School bonds are a Wall Street scam

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Our children and grandchildren are the unwitting hostages of massive future debt from an exotic bond scheme promoted by Wall Street as a way to build schools that is really a financial scam.

These "capital appreciation bonds" will have a devastating impact on our children's financial future. They were part of AB1388, signed by then-Gov. Arnold Schwarzenegger in 2009, giving banks the green light to lure California school boards into issuing bonds to raise quick money to build schools.

Unlike conventional bonds that have to be paid off on a regular basis, the bonds approved in AB1388 relaxed regulatory safeguards and allowed them to be paid back 25 to 40 years in the future. The problem is that from the time the bonds are issued until payment is due, interest accrues and compounds at exorbitant rates, requiring a balloon payment in the millions of dollars. According to state Treasurer Bill Lockyer, these bonds represent "debt for the next generation."

This kind of bond has been outlawed by a number of states, including Michigan and Ohio, but California was identified by Wall Street banks as a source of potential profits in the millions. Several grand jury investigations warned school officials against these scams.

According to a recent San Mateo County grand jury report, the bonds have been issued in California to raise more than $500 billion - but the estimated future repayment of that debt will total more than $2 trillion.

School and community college districts issued 98 percent of all capital appreciation bonds. For example, San Mateo Union High School District raised $190 million, which will result in approximately $1 billion in debt. In San Diego County, Poway Unified School District raised $105 million which will result in approximately $1 billion in debt.

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SCHOOL BONDS ARE A WALL STREET SCAM

The Los Angeles Times reported that more that 200 California school and community college districts issuing these bonds will end up paying 10 to 20 times more than they borrowed.

Worse, because 70 percent of the bonds have terms of 30 to 40 years, payment will not be due until after the useful life of the school facilities built with the bond funds. Moreover, the property taxes that will be needed to pay off the debt is based on wild assumptions that property values will increase exponentially.

According to many reports, property owners who never voted for these bonds will have to pay for them.

The legality of this kind of bond was questioned in January 2009, when Attorney General (now Gov.) Jerry Brown declared that financing methods that result in taxpayers being charged higher interest rates than the actual market rate for the financing method, such as bonds, violates state law.

Brown was referring to the cash-out refunding method, similar to this bond scheme, used to raise construction funds beyond the amount approved by voters. In May 2011, relying on the attorney general's opinion, the Los Angeles city treasurer warned Los Angeles County school districts against these Wall Street scams. By January 2012, Lockyer and state schools chief Tom Torlakson had warned school districts and called for a moratorium on using the bonds.

In May of this year, a San Diego County grand jury found that by using the bonds, the Poway School District was "not acting consistent with statutory law, and incurring debt beyond what the voters authorized in violation of the California Constitution."... (*To read the entire article, please click HERE*)