October 11, 2013
Foreperson
Grand Jury
Superior Court Building
191 North First Street
San Jose, CA. 95113

I am so sorry that my original response early last summer never made it to you all. Please let this letter serve as Luther Burbank’s response to the Santa Clara County Civil Grand Jury Final Report: “Our School Districts Do Not Need Zeros” dated June 10, 2013 focused on the issuance of Capital Appreciation Bonds to finance school repairs and modernization. Luther Burbank School District built new classrooms and a cafeteria/gymnasium with 2006 bond funding.

Grand Jury Finding 1

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

District Response to Finding 1

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

Recommendation 1

We agree that caution should be used in issuing any bonds for the fiscal safety of the district and the community. Issuance of any bonds must be approved by the Board of Trustees and must be fully compliant with state and federal law, and regulations, Board Policy and negotiated employee contracts.

Luther Burbank has not issued any bonds during the time frame of the proposed moratorium, and will now proceed to update board policy and administrative regulations to reflect the passing of Assembly Bill 182.

On October 2, 2013 the Governor signed into law Assembly Bill 182 (“AB 182”). AB 182 requires that the total debt payments for each bond series be limited to no more than four times the principal amount. Further, capital appreciation bonds (“CABs”) are limited to a maximum term of 25 years. CABs that mature more than 10 years after their date of issuance must be subject to refinancing on the 10th anniversary of the date the bond was issued or earlier. AB 182 also requires that if the proposed bond sale includes CABs, school board members must be
presented with specific information about the total overall cost of the bonds, a comparison to the overall cost of current interest bonds, and the reasoning that CABs are recommended. The school board’s resolution authorizing the sale of the CABs must include the financing terms, maturity dates, repayment ratio and estimated change in the assessed value of taxable property within the district. School boards must also make certain findings with respect to current interest bonds with maturities greater than 30 years.

Sincerely,

Jan Kaay
Superintendent
Luther Burbank School District
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