "School District Dilemma – Bonds or Bondage?" that was issued on May 14, 2013.

The governing board and its staff thoroughly reviewed this report in light of the policies, procedures, and practices of the San Diego Community College District. The response was well researched and thoughtfully prepared. The response was discussed at the July 18, 2013, public meeting of the Board of Trustees at which it was unanimously approved for submission.

Respectfully submitted on behalf of the Board of Trustees,

A handwritten signature in black ink, appearing to read "Constance M. Carroll".

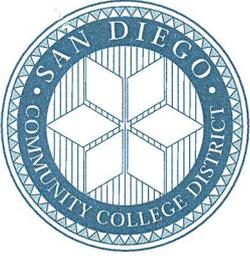
Constance M. Carroll, Ph.D.
Chancellor

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July 18, 2013

**Response from the San Diego Community College District
to the Findings and Recommendations in the Report of the
2012-2013 San Diego County Grand Jury (May 14, 2013)
“School District Dilemma – Bonds or Bondage?”**

Submitted to:

The Presiding Judge of the Superior Court

On May 14, 2013, the San Diego County Grand Jury issued a report, “School District Dilemma – Bonds or Bondage?” As one of the five (5) community college districts in San Diego County, the San Diego Community College District (SDCCD) has been requested to provide comments on the report on or before August 20, 2013, specifically the four recommendations identified in the report noted as #13-79 through #13-82.

The report was required to be prepared by the district Chancellor. The Board of Trustees and the administrative leadership of the district have also thoroughly reviewed this report. We are always impressed by and respectful of the efforts of members of the community who serve on panels that review governmental and other organizations in order to improve services to the public and the civic life of the community. The 2012-2013 San Diego County Grand Jury has obviously spent long hours, great effort and thoughtful consideration in its study of the issues highlighted by certain financial practices of the community college districts and school districts within the City of San Diego and the County of San Diego. We applaud that effort and hope that this response from the San Diego Community College District will be both informative and useful.

This response includes four sections:

- I. Overview of the San Diego Community College District
- II. General Observations Regarding the Report
- III. Response to Findings
- IV. Response to Recommendations

I. Overview of the San Diego Community College District

The San Diego Community College District (SDCCD) is the second largest community college district in California and ranks sixth in size among the nation's 1,250 community colleges. The district is composed of three comprehensive community colleges: San Diego City College, San Diego Mesa College, and San Diego Miramar College, which collectively enroll approximately 50,000 students each semester. The district also includes San Diego Continuing Education, which enrolls 85,000 students at six campuses and over 200 smaller sites throughout the City of San Diego. Externally, the district provides instruction and career/technical training at 33 military bases in the United States, enrolling 145,000 service personnel.

The mission of the San Diego Community College District is comprehensive and diverse. It includes instructional courses and programs in the following categories that lead to various ends:

- Associate in Arts, Associate in Science degrees
- Career/Technical Certificates of Achievement
- General Education
- Transfer Studies for University Transfer
- Upgrading of Skills for Employment
- High School Diploma (in conjunction with the San Diego Unified School District)
- GED
- Basic Skills and Remedial Education
- English as a Second Language (ESL)

The district's three colleges are fully accredited (with no sanctions or conditions) by the Western Association of Schools and Colleges (WASC) Accrediting Commission for Community and Junior Colleges, which is the regional accrediting body that has reciprocity with all other regions and which qualifies the institution for all federal and state financial awards. The district's Continuing Education division, which offers noncredit education, is fully accredited by the WASC Accrediting Commission for Schools. The SDCCD has the highest possible standing with its accreditors.

The district is governed by a five-member Board of Trustees that serves as the district's governing board. Board members are elected in a combination of primary and general election processes to ensure their representation of specific district areas and their overall Citywide responsibility to the entire area served by the SDCCD, the boundaries of which are roughly coterminous with the boundaries of the City of San Diego. Board member terms are four years in length, with elections occurring in even-numbered years. One member of the Board has

served five terms, two members have served two terms, one member has served one term, and one member has recently begun his first term. A Student Trustee position is also part of the Board of Trustees, which is shared on a rotational basis by the Presidents of the Associated Students organizations of each of the district's colleges. The Student Trustee has an advisory vote.

The Chancellor of the district serves as its Chief Executive Officer and is appointed by the Board of Trustees, following a legally-prescribed and extensive search process. The present Chancellor has completed nine years of service in this role, prior to which she served for eleven years as President of one of the colleges in the district. The four College/Continuing Education Presidents report to the Chancellor, as do five Vice Chancellors who manage specialized functions within the district (Business Services & Finance, Human Resources, Instructional Services, Student Services, and Facilities Services). The institutions of the district are supported by a full cadre of staff that includes faculty, administrators, and classified staff.

The administration of the district and its institutions is complemented by a robust system of participatory governance that ensures broad consultation among stakeholders. In addition, citizens and community members provide perspective and advice through their service on the Trustee Advisory Council, the Propositions S and N Citizens' Oversight Committee, the Corporate Council, Program Advisory Committees throughout the district, and the College Foundations' Boards of Directors.

The district has passed two bond measures. In 2002, the voters approved Proposition S in the amount of \$685 million, and in 2006, the voters passed Proposition N in the amount of \$870 million, for a total bond construction and equipment program of \$1.555 billion. Funds generated from periodic bond issuances have been used to build and replace antiquated instructional facilities at all nine campuses of the district, including several key infrastructure improvement projects.

All funds of the district are audited by an independent audit firm, in compliance with California law, including the bond accounts. The 2012-13 audit of the district's five major funds resulted in unqualified reports, with no findings, and no recommendations. This audit conclusion also pertained to the audits of the two bond measures, Propositions S and N. The two bond programs are further monitored by an independent Citizens' Oversight Committee, which includes a Finance and Audit Committee that reviews all aspects of the financial practices and procedures, including bond issuances.

The San Diego Community College District is rightly proud of its bond program, which once again, in July 2013, has received the very top bond ratings among California's seventy-two community college districts from Standard & Poor's (AA+) and Moody's (Aa1).

II. General Observations Regarding the Report

The report generally discusses the use of a specific type of bond debt: the Capital Appreciation Bond (CAB). CABs may be issued by districts in a manner allowing the bonds to be sold at a stated compounded rate of interest; however, interest payments are not paid to the investor, i.e.,

the purchaser of the bonds, until the maturity date of the bonds. At the maturity date, the investor receives a single payment, the "maturity value," from the issuer/seller of the bonds, consisting of the initial principal amount and the interest earned since the date of issuance of the CABs.

When districts issue bonds, various types of bond debt scenarios, i.e., the "mix," are reviewed with the investment bankers in the context of the goals of the district, such as the amount of money needed to achieve specific construction project goals, goals a district may have set regarding taxpayers' obligations up to the limit of \$25 per \$100,000 of assessed property valuation (as is the case for General Obligation Bonds under Proposition 39), and the number of years in which bond debt is to be paid off. The structure of any bond issuance is complex with regard to the mix of many debt options: Current Interest Bonds, CABs, Convertible Bonds, Taxable Bonds, Non-Taxable Bonds, etc. In order to produce results in an effective manner, districts need flexibility to determine its mix of bond instruments in any single bond issuance.

The Grand Jury report rightly notes the impact of imprudent uses of CABs, especially by one school district, and joins other County and State officials in calling for stronger regulations and guidelines for the use of CABs. While the San Diego Community College District agrees that the use of CABs should be done carefully and prudently, with the best interest of the tax payers in mind, the district underscores the importance of flexibility in the structure of bond issuances.

III. Response to Findings 1, 2, and 3

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 overall bond cost**
- **Underwriter disclosure.**

The mandatory reporting will provide greater bond referendum clarity for the taxpayers.

These findings represent judgments and conclusions that are further addressed in the recommendations below, to which the San Diego Community College District has provided responses.

IV. Response to Recommendations

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 repayment 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**

The San Diego Community College District partially agrees with the six options included in recommendation #13-79 as follows:

The SDCCD currently has the option of choosing to follow the California Education Code, which limits maximum maturity of a bond to no more than 25 years, or to follow the Government Code, which limits the maximum maturity of a bond to no more than 40 years. Legislation is currently being considered to eliminate the Government Code and to change the Education Code to a maximum maturity limit of 30 years. The SDCCD would implement a maximum maturity limit on all bond issuances that aligns with legislative requirements.

The SDCCD agrees with the recommendation that a debt ratio not exceed 4:1 if applied to the ratio of each bond issuance to the overall bond authorization approved by the voters, rather than each issuance of a bond series. The clarification of the debt ratio parameters is endorsed by the California Community Colleges Association of Chief Business Officials (ACBO) and is being considered by legislators. The SDCCD will implement the debt ratio that aligns with legislative requirements.

With regard to “early repayment of bonds” and a “callable feature in all debt issuances”, the San Diego Community College District does not agree with this recommendation. Bonds sold with an early repayment option or a callable feature generally require bonds to be sold at higher interest rates as compared to bonds that are not callable. This is due to the higher level of investment risk assumed by the purchaser because the issuer has control as to whether or not to convert the bonds into a lower interest-bearing debt in the event favorable market conditions exist prior to the stated conversion date of the callable bonds.

The SDCCD has been issuing bonds in accordance with existing options provided within the laws of the State of California to finance construction projects and will implement all aspects of recommendation #13-79 when aligned with applicable law for the issuance of a bond series within a voter-approved proposition authorization.

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**

The San Diego Community College District complies with Brown Act requirements at all times and will continue to do so along with following any legislative guidelines as they relate to the Education Code or Government Code with regard to bond issuances. Bond issuances are reviewed at public meetings of the Board or Trustees as well as by the bond program's independent Citizens' Oversight Committee and its Finance and Audit Committee. The SDCCD agrees with the recommendations.

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.

The San Diego Community College District consistently adheres to all Brown Act requirements with regard to public notices and will continue to do so, which includes the posting of agendas 72 hours in advance of any meeting in public locations of a district/college to include in its website.

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 board members or financial experts who can answer questions and share relevant bond information.

This recommendation is not applicable to California Community Colleges; therefore, it does not require a further response by the SDCCD.

This response has been respectfully submitted on behalf of the San Diego Community College District Board of Trustees and District leadership by:



Constance M. Carroll, Ph.D.
Chancellor