



# San Ysidro School District

“Provides an educational environment  
in which all students succeed.”

## Governing Board

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**Edward Velasquez**  
Interim Superintendent

April 1, 2015

**Via Federal Express and Email (Superintendent@cde.ca.gov)**

The Honorable Tom Torlakson  
State Superintendent of Public Instruction  
1430 N Street, Suite 5602  
Sacramento, CA 95814-5901

RE: *San Ysidro School District's Appeal of the San Diego County Office of Education's Determination to Change the District's 2014-15 Second Interim Budget Report from Positive to Qualified*

Dear Superintendent Torlakson,

The purpose of this letter is to provide notice, pursuant to Education Code section 42127.6, of the San Ysidro School District's appeal of the San Diego County Office of Education's determination to change our Second Interim Budget Report certification from "positive" to "qualified."

On March 27, 2015, the San Ysidro School District was notified by letter that the San Diego County Office of Education (County) changed our 2014-15 Second Interim certification from "Positive" to "Qualified". According to the letter, the change was made based on the authority provided under Education Code Section 42127.6 that if "*studies, reports, evaluations, or audits of the school district that contain evidence that the school district is demonstrating fiscal distress, the county superintendent shall investigate the financial condition of the school district and determine if the school district may be unable to meet its financial obligations for the current or two subsequent fiscal years*".

The FCMAT staffing review that the County referenced as the source for the fiscal distress was turned over to the District in January 2014, 5 months after the FCMAT team left. Since then the relevancy of the FCMAT report to the current conditions of the District has diminished significantly because of changes that have taken place at the District over approximately the past 18 months. In other words, the issues that plagued the School District as described in the January 2014 issued FCMAT staffing review are no longer present and it is unfair and inappropriate to hold the District, in its present condition, to the standards and findings meant for the "old" District. Yet, based on that outdated and inaccurate report, the County identified four predictors of a school district needing intervention and consequently changing the District's 2014-15 Second Interim certification from "positive" to "qualified". The District disputes the "justifications" for the County's action, and rebuts them as follows:

County's assertion:	District's rebuttal:
<p>Leadership Breakdown</p> <ul style="list-style-type: none"> <li>• Absence of strong leadership team</li> <li>• Micromanagement from Board Members</li> <li>• Spiraling litigation and/or settlements against the district</li> <li>• Board policies and administrative regulations that are not updated</li> </ul>	<p>The County has not considered the stabilizing effect the current leadership has on the District's financial condition. Instead, the County simply points to the turnover at the position, again without any consideration for the impact the current leadership has had already, as an inaccurate indicator that the District has no leadership.</p> <p>In fact, the current leadership has been able to accomplish a tremendous amount in a relatively short time. Relying on an established track record of turning districts in fiscal distress around, they sought and directed creative solutions to the biggest financial issues facing the District. For the multi-million dollar award related to a solar project, they proposed re-funding District issued bonds. The District has obtained 2 separate opinions from bond counsel that state re-funding the bond is permissible and will also lead to savings of at least \$50-million for taxpayers. (See attached Exhibit A.) The County has overlooked the fact that funds had already been earmarked for the award from previous bond sales; the proceeds are in the construction fund for this purpose. The re-funding of the bonds is a separate, but related, action and will realize tax savings of at least \$50 million to taxpayers. Moreover, the General Fund is insulated by the bond re-funding, so even if the award is paid, it won't be paid from the general fund. The outcome of this appeal has a potentially profound impact on the taxpayers' interest. The action taken by the County adversely impacts taxpayers because the change to "qualified" will have a negative impact on the District's credit rating, and thus impacts the interest rate on the bond re-funding. A positive certification will lead to credit upgrade, a lower interest rate and will result in greater tax savings. In addition, when the solar project is completed, the District will save annually nearly a million dollars.</p> <p>This has only been possible with the new, strong, leadership currently in place at the District.</p> <p>The District does not agree that new Board Members are a detriment. Singling out the 3 new board members as liabilities because they supposedly have little experience is insulting to and dismissive of those elected officials. It is because of the decisive leadership from the Board, including the 3 new board members, that the District has been able to steer itself away from insolvency by removing the previous corrupt and incompetent administration. That type of <i>ad hominem</i> attack from the County is not conducive to a healthy and professional working relationship between our agencies.</p> <p>The District also disputes the unsubstantiated claim that Board Members direct staff. Board Members do come to the District</p>

<b>County's assertion:</b>	<b>District's rebuttal:</b>
	<p>office to get paperwork and reports, a fact that should not be considered negatively. Rather, it should be viewed positively- the fact some Board Members are willing and able to come personally to the District to get materials should be commended, not slighted. Furthermore, Board Members are members of the public and the community, and they should be allowed to come to the District office to make records requests just like any other member of the public. Finally, it's unclear how such actions by the Board members is an indication of fiscal distress or potential for insolvency.</p> <p>The District is involved in three litigation matters. Only three. It is unclear why being involved in litigation is suggestive of a potential for insolvency. With regard to the multi-million dollar award, the District is in negotiations to set it aside (through the bond re-funding which the County is threatening to stay and revoke)- an outcome that should be welcomed. Instead, for an unknown reason, the County chooses to interpret it negatively. The other lawsuits referenced are attempts to recover monies and funds; those cases are not liabilities against the District. The District is not overly litigious, nor is it the target of multiple lawsuits. The fact that the District is engaged in 3 lawsuits is not indicative of a potential for insolvency, and should not be a factor relied upon to change our certification.</p> <p>It is also unclear how Board Policies and Administrative Regulations imminently impact the District's financial conditions. The County at least recognizes that the District is in the process of updating. Certainly, the District concedes the importance of updated and current policies and regulations; however, their immediate bearing on the District's financial condition is not clear and the County failed to explain or identify its impact on the District's certification.</p>
<p>Ineffective Communication</p> <ul style="list-style-type: none"> <li>• Staff unrest and/or low morale</li> </ul>	<p>The fact the District has previously submitted self-certified negative reports does not mean that, given a re-examination of the District's budget, it cannot now submit a positive report. The District's Second Interim report was evaluated by a neutral 3<sup>rd</sup> party which confirmed the District's assessment for positive certification. Thus, the District fails to see the connection between the past and the present situations or how the County can rely on that as a basis for changing the certification status.</p> <p>The District concedes the strike occurred. Yet, the matter was resolved and the teachers recognized the importance of fiscal solvency and came to an agreement with that goal in mind. In fact, the certificated staff attributes their low morale at the time of the strike to the manner in which the County's appointed fiscal overseer handled matters. (See attached Exhibit B.)</p>

County's assertion:	District's rebuttal:
	Again, the District fails to see the connection between then and the District's now current situation. With the new board and leadership, the district is on the path to fiscal recovery.
<p>Inadequate Budget Development</p> <ul style="list-style-type: none"> <li>• Deficit spending and failure to maintain adequate reserves and fund balances</li> <li>• Disconnection between budget and the LCAP</li> </ul>	<p>The inadequate budget development process is simply a perception. The real causes of the deficit spending and low fund balance in past years were deficiencies in the Human Resources operations and the former corrupt and incompetent administration. Both of these issues have been addressed and remedied through the recent changes.</p> <p>The 2014-15 LCAP is fully budgeted but was only partially implemented due to timing issues. The District did not redirect any part of the unspent LCAP budget towards other non-LCAP related expenditures. The entirety of the unspent portion of the LCAP budget is included in the 2015-16 projected expenditures. The County's reliance on this prudent and industry accepted budgeting practice as reason to change our certification is a disconnection in itself.</p> <p>All financials are extracted from the Second Interim report. The County is choosing to interpret that data differently by using the fact that the District has projected deficit spending over the next 2 years as basis for rejecting positive certification. However, the County knows or should know that the deficit spending by itself is not the decisive issue for certification purposes.</p>
<p>Human Resource Issues</p> <ul style="list-style-type: none"> <li>• Poor or limited use of position control</li> <li>• Unauthorized hiring</li> </ul>	Again, the County references "history," but does not consider or elaborate upon the current condition of the District. The District does not concede the County's version of its "history," but even if it were accepted, the District, through its new leadership, has taken measures to prevent its ongoing occurrence. Finally, it does not alter the fact that the District's current financial situation can be certified as positive.

As evidenced by the specific "predictors" relied upon by the County and the District's rebuttals, it is clear that the County has failed to demonstrate that it has conducted an investigation of the **financial condition** of the District pursuant to E.C. 42127.6. The only budgetary information referenced in the County's letter was information that was volunteered and provided by the District. Yet, there is no explanation, or even mention, of how or why the District's Second Interim projections of our ability to meet the current and subsequent two years' financial obligations are flawed or invalid. None of the reasons the County cited as justification for changing the District's certification had to do with the District's proposed and projected financial condition. Again, there is no evidence of the County's investigation, as required by E.C. 42127.6. What has been presented as a basis for the County's action are simply conclusory statements apparently based on anecdotes, history and an inaccurate FCMAT report.

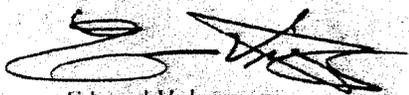
In accordance with Education Code Section 42131(a) (1), "*a positive certification shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years*". There is no referencing in E.C. 42127.6 of this standard being raised beyond the current and subsequent two years even when a school district is under financial distress. In the absence of any financial information that invalidate the District's 2014-15 Second

Interim financial projections, the District feels strongly that the County has acted inappropriately and violated both E.C. 42131 and 42127.6.

In summary, it is our position that the County has not conducted a comprehensive investigation and has instead relied almost exclusively on an outdated and inaccurate FCMAF report. Moreover, the reasons relied upon by the County for changing the certification had nothing directly to do with the District's financial condition. The District's current financial condition should be the major factor of any determination and everything else peripheral to varying degrees; instead, the peripheral matters were given undue significance and our financial condition was overlooked almost entirely. We believe, and thus the basis for our appeal, that had the County conducted a comprehensive investigation, as required by the Education Code, that concentrated on the District's current financial condition and which also factored in the District's current leadership and employee climate, it would have had no basis to change the certification as it did.

For these reasons, we believe our appeal should be considered and strongly urge you to consider reversing the County's determination. Please do not hesitate to contact me should you need further information. We look forward to your response.

Sincerely,



Edward Velasquez  
Interim Superintendent  
San Ysidro School District

Enclosures: Exhibits  
A - Preliminary Interest Rates and Estimated Taxpayer Savings  
B - SYEA Letter of Support  
C - SYSD Second Interim Budget Report  
D - SDCOE Letter Dated March 26, 2015

Cc: SYSD Governing Board  
San Diego County Office of Education

EXHIBIT A  
Preliminary Interest Rates and Estimated Taxpayer Savings

# San Ysidro School District 2015 G.O. Refunding Bonds

Preliminary Interest Rates as of April 1, 2015. Based on Current G.O. Bond Rating of "BBB-"

Below is an update of the preliminary interest rates and estimated taxpayer savings for the San Ysidro District 2015 G.O. Refunding Bonds. Given the dynamics surrounding the District's existing credit rating, and more specifically, the recent history regarding the District's "negative" status, we have included a side-by-side comparison of the potential bond refunding with the current "BBB-" rating and an "A" rating. The vast majority of California elementary school districts, with comparable tax bases and student enrollment as San Ysidro school district, are rated in the "A" category. Under current market conditions we believe the differential or penalty between the two ratings is approximately 0.20%, or 20 basis points. We also note that estimated bond underwriting fee would drop/improve from 1.0% to 0.70% if San Ysidro SD were rated in the "A" category.

## Comparison of Interest Rates

Issuer Name:		San Ysidro School District		San Ysidro School District		Spread Differences: Negatives Equal Improvements:	
Debt Type:		General Obligation		General Obligation			
Issue Amount:		\$45,404,403		\$45,199,952			
Call Date:		08/01/2025 @ Par		08/01/2025 @ Par			
Expected Credit Ratings:		"BBB-"		"A"			
Use of Insurance:		Yes		Yes			
Underwriter:		RBC Capital Markets		RBC Capital Markets			
Underwriting Fee:		1.00% of Par Amount		.700% of Par Amount			
Maturity	Interest Rate	Interest Rate Spread to MMD	Interest Rate	Interest Rate Spread to MMD	Year	Spread Difference	
2016	0.660	35	0.460	15	2016	20	
2017	1.070	45	0.870	25	2017	20	
2018	1.410	50	1.210	30	2018	20	
2019	1.670	53	1.470	33	2019	20	
2020	1.880	57	1.680	37	2020	20	
2021	2.070	60	1.870	40	2021	20	
2022	2.290	63	2.090	43	2022	20	
2023	2.450	67	2.250	47	2023	20	
2024	2.590	70	2.390	50	2024	20	
2025	2.740	75	2.540	55	2025	20	
2042	5.170	240	4.970	220	2042	20	
2043	5.210	243	5.010	223	2043	20	
2044	5.240	245	5.040	225	2044	20	
2045	5.280	248	5.080	228	2045	20	
2046	5.300	250	5.100	230	2046	20	
2047	5.350	255	5.150	235	2047	20	
2048	5.400	260	5.200	240	2048	20	
2049	5.430	263	5.230	243	2049	20	
2050	5.450	265	5.250	245	2050	20	

Based on these interest rates, at the top of the next page we show the updated refunding analysis.

## Bond Refunding Summary

### Detailed Savings Analysis – San Ysidro School District

Assumed Bond Rating of "BBB-"

Based on Market Rates as of 04/01/15

New G.O. Bond Refunding Issue Amount:	\$45,404,403
Prior G.O. Bonds Refunded:	\$47,355,793
Weighted Average Interest Rate of Refunded Bonds:	7.166%
New Refunding Bond True Interest Cost <sup>(1)</sup> :	5.099%
<b>Total District Savings (net of all fees):</b>	<b>\$56,432,648</b>
Prior CAB Payback Ratio:	14.67 to 1
<b>New CAB Payback Ratio:</b>	<b>5.18 to 1</b>
Present Value Savings (\$):	\$12,112,461
Present Value Savings (%):	34.27%

(1) Assumes current market rates based on MMD as of 04/01/15

### Detailed Savings Analysis – San Ysidro School District

Assumed Bond Rating of "A"

Based on Market Rates as of 04/01/15

New G.O. Bond Refunding Issue Amount:	\$45,199,952
Prior G.O. Bonds Refunded:	\$47,355,793
Weighted Average Interest Rate of Refunded Bonds:	7.166%
New Refunding Bond True Interest Cost <sup>(1)</sup> :	4.899%
<b>Total District Savings (net of all fees):</b>	<b>\$66,122,231</b>
Prior CAB Payback Ratio:	14.67 to 1
<b>New CAB Payback Ratio:</b>	<b>4.87 to 1</b>
Present Value Savings (\$):	\$15,108,605
Present Value Savings (%):	42.75%

(1) Assumes current market rates based on MMD as of 04/01/15

## **Disclaimer**

RBC Capital Markets, LLC (RBCCM), seeks to serve as an underwriter on a future transaction and not as a financial advisor or municipal advisor. The information provided is for discussion purposes only in anticipation of being engaged to serve as an underwriter. The primary role of an underwriter is to purchase securities with a view to distribution in an arm's-length commercial transaction with the issuer. The underwriter has financial and other interests that differ from those of the Issuer. RBCCM is not recommending an action to you as the municipal entity or obligated person. RBCCM is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act to you with respect to the information and material contained in this communication. RBCCM is acting for its own interests. You should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

**EXHIBIT B**  
**SYEA Letter of Support**

**San Ysidro Education Association  
1061 Tierra Del Rey  
Chula Vista, CA 91910**

April 1, 2015

**SYEA  
Executive Team**

Carol Wallace  
Krystal Dominguez  
Martin Galante  
Patricia Manley  
Patricia Sortesanz  
Belinda Meza

To whom it may concern:

The San Ysidro Education Association fully supports San Ysidro School District Board and Superintendent Edward Velasquez's appeal of the qualified certification given by the San Diego County Office of Education on Thursday, March 26, 2015.

In particular, the San Diego County Office of Education states in its letter to San Ysidro School District that "staff unrest and/or low morale" is a "fiscal indicator" to grade the district as qualified status, given that our certificated staff went through a strike last year. The aforementioned statement is completely false. Our relationship and unity with our current administration is absolutely strong and our faith in them is un-wavered. Instead, our grief and distrust has and will continue to stem from the San Diego County Office of Education's involvement as the district's fiscal overseer; accordingly, our "morale" has improved now that that we know they are no longer assigned to work at our district.

San Ysidro Education Association is also concerned as to the reasoning for using the aforementioned as an indicator for deeming San Ysidro School District as qualified. Staff morale is not a "fiscal indicator" as mentioned in the County's letter, given that it does not play a role in determining a district's fiscal solvency. Additionally, this concern from the County was never identified or addressed as an issue in previous letters when San Ysidro School District was labeled as negative. Using this now as a reason is inappropriate and misleading,

In collaboration with San Ysidro School District's board and administration, as well as with our many community partners, parents and residents in San Ysidro, San Ysidro Education Association is committed to improving our district for the better. We strongly support and know San Ysidro School District is a positive certified school district.

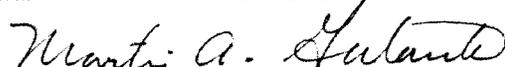
We appreciate your consideration, and should you or any of your staff members have any questions, please feel free to contact us directly at PHONE NUMBER. (619) 300-3415

Sincerely,

Carol Wallace President SYEA



Martin Galante 2<sup>nd</sup> Vice President Political Action Committee Chair



**EXHIBIT C**  
**SYSD Second Interim Budget Report**

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EXHIBIT D  
SDCOE Letter Dated March 26, 2015