



California Debt and Investment Advisory Commission
Task Force on Bond Accountability Meeting
Friday, June 26, 2015, 9:30 am – 2:00pm

San Francisco Employees' Retirement System,
1145 Market Street, 6th Floor Board Room
San Francisco, CA 94103

Scope: Assist the Task Force to identify common practices and increased protections against mismanagement or misuse of proceeds post debt issuance.

Presentation by
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Executive Director, Kern County Taxpayers Association
President, California League of Bond Oversight Committees

Since I have not had the opportunity to vent my presentation with the entire CaLBOC Board, these are my personal comments:

CaLBOC

The California League of Bond Oversight Committees (CaLBOC) is an all-volunteer, non-partisan association of Citizen Bond Oversight Committee (CBOC) members, current and past, who are interested in helping other CBOC members. CaLBOC was formed in 2006 by CBOC members trying to find better training to help perform their duties. CaLBOC is a 501(c) 3 charitable organization.

CaLBOC's Mission Statement

To promote school district accountability by improving training and resources available to California's Prop 39 school bond oversight committees, educating the state legislature, local school boards, and the public about the oversight and reporting power the Citizens' Bond Oversight Committees (CBOCs) have to advocate on a state level where appropriate, on issues that are common concern to all CBOCs.

CalBOC's Legislative History

- **2010: SB 1473 (State Senator Mark Wyland):** Set standards for the performance audit that school districts are required to do annually after approval of a Proposition 39 bond. Specifically, performance audits are now required to abide by the Generally Accepted Government Auditing Standards (GAGAS) "Yellow Book."
- **2011: SB 423 (State Senator Mark Wyland)** A follow-up bill to SB 1473, SB 423 required that financial and performance audits be submitted to the local bond oversight committee and the school district no later than March 31st of each year.
- **2011: AB 1199 (State Assemblywoman Julia Brownley)** Added an additional two-year term for local bond oversight committee members in addition to the four years (two terms) already in law.
- **2013: SB 581 (State Senator Mark Wyland)** SB 581 strengthened transparency requirements for financial and performance audits, by requiring that local BOC's receive them when the district does, and requiring the district to make a written response to the findings of the audit no later than three months after receiving it. This ensures the BOC will have opinions from both the auditor and the district in order to help them craft their required annual report to the general public.
- **2013: SB 584 (State Senator Mark Wyland)** SB 584 required a number of governmental agencies to submit content to the Education Audit Appeals Panel (EAAP) regarding the creation of performance audit guidelines.
- **2013: AB 182 (State Assemblywoman Joan Buchanan)** Reformed Capital Appreciation Bonds (CAB's) by limiting the principle to interest debt ratio at 4:1. Prior to this bill, bond CalBOC advocated for and supported this legislation.
- **2014: AB 2551 (State Assemblyman Scott Wilk)** AB 2551 amends the tax rate statement within a local ballot pamphlet for a bond measure in order to ensure that the fiscal impact of the bond is appropriately stated. Examples could include a written description of how the tax rate calculation was made, etc. This information will provide valuable insight to voters before they make important decisions regarding the approval of long-term debt.

The educational lobby groups, ACSA, CSBS, and CASBO, have generally opposed CalBOC's legislative efforts.

CalBOC Statewide Conferences

- CalBOC has hosted four Annual Statewide Conferences in Sacramento, covering a myriad of topics important for school bond oversight.

- Speakers have included: Attorney General Bill Lockyer (2013); State Treasurer John Chang (2014), Budget Director Michael Cohen (2015), Legislative Analyst Mac Taylor (2015), Assemblymember Joan Buchanan (2013), and State Senator Jean Fuller (2012).

KernTax has provided members to 23 Bond Oversight Committees:

Major Concerns in Accountability and Transparency:

- ❖ Bond Issuance
 - Stop uniformed bond issuances.
 - Up until recently, many districts did not ask for total costs before issuing debt.
 - ✓ **Recommendation: require districts to receive incremental scenarios before voting for issuance. Example:**
 - District N wants to issue \$20M bonds**
 - Meeting district's wants: \$20M, TC=\$92M, 4.60 TDS, MC=\$50M/\$3M
 - Deleting a few wants: \$17M, TC=\$42M, 2.47 TDS, MC=\$22M/\$4M
 - Meeting district's basic needs: \$13M, TC=\$20M, All CIBs, 1.47 TDS
 - ✓ **Before final bond issuance documents are signed by the district, a simple, readable summary costs, fees and projected interest costs should be provided for the district to sign for disclosure, with the other bond documents.**
- ❖ Prop 39 violations
 - Transparency and Accountability
 - Ed Code 15280. (a) The governing board of the district shall, without expending bond funds, provide the citizens' oversight committee with any necessary technical assistance and shall provide administrative assistance in furtherance of its purpose and sufficient resources to publicize the conclusions of the citizens' oversight committee.
 - (b) All committee proceedings shall be open to the public and notice to the public shall be provided in the same manner as the proceedings of the governing board. The citizens' oversight committee shall issue regular reports on the results of its activities. A report shall be issued at least once a year. Minutes of the proceedings of the citizens' oversight committee and all documents received and reports issued shall be a matter of public record and be made available on an Internet website maintained by the governing board.**
 - Ed Code 15282. (a) The citizens' oversight committee shall consist of at least seven members to serve for a term of two years without compensation and for no more than two consecutive terms. While consisting of a minimum of at least seven members, the citizens' oversight committee shall be comprised, as follows:
 - (3) One member shall be active in a bona fide taxpayers' organization.
 - **Model Bond Oversight Committee Website: www.bcsd.com/bond**

- ✓ **Recommendation: Before any bond funds are distributed by the County Office of Education, compliance of ED Code Sections 15280 and 15282 is verified, just like the terms of any other contract.**

- ❖ Lease-Leaseback abuses. Davis v Fresno Unified School District.
 - <http://www.courts.ca.gov/opinions/documents/F068477.PDF>. Published
- ✓ **Recommendation: Coalition for Adequate School Housing (C.A.S.H.) is trying to invalidate the court ruling by legislative action with the Governor's consent. Hundreds of Lease-Leaseback agreements with no Leaseback have occurred to circumvent the RFP, competitive bidding process. Please act immediately to stop this appalling action.**

- ✓ **Recommendations:**
 - **Pre-checked or Re-useable Plans.**
 - **Cooperative/Leveraged Purchasing Agreements**
 - **Owner Furnished/Contractor Installed**
 - **Life Cycle Cost Analysis**
 - **Cost Effective Borrowing**
 - **Use Short Term Current Interest Bonds (CIBs)**
 - **Enhanced Oversight**
 - **Independent BOC Member Nomination**
 - **Independence in Auditing**

- ❖ **What makes the process work?**
 - **A knowledgeable District Staff:**
 - **Knows the rules of the game. Most districts are at the mercy of the professionals that are hired. Many times there exists "quid pro quo". Districts are under pressure to get bond measures passed. "Pay to Play" is the norm, not the exception.**
 - **Must keep all of the vendors accountable to taxpayers**
 - **Must know the true amount that can be bonded responsibility.**
 - **Must have a working knowledge of the various financial instruments available, to select the correct tool, not the most profitable one for the financial advisors.**
 - **Prioritizes the project list into true needs and wants.**
 - **Knows when to ask for "clean hands" help.**
 - **Would read the "Debt Toolkit" produced by the Kern County Superintendent of Schools: <http://kern.org/finance/wp-content/uploads/sites/26/2015/03/Debt-Toolkit-Final.pdf>**
 - **Will ask for community input, three to six months before the board votes to have an election.**

 - **A dedicated BOC:**
 - **Knows the law**
 - **Knows its role**

- **Speaks out on both the good and the bad.**
- **The bottom line is quite simple:**
 - **When the process is efficient, effective, responsible and accountable, it works.**

The biggest challenge today, authorized, but unissued debt

- **District election authorizes the sale of \$33M in bonds**
- **Using low-cost CIBs, the district can only issue \$22M and stay under the \$30 rate per \$100K AV. cap**
- **The district still has needs, with \$11M of Debt Cap but the rate is maxed out.**
- **The bad decision is to sell CABs with a 4:1 TC cap, costing \$44M.**
- **KernTax works with districts to unauthorized the \$11M in unissued debt and have a new election for the amount that can be supported under the \$30 cap with a TC of 1.5 TC.**

Thank you for the opportunity to address your task force today.

Attachment: KernTax Direct Savings to Taxpayers

KernTax - Direct Savings to Taxpayers

KernTax is a member-supported, 501(c) 4 non-profit corporation, with the mission to bring about more accountable, effective, efficient, reliable government. Basing its actions on common sense, innovation, and the long-term view, KernTax crafts positions based on adopted values. This list contains verifiable savings to taxpayers that occurred because of KernTax's direct intervention into an issue...

Date	Entity	\$ Impact	Notes
2007	Midway SD	\$11M	\$4.4M Bond Measure stopped. Savings based upon FA Analysis. 17 year old COP discovered \$78M proposed bond reduced to \$33.5M. Principal reduced \$44.5M. Working with district on reauthorization ultimately stopping CAB issuance. Savings on avoidance of CAB's is at minimum
2008	Wasco UHSD	\$280M	\$44M assuming a 4 to 1 pay out (debt Service to Principal)
2011	PG&E	\$39M	Intervened in PG&E GRC. 2010-2015 savings to Region WE-1 customers
2012	Cal City	\$18M	Help defeat Parcel Tax
2012	Norris SD	\$50M	\$20M proposed issuance reduced to \$17M. CAB interest savings \$50M. Working with the district on lease-lease back issues. Requesting deauthorization on outstanding bond.
2012	Taft CSD	NA	
2012	Elk Hills SD	\$15.5M	Defeated \$6.2M Bond measure
2013	Lakeside SD	\$36M	Reduced total cost of BAN conversion to GO bonds from \$72M to \$36M
2014	Elk Hills SD	\$14.3M	Defeated \$7.13M bond measure. Saving based upon FA analysis
2014	Mojave SD	\$36M	Unauthorization of \$9M in unissued bonds, passed \$8M new issuance, interest savings \$36M.
2014	Arvin	NA	District adopted the first cost reduction strategies.
		\$499.8M	