



MORGAN HILL UNIFIED SCHOOL DISTRICT

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August 27, 2013

Honorable Brian C. Walsh
Presiding Judge
Santa Clara County 2012-2013 Civil Grand Jury
Superior Court Building
191 North First Street
San Jose, CA 95113

FILED

SEP - 5 2013

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

Honorable Walsh:

In response to your letter of June 10, 2013, the District is providing you with the following information concerning the one (1) finding and one (1) recommendation contained therein.

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.

*The statement that CABs "will **inevitably** compound the burdens school districts face in operating effective schools for their students in the future" isn't accurate. Why? There are many bond programs that have judiciously used CABs to the benefit of students, taxpayers, and future generations.*

The District understands that the use of CABs by some school districts has raised a number of legitimate issues, but examples of misuse by some districts should not restrict use for all districts. Used responsibly, CABs can be an effective tool as a portion of an overall debt financing plan.

*A key point worth noting, the attached Final Report uses the home mortgage comparison, which we think is fair. Just as a homeowner wouldn't judge the cost of his or her mortgage by how much he or she is paying in interest relative to principal on the first mortgage payment (which on a 5% loan is nearly 4:1 and on a 6% loan is over 5:1) but rather the homeowner would look at the interest rate and the total cost of borrowing over 30 years. School districts and taxpayers should also look at the interest rate and the **total** cost of borrowing, not just "cherry pick" the one or two years of CABs. Otherwise, we are no different than the homeowner who feels they have a costly mortgage when only looking at the first mortgage payment.*

Response to Grand Jury – CABs

August 27, 2013

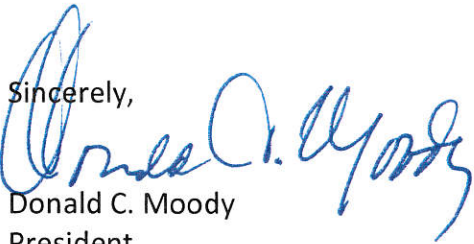
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Recommendation #1.

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

While there is merit in establishing controls to eliminate the egregious examples of CABs as well as control the "bad actors" that sell them, adopting a board policy or administrative regulation at this time would be premature. The Legislature is currently reviewing several bills related to school district debt financing and in particular CABs. Following passage of new legislation, the District would revise its board policy and administrative regulations to comply with the new laws.

Sincerely,



Donald C. Moody
President
Board of Trustees

Cc: Steve Betando, Interim Superintendent