

May 30, 2007

Honorable Judge Melville
Superior Court
312-M East Cook St.
Santa Maria, CA 93455

Santa Barbara County Grand Jury
Attention: Foreperson
1100 Anacapa St.
Santa Barbara, CA 93101

Re: Santa Maria Joint Union High School District: 2004 School Bond Election

Dear Gentlemen:

On May 8, 2007, a copy of the 2006-2007 Grand Jury Report: *Santa Maria Joint Union High School District. 2004 School Bond Election* was received.

In accordance with Penal Code sections 933.05 (a) through (f), and 933 (c), the district has prepared a response to the findings and recommendations.

The Grand Jury investigated and prepared a report to address community concerns about the utilization of school bond funds with the passage of C2004 in November 2004 election.

Response to Findings and Recommendations:

1. **Finding:** The ability to issue additional bonds is contingent upon the total district assessed value continuing to increase. The County Auditor-Controller has used realistic estimates of 4% each year for increases in district-assessed valuation.

Recommendation: When Certificate of Participation (COPs) financing is found to be necessary, it should be used only on an interim basis.

District's Response To Finding: The district agrees with the finding.

District's Response To Recommendation: The district disagrees with the recommendation.

The finding focuses on the bonding capacity at it relates to the sale of General Obligation bonds (GO Bonds), but the recommendation refers to the Certificate of Participation (COPs.) These are two completely and distinctly separate financing instruments.

Financing by COPs only on “an interim basis” is not related with the district’s bonding capacity to issue GO bonds

2. **Finding:** The debt service of the school bonds puts a heavy burden on the school district for many years, but the schedule of repayment for the “Series 2005” bonds is well within the limit of \$30 per \$100,000 of assessed value over the next 25 years.

Recommendation: For future bond issues, debt service for General Obligation bonds should be scheduled by fiscal rather than calendar year.

District’s Response To Finding: The district agrees with the finding.

District’s Response To Recommendation: The district disagrees with the recommendation.

The burden of debt for the issuance of bonds is well within the \$30 per \$100,000 of assessed value over the period of 25 years. However, the scheduled of repayment by the County Auditor-Comptroller is determined by the date of sale and has no correlation with the burden of debt or the assessed valuation.

3. **Finding:** The Santa Maria Joint Union School District has made prudent use of Certificates of Participation by using them only on an interim basis and minimized risk by timely repayment.

Recommendation: Whenever interim financing is required, all associated fees and interest should be incorporated into the financial plan.

District’s Response To Finding: The district agrees with the finding. Furthermore, the finding has no relationship with the recommendation.

District’s Response To Recommendation: The district disagrees with the recommendation.

SMJUHSD issued a COPs on an interim basis until State approved funding was released. This is commonly referred to as “bridge” financing.

Principle, interest and any associated fees are clearly denoted in the district’s books of record. The accounting for bond expenditures does not include the principle, interest or associated fees of the COPs because these costs are the obligation of the district not the taxpayers, and were not voter approved.

4. **Finding:** The bonds were issued by calendar year debt service, yet repayment of this debt service is done in fiscal years ending in June.

Recommendation: A funding reserve should be developed to cover the debt service in fiscal year 2029 for the "Series 2005" bonds.

District's Response To Finding: The district disagrees the finding.

The repayment schedule for the issuance of bonds is determined by the date of sale. The Series 2005 bonds were sold in February 2005, therefore, the semi-annual payments are due February and August of each year. The repayment is made by the County Auditor-Controller's office not by the district.

District's Response To Recommendation: The district disagrees with the recommendation.

The district does not have the ability to create a "funding reserve" for the County Auditor-Controller's office.

5. **Finding:** The oversight committee, formed to monitor the "Series 2005" bond issue, is an effective watchdog.

District's Response To Finding: The district agrees.

6. **Finding:** School development cash flow will have a shortfall for four to five years, requiring interim financing not currently scheduled, with interest and fees of potentially \$6 million.

District's Response To Finding: The district disagrees.

The district does not project any cash shortfall. In fact, the district has only sold \$35 million of the \$79 million in authorized bonds to date. The cash flow requirements often change to correlate with the timing of bond projects. Certainly should the district project a cash shortfall, the projects would be delayed accordingly.

If you have any further questions, please feel free to contact me at (805) 922-4573 extension 4401.

Sincerely,

Debi Deal
Assistant Superintendent of Business Services

DD:mpb