



CALIFORNIA DEPARTMENT OF EDUCATION

NEWS RELEASE

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State Superintendent
of Public Instruction

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State Schools Chief Tom Torlakson, State Treasurer Bill Lockyer Caution School Districts Against Issuance of Capital Appreciation Bonds

SACRAMENTO—State Superintendent of Public Instruction Tom Torlakson and State Treasurer Bill Lockyer today issued the following letter to local educational agencies regarding capital appreciation bonds:

Dear County and District Superintendents:

CAPITAL APPRECIATION BONDS

We understand many districts face a critical need to build or modernize facilities for their children, and we recognize that falling property tax assessments, revenue losses, and statutory debt service limits have all combined to reduce districts' debt financing options. As a result, some districts have turned to capital appreciation bonds (CABs), which have forced taxpayers to pay more than 10 times the principal to retire the bonds.

Thus, we urge you and your Board of Education not to issue CABs until the Legislature and the Governor have completed their consideration of this year's proposals to reform the CAB issuance process by improving transparency and protecting taxpayers against exorbitant debt service payments. Through this process, we welcome and encourage your input to ensure that the needs of districts are still being met.

In too many cases, CAB deals have forced taxpayers to pay more than 10 times the principal to retire the bonds. Also, the transactions have been structured with 40-year terms that delay interest and principal payments for decades, resulting in huge balloon payments and burdens on future taxpayers that cannot be justified. Too frequently, board members and the public have not been fully informed about the costs and risks associated with CABs. In some cases, board members have reported they were not even aware they approved the sale of CABs.

It is important to note that CABs with terms exceeding 25 years place the repayment obligation on future taxpayers who likely will not benefit from the capital improvements financed by the CABs. At the same time, the CABs payments will reduce those

taxpayers' capacity to finance construction and modernization projects their own children will need.

We are convinced that remedial legislation is needed to prevent abuses and ensure that both school board members and the public obtain timely, accurate, complete, and clear information about the costs of CABs, and alternatives, before CABs are issued. The Governor has told us he wants reforms. Key lawmakers and legislative leaders have made clear they agree statutory changes are needed.

For all these reasons, we believe your district and every other district in the state should impose a moratorium on issuing CABs. The moratorium should remain in effect until the Governor and Legislature decide on reforms in the current legislative session. If reforms are enacted, subsequent CABs deals can be conducted in compliance with the new statutory requirements.

Thank you for your consideration. Should you have any questions or concerns, please contact Jeannie Oropeza, Deputy Superintendent, California Department of Education, by e-mail at joropeza@cde.ca.gov.

Sincerely,

Tom Torlakson
State Superintendent of Public Instruction
California Department of Education

Bill Lockyer
State Treasurer
California State Treasurer's Office

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