Borenstein: Another deceitful California school bond plan

By Daniel Borenstein, dborenstein@bayareanewsgroup.com

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Brentwood Union School District Superintendent Dana Eaton is photographed in his office in Brentwood, Calif., on Wednesday, July 17, 2013. (Dan Honda/Bay Area News Group)

Just when it seemed the school bond industry was cleaning up its act, along comes Brentwood's June ballot measure.

The K-8 district's $158 million proposal to finance construction assumes soaring growth and property values over the next 35 years that county officials doubt will come to pass.

If they don't, and they almost certainly won't, current property owners could be stuck with much larger tax rates to retire the bonds, perhaps 21/2 times what the district is telling voters.

Brentwood serves as the latest East Bay example of school bond deceit. West Contra Costa repeatedly asked voters for more borrowing authority while misleading them about how much they needed and refusing to control costs.

Mt. Diablo Unified School District promised it wouldn't further raise taxes but didn't reveal that exorbitant interest costs would result from stretching out payments.

Brentwood is employing a different deception with Measure B. It cannot legally sell bonds if repayment is forecast to cost property owners each year more than $30 for every $100,000 of assessed value.

So, in the ballot pamphlet voters will receive this coming week, Superintendent Dana Eaton predicts repayment of Measure B bonds over the next 35 years will cost no more than $28 annually for every $100,000 of assessed value.

That currently works out to about $108 each year for an average home in the district. It's pure fantasy. There's little chance that if the district issues all the bonds the repayment rate will be that low.

At the root of this scheme are district predictions about growth of assessed value in the school district. Total assessed value increases with rising sales prices and new home construction.

The higher the assessed value, the lower the tax rate charged to each property owner to retire bonds. Eaton and the district's financial adviser, Benjamin Dolinka, aggressively predict rising assessed value, making the tax rate look smaller.

They claim that total assessed value will increase an average 10 percent annually for the next decade and an average 7.5 percent each year from now until 2050.

Indeed, the district predicts that for a quarter century the annual growth will never drop below 5 percent. "Think of that from a common sense standpoint," said Deputy State Treasurer Tim Schaefer. "You're saying 5 percent or more for 25 years."

That would mean no recessions and that homebuyers continuously pay higher prices for houses at the end of a highway cul-de-sac in an area lacking a major job center.

Sure, there's much new development planned for the Brentwood area. But even city officials are nowhere near that bullish. The city forecasts that assessed valuation will grow during the next decade about 4 percent annually.

Contra Costa Treasurer Russell Watts and county Auditor Robert Campbell question the school district's aggressive numbers.

"The assessed value projections appear overly optimistic and if not realized would require a higher-than-projected tax rate to satisfy future debt service payments," Campbell said.

Since 2010, no other East Bay school district seeking voter approval for a bond measure has made a forecast anywhere near that aggressive.

Extrapolating the city's more-conservative growth forecast over the 35-year repayment period would result in a top tax rate of about $76 for every $100,000 of assessed valuation, not the district's predicted $28 rate.

Dolinka did not return calls seeking comment. He's well known in the school bond industry as the financial adviser for a controversial bond sale in northern San Diego County.

Under that deal, the poster child for subsequent reform legislation, Poway Unified School District issued $105 million of bonds but delayed starting repayment for more than two decades. Consequently, property owners will repay nearly $1 billion for principal and interest.

Eaton and school board members knew about the Poway deal when they hired Dolinka. Eaton says that if future assessed value forecasts show slower growth, the district won't issue as many bonds.

That misses the point: The district should not promise voters more than it can deliver. Moreover, if Eaton and Dolinka are willing to inflate forecasts now, what will stop them from doing so later?

Voters should say no, and insist the district find a new financial adviser with a realistic funding plan.

Daniel Borenstein is a staff columnist and editorial writer. Reach him at 925-943-8248 or dborenstein@bayareanewsgroup.com. Follow him at Twitter.com/BorensteinDan.