Tuesday, August 1, 2006

Honorable Judge Rodney Melville
Presiding Judge
Superior Court
312-M East Cook Street
Santa Maria, California 93455-5165

Board of Supervisors' Response to the 2005-06 Civil Grand Jury Report on:
"School Bonds"

Dear Judge Melville:

During its regular meeting of Tuesday, August 1, 2006, the Board of Supervisors adopted the following responses as its responses to the 2005-06 Grand Jury's report on "School Bonds".

The Board of Supervisors thanks the Grand Jury for its findings and recommendations on this important mater.

Finding 1
The Buellton Union School District has used realistic estimates of 10% in FY2006, 8% in FY2007, 6% in FY2008, 6% in FY2009, and 4% each year thereafter for increases in district-assessed valuation to issue general obligation school bonds, even though the County Auditor-Controller is using 12.66% in FY2006, 5% in FY2007, and 3.75% there after.

> **Response**: The Board adopted the Auditor Controller's response as its response. (Agrees with the finding).

Finding 2
The ability to issue Series C and D bonds is contingent upon the total Buellton District assessed value continuing to increase at an aggressive rate, much greater than the School District's projected 4% per year.

Response: The Board adopted the Auditor Controller's response as its response. (Agrees with the finding).

<u>Finding 3</u>

If the rate of the District's assessed value increases becomes less than 4%, even though this is unlikely, it may be difficult to repay the "Series A" and "Series B" bonds. Ambitious development projects can get into serious financial difficulties when unexpected events occur.

Response: The Board adopted the Auditor Controller's response as its response. (Agrees with the finding).

<u>Finding 4</u>

The debt service of the school bonds (repayment) puts a heavy burden on the School District for many years. This debt service does not leave much room for future school facility developments. The schedule of repayment for the 2004 bonds is nearly $30 per $100,000 of assessed value over the next 25 years. Future school facility improvements will require an additional bond election with an additional $30 per $100,000 assessed value over the same 25 years.

Response: The Board adopted the Auditor Controller's response as its response. (Agrees with the finding).

<u>Finding 5</u>

The total budget of all of the school facility projects is very ambitious. This budget requires extensive additional funding, including Joint Use Funds, Deferred Maintenance Funds and School Facility Program Funds from the State of California, and Certificates of Participation.

Response: The Board adopted the Auditor Controller's response as its response. (Agrees with the finding).

<u>Finding 6</u>

It is risky to use COP funding to financially support the current projects, because these funds require repayment along with the GO bonds. The School District indebtedness will be an ongoing issue. These liabilities may be covered by potential developer fees, but some other undefined School District funding may be needed to repay the COP funds.

Response: The Board adopted the Auditor Controller's response as its response. (Agrees with the finding).

Recommendation 1
A fallback plan should be developed in the event that the assessed value increases do not support issuance of Series C and D bonds..

Response: The Board adopted the Auditor Controller's response as its response.

An alternative financing could be through placement with a local financial institution, in order to avoid the cost of issuance.

Recommendation 2
Future school bond issues should have debt service scheduled below the amount allowed by law, that is, below $30 per $100,000 of assessed value. This is particularly true in the latter part of the allowed 25-year repayment period. This would leave room for a contingency fund to cover unexpected financial emergencies and still stay within the required $30 per $100,000 assessed value. Even though this would limit the size of the facility improvement, it would lower the financial risk to the School District. More bonds could then be issued at a later date within the same election option, when the risk would be lower. This would put a smaller burden on future generations and permit subsequent facility improvements without overtaxing the District residents with an additional bond election.

Response: The Board adopted the Auditor Controller's response as its response.

The Auditor-Controller agrees the maximizing the debt service to the legal rate creates risk at the end of the payment cycle and does not believe the Capital Appreciation Bonds are cost effective for the taxpayer. These Capital Appreciation Bonds are also being used to fund issuance costs for multiple series of bonds at an increased cost to the taxpayer.

Recommendation 3
A financial plan to repay all school district COP funds should be implemented. The financial plan should also include resolution of all outstanding district financial obligations.

Response: The Board adopted the Auditor Controller's response as its response.

The Auditor-Controller agrees that the use of COP financing needs secure and identified funding stream for repayment of the debt.

Sincerely,

Joni Gray
Chair, Board of Supervisors

cc: Ted Sten, Foreperson Civil Grand Jury 2005-06