

SCHOOL BONDS: Developments in the Buellton Union School District

SUMMARY

General obligation school district bond issues are used to finance school facility improvements. They are approved by the voting residents within the school district. To understand how school bonds are issued and how the funds are utilized, the Grand Jury reviewed the Buellton Union School District facility developments utilizing the bond issue election passed in 2004. Although the financial plan for repayment of these bonds seems sound, it puts a heavy financial burden upon future generations. The ambitious school facility improvement plan requires funding from many sources including City and State governments. The use of Certificate of Participation (COP) district funds adds additional financial burden on the School District. COP funds are a financial liability which must be repaid in addition to the general obligation bonds

Their were 3 agency's requested to respond to the "School Bonds" report-
Buellton Union School District [BUSD]
Santa Barbara County Auditor-Controller [AC]
Santa Barbara County Board of Supervisors [BOS]

Auditor-Controller

RECOMMENDATION 1

We agree that the district should carefully consider the issuance of Series C and D. An alternative financing could be through private placement with a local financial institution, in order to avoid the cost of issuance.

RECOMMENDATION 2

We agree that maximizing the debt service to the legal rate creates risk at the end of the payment cycle and do not believe that Capital Appreciation Bonds are cost effective for the taxpayer. These Capital Appreciation Bonds are also being used to fund issuance costs for multiple series of bonds at an increased cost to the taxpayer.

RECOMMENDATION 3

We agree that the use of Certificate of Participation financing needs a secure and identified funding stream for repayment of the debt.

Board of Supervisors Response

Recommendation 1: A fallback plan should be developed in the event that the assessed value increases do not support issuance of Series C and D bonds

Response 1: The Board adopted the Auditor Controller's response as its response.

Recommendation 2: Future school bond issues should have debt service scheduled below the amount allowed by law....This would leave room for a contingency fund..... it would lower the financial risk to the School District. More bonds could then be issued at a later date within the same election option, when the risk would be lower. This would put a smaller burden on future generations and permit subsequent facility improvements....

Response 2: The Board adopted the Auditor Controller's response as its response.

The Auditor-Controller agrees the maximizing the debt service to the legal rate creates risk at the end of the payment cycle and does not believe the Capital Appreciation Bonds are cost effective for the taxpayer. These Capital Appreciation Bonds are also being used to fund issuance costs for multiple series of bonds at an increased cost to the taxpayer.

Recommendation 3: A financial plan to repay all school district COP funds should be implemented. The financial plan should also include resolution of all outstanding district financial obligations.

Response 3: The Board adopted the Auditor Controller's response as its response.

The Auditor-Controller agrees that the use of COP financing needs secure and identified funding stream for repayment of the debt.

BUELLTON UNION SCHOOL DISTRICT response

Response to Recommendation 1: In the unlikely event that assessed valuation grows at an insufficient rate due to reduced development in the District, the issuance of the rest of the G.O. Bonds will be delayed. However, this is also likely to result in a delayed need for new facilities and the corresponding funding. If the need for accelerated funding prevails in spite of reduced development, the District should be able to qualify for additional State Aid for new construction. To the extent that additional bonds cannot be issued, and no additional funds are available, the District will defer the planned improvements.

Response to Recommendation 2: We concur with this recommendation. The District will consider lower tax rates for future authorizations if the construction program permits the same based on the district's need to house students.

Response to Recommendation 3: The District has already accelerated the repayment of its COPs and has not incurred any additional COP debt. We concur that the District will continue to implement the plan of utilizing any surplus funds to pay down outstanding principal.