



CALIFORNIA STATE AUDITOR

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FACT SHEET

Date: June 15, 2010

Report: 2009-116

The California State Auditor released the following report today:

San Dieguito Union High School District

*Its Expenditures for Community Facilities District 94-2 Were Generally Appropriate,
but It Did Not Fully Disclose Some of Its Financial Issues*

BACKGROUND

With more than 12,000 students in four middle schools and six high schools, the San Dieguito Union High School District (school district) is located in northern San Diego County. Among other revenue sources, the school district draws on funds from community facilities districts to finance the acquisition and improvement of school districts, as permitted under the Mello-Roos Community Facilities Act of 1982. The school district has established nine community facilities districts, including the Community Facilities District 94-2 (facilities district 94-2), since 1994. It also created a public facilities authority to issue revenue bonds backed by special taxes on property owners in the community facilities districts. The school district's public facilities authority issued bonds three times—in 1998, 2004, and 2006.

KEY FINDINGS

During our review of the school district's use of facilities district 94-2 funds and its responsiveness to requests for information under the California Public Records Act, we noted that the school district:

- Generally spent funds from the facilities district appropriately. Our testing of \$16.4 million in expenditures revealed that \$451,000 was inappropriately used for facilities not within the formation resolution or services benefitting the entire school district.
- Issued \$91.1 million in refunding bonds—bonds that redeemed the outstanding prior bonds—in 2006, to gain access to proceeds from earlier bond sales. This bond issuance included provisions that resulted in variable rates.
- Experienced significant increases in its interest payments resulting from investor fears after the collapse of the subprime mortgage market led to rising bond interest rates in early 2008. Interest payments climbed from \$263,000 per month to \$843,000 per month in just two months.
- Remarketed the 2006 bonds as fixed rate bonds in 2008 because of financial difficulties and paid an \$8.1 million fee to terminate a derivative financial agreement related to the 2006 bond issuance.
- Did not adequately communicate the financial difficulties it faced in early 2008 related to its 2006 bonds, despite facing significantly higher interest payments and the risk that it would run out of funds to make bond payments by March 2009.
- Did not make all required disclosures about the risks associated with its 2006 bonds in its financial statements even though these bonds represented a significant portion of the school district's total debt.
- Generally responded to requests for information within statutory time limits, but some of its records documenting the information provided to requestors are vague.

KEY RECOMMENDATIONS

We made several recommendations to the school district including that it reimburse facilities district 94-2 for the erroneous payments previously made or adjust the charges to this facilities district. We also made specific recommendations to ensure that the school district provides the public with information it can use to participate in the decision-making process and to hold officials accountable, and that it maintain proper records related to requests for information.

