

# TREASURER-TAX COLLECTOR COUNTY OF SAN DIEGO

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DAN McALLISTER  
Treasurer-Tax Collector



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To: San Diego County Office of Education

## COUNTY OF SAN DIEGO SCHOOL DISTRICT CAPITAL APPRECIATION BONDS

The County Treasurer-Tax Collector (TTC) is one of the agencies involved with the administrative facilitation of school bond financings in San Diego County. Given our role as paying agent for multiple school district financings, our office has recently observed several school district General Obligation ("GO") bond structures that include Capital Appreciation Bonds (CABs). These CABs are typically combined with refunding and/or new money financings for the Districts. However, some districts have issued "stand alone" CAB structures. The purpose of this communication is to highlight this type of GO bond financing which can be excessively costly for both school districts and taxpayers and to provide the County's Office of Education with recommendations to mitigate such future debt financing structures.

Over the past fiscal year, there has been increased scrutiny of these structures on the federal, state and local level. Some of the more common CAB characteristics that may result in a higher debt burden include:

- Large principal amounts greater than \$100 million
- Term structures longer than 25 years
- Interest rates higher than 12% for CA Government Code; 8% for the CA Education Code
- Debt Repayment Ratios greater than 4 to 1
- No- pre-payment clause

Our office will continue to act as a fiduciary partner and a fiscal resource to the County Office of Education and all 42 local school districts to evaluate, advise and execute bond transactions. Specifically, we will assist with the development of appropriate financing structures that conform to a more conservative debt financing approach to protect the taxpayers and citizens of the County. Additionally, we will review all bond documents, along with County counsel, and in accordance with both the California Government and Educational codes (Sections 53506-09.5 and 15141, respectively).

Going forward, I believe that each school district should take a more conservative approach when issuing GO bonds that include CABs as part of the transaction. Whether the bonds are issued under the Government Code or the Education Code, our office strongly recommends that the School Districts take the following steps outlined below when considering a debt financing that includes CABs:

1. Prior to any future legislative changes on this matter, provide a written statement signed by the School Board and Superintendent of Record to the County TTC approving the use of CABs for term structures longer than 25 years.
2. Consult with the Treasurer-Tax Collector's office to review the school district bond resolutions that are to be presented to any San Diego County school district board and County Board of Supervisors prior to submission and approval.
3. Structure a debt repayment ratio for CABs to be no greater than 4-1 such that it does not result in excess ratios being used to finance debt. (See attached guidelines for further direction).
4. Provide written confirmation to the County that "reasonable" assumptions for growth in assessed values have been used to determine the size of the GO bond financing.
5. Provide the District Board and voters with additional transparency outlining the financial impact of the "deferred" payment structure of CABs and the future cost implications to taxpayers.

The next steps our office will take to further promote the ideas and principles of full disclosure along with an open and transparent county government will be to collaborate with the California Association of County Treasurers and Tax Collectors (CACTTC) and local members of the state legislative delegation (Assembly and Senate) to seek legislative changes. The purpose of such changes will be to update both the California Government and Education codes to conform to a more conservative approach to protect the taxpayers and citizens of our County. Additionally, we will continue to be an informational resource to the School Board members and the District Administrators as it relates to GO bond financings. Lastly, we will post all future bond issuances on the Treasurer-Tax Collector's website for public view.

If I can provide you with any additional information, please do not hesitate to contact me or any member of my staff at (619) 531-5231.

Sincerely,



Dan McAllister  
San Diego County Treasurer-Tax Collector

- c: Chief Business Officers, All 42 Public School Districts within San Diego County  
California Department of Education  
California State Treasurer  
California Attorney General  
California Association of County Treasurers and Tax Collectors

## ATTACHMENT

### Debt Repayment Guidelines

<b>“Unacceptable”</b>	- CAB transactions with a debt repayment ratio <b>greater than 7-1.</b>
<b>“Cautionary”</b>	-CAB transactions with a debt repayment ratio <b>between 5 – 7.</b>
<b>“Acceptable”</b>	-CAB transactions with a debt repayment ratio <b>less than or equal to 4 – 1.</b>