



ALUM ROCK

UNION ELEMENTARY SCHOOL DISTRICT

2930 Gay Avenue, San José, CA 95127 · Phone: 408-928-6800 · Fax: 408-928-6416 · www.arusd.org

July 3, 2013

Mr. Steven P. McPherson
Foreperson
Grand Jury
Superior Court Building
191 North First Street
San Jose, CA 95113

(ENDORSED)
FILED

JUL 11 2013

DAVID H. YAMASAKI
Chief Executive Officer/Clerk,
Superior Court of CA County of Santa Clara
BY STEPHANIE WONG DEPUTY

Subject: Response to the Santa Clara County Civil Grand Jury Final Report: “Our School Districts Do Not Need Zeros”

Pursuant to Penal Code section 933.05, the Alum Rock Union Elementary School District (“District”) hereby submits its response to the Civil Grand Jury’s Final Report titled “Our School Districts Do Not Need Zeros” dated June 10, 2013.

The Grand Jury report is focused on the use of “Capital Appreciation Bonds” (“CABs”) by school districts to finance school construction, repairs and modernization. The Grand Jury report points out that CABs are bonds where payment of some or all of the interest is deferred, allowing the unpaid interest to compound. Whereas the issuer of a conventional bond agrees to pay interest periodically, the issuer of CABs has interest payments on the bonds deferred and interest on the CABs is compounded during the deferral period typically resulting in repayment costs than can be significantly higher than conventional bonds. *As indicated in your report, Alum Rock Union Elementary School District issued CABs in 2008 that represented one of the lowest Debt Service-to-Principal ratios of the County at 1.37.*

The Grand Jury noted pending Assembly Bill 182 which, if passed and signed into law, would limit the use of CABs by school districts, and further noted that both the State Superintendent of Public Instruction and the State Treasurer have called for a moratorium on the issuance of CABs pending approval of the proposed legislation.

Grand Jury Finding 1

CABs shift large, compounding interest costs to future taxpayers and will inevitably compound the burdens school districts face in operating effective schools for their students in the future.

Stephen A. Fiss, Superintendent

Board of Trustees: • Dolores Márquez, President • Andrés Quintero, Vice-President
• Karen Martinez, Board Clerk • Frank Chávez, Member • Andrea Flores Shelton, Member



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District Response to Finding 1

The District agrees with the finding. Alum Rock Union Elementary School District intends to comply with all State and Federal regulations regarding the issuance of bonds and CABs.

Grand Jury Recommendation 1

Each school district in Santa Clara County should adopt a Board policy and any administrative regulation indicating its intent to comply with the moratorium called for by the State Treasurer and the State Superintendent of Public Instruction.

Recommendation 1

The recommendation as presented will not be implemented because it is not warranted as a matter for Board Policy or administrative regulation. Board policies are “written statements adopted by the Board which communicate the guidelines within which the Superintendent or designee and staff may take discretionary action.” (District Board Bylaw 9311.) The issuance of bonds is not a discretionary action of the superintendent or his/her designee or staff but must always be approved by the Board. The purpose of administrative regulations is to “carry out the intentions expressed in Governing Board policy” and must be “consistent with state and federal law and regulations, Board policy and negotiated employee contracts.” (District Board Bylaw 9313.) Thus, neither Board Policy nor administrative regulation is the appropriate forum for expression of support for the recommended moratorium.

However, a resolution in support of the moratorium will be presented to the Governing Board for its consideration in the next 120 days. In addition, the District will continue to monitor AB 182.

Sincerely,

Stephen A. Fiss
Superintendent

SAF:mcs

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