

## District faces credit slam after audit

### Alum Rock

#### ALUM ROCK SCHOOLS

S& P says it may lower or withdraw rating after critical state report exposed financial dangers

By Sharon Noguchi

[snoguchi@bayareanewsgroup.com](mailto:snoguchi@bayareanewsgroup.com)

**SAN JOSE** » In a potentially costly hit to taxpayers, Standard & Poors Global Credit has signaled that it expects to downgrade or possibly even withdraw its credit rating of the Alum Rock Union School District's bonds and other debt.

The move, expected within three months, would be the first dollars-and-cents toll following a state audit released last month that warned that the school district is susceptible to fraud and misappropriation of funds because of poor internal controls.

With any downgrade, district taxpayers will likely pay more in interest to borrow money from the bond market to pay for school building projects.

S& P, which issues credit ratings for more than 400 California school districts at their request, cited findings of the state's Fiscal

Crisis and Management Assistance Team as a reason for placing Alum Rock on a "credit watch negative." S& P noted that the audit by FCMAT, as the state's reviewer of troubled school districts is known, cited questions about the district's fiscal management and the reliability of information.

"After we have further evaluated the audit findings and other relevant information, we may



Ca Dilza Gonzalez tells the Alum Rock school board that her 9-year-old daughter developed an infection because she couldn't use the bathroom at Cesar Chavez School which are "in despicable condition."

SHARON NOGUCHI — STAFF PHOTOGRAPHER

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lower and/or withdraw our rating," S& P's report read.

Alum Rock's current S& P credit rating is fourth from the top on a scale of 10. It has an AA-minus for its general-obligation bonds and an A-minus for another form of debt called certificates of participation.

The purpose of the warning is "to communicate that there's a good chance the rating is going to change within the credit watch period," said Ben Geare, an S& P credit analyst and co-author with Li Yang of the report. He declined to say what sources S& P would investigate, and when exactly the district's credit rating might change.

she has changed her mind. "I don't believe having a MP room right now is going to get our kids any further to college," she said.

But Tran argued that the district has enough money to both repair basics and build the multipurpose rooms.

The board has not formally discussed the credit watch, which S& P imposed on July 7.

It's possible that the district could avoid an adverse impact by competitively marketing new bonds. But it's also possible that the rating could push up interest rates on Alum Rock bonds, making debt service, and thus property taxes, more expensive.

The S& P report also cited worries about Alum Rock's ability to repay \$25 million in certificates of

Alum Rock Superintendent Hilaria Bauer and board President Khanh Tran did not respond by press time to requests for comment.

But earlier, Tran blamed the press and critics. On Sunday he tweeted, “Alum Rock bond on credit watch because of fake news and irresponsible activists and newspaper acting without facts.”

By Tuesday, at a hastily announced special board meeting, Tran had changed his mind about taking a combative approach to the FCMAT report by hiring an outside law firm. Casting a critical swing vote, Tran said, “there is no gain to respond to FCMAT even if the report is flawed.”

Tran and trustees Esau Herrera and Dolores Marquez voted to approve paying the firm, Fagen Friedman & Fulfroost, for work already done on the audit. Then Tran joined dissenters Andrés Quintero and Karen Martinez in refusing to authorize the firm to do more work.

Fagen had begun work on the FCMAT review last month without a board-approved contract, but halted it last week. Tuesday night trustees acknowledged that they don’t know how much they will be paying for work responding to the audit. They didn’t discuss whether the attorneys will provide the district with reports from their work.

Also Tuesday, the board voted to award a \$10.4 million contract to build a multipurpose room at Fischer Middle School — despite opposition from speakers who asked the district to first build essentials like bathrooms, roofs, heating and air-conditioning.

“My daughter got an infection because she had to hold her pee,” said parent Dilza Gonzalez. The bathrooms at Cesar Chavez elementary are in “despicable condition,” she said. “For you guys, an MP room is more important than my daughter,” she told the board.

“We need to get the basics fixed,” said parent Randi McMasters. “You’re not going to get any more money from us. People are ticked.”

Trustee Martinez, who originally had approved the Fischer project, explained

participation, known as COPs, taken on in order to rebuild San Antonio elementary school.

State auditors, the S& P report noted, have “serious reservations about the district’s ability to repay the COPs without affecting the unrestricted general fund and that the debt service payments could threaten the district’s ongoing solvency.”

The FCMAT report examined the management of Alum Rock’s bond-financed construction and found scant documentation, contracts disadvantageous to the district, a cozy relationship between some board members and construction manager Del Terra Real Estate, and employees feeling fearful and intimidated.

Despite dumping the Fagen law firm, the Alum Rock board majority still appears intent on assigning its contract attorney, Rogelio Ruiz, to respond to the FCMAT report.

“To say we can do it ourselves is almost laughable,” Herrera said.

But residents chided the board, citing a statement by Santa Clara County Superintendent of Schools Jon Gundry that to respond, the district need only acknowledge receipt of the FCMAT report. “It’s money wasted,” resident Jeff Markham said about spending on attorneys.

Trustee Quintero agreed. “There’s no requirement to pay for a very expensive response that is unnecessary,” he said. He noted that the district paid its own attorney, Luis Saenz, \$260 an hour to search for a law firm to respond to FCMAT, and will pay the Fagen firm \$290 an hour for its work.

Although the direction wasn’t specified, his board colleagues indicated interest in a legal response. *Contact Sharon Noguchi at 408-271-3775.*

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— *Randi McMasters, parent*