August 20, 2013

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

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

Dear Mr. McPherson:

Pursuant to Penal code section 933.05, Mountain View Los Altos High School District ("District") hereby submits its response to the subject report 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 that can be significantly higher than conventional bonds. As indicated in your report, Mountain View Los Altos High School District issued CABs in 2010 and 2012 that represent some of the lowest debt service-to-principal ratios of the County.

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 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.
District Response to Finding 1

Mountain View Los Altos High School District agrees with the findings. The 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 necessary. All financing arrangements in our District are incorporated as an action item in a public Board meeting where the Board of Trustees takes action to approve the financing arrangement, in addition to our commitment to comply with all State and Federal regulations as indicated in District Response to Finding 1 above.

Sincerely,

Barry R. Groves, Ed. D.
Superintendent

Joseph F. White
Associate Superintendent
Business Services

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