SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
710 ENCINITAS BLVD., ENCINITAS, CA 92024
BOARD OF DIRECTORS SPECIAL MEETING
OF THE
SAN DIEGUITO PUBLIC FACILITIES AUTHORITY
MINUTES

The special meeting of the Board of Directors of the San Dieguito Public Facilities Authority was called to order at 4:30 p.m. on Tuesday, June 27, 2006, by President Friedman, in the San Dieguito Union High School District Office Board Room, 710 Encinitas Boulevard, Encinitas, California.

CALL TO ORDER
President Friedman called the special meeting to order at 4:30 p.m.

Members Present
Linda Friedman, President
Barbara Groth
Deanna Rich
Joyce Dalessandro
Beth Hergesheimer

Administrators Present
Peggy Lynch, Ed.D., Superintendent
Eric J. Hall, Associate Supt./Business Services
Steve Ma, Executive Director, Planning Services
John Addleman, Facilities Planning Analyst
Sue Gleiforst, Recording Secretary

Guests
Glenn Casterline, Bond Logistix
Masood Sohaili, O'Melveny and Myers
Celeste Davis, Morgan Stanley
Margi Backstrom, Morgan Stanley

DISCUSSION ITEMS/
ACTION AGENDA/

APPROVAL OF MINUTES
2.

Motion by Mrs. Dalessandro, second by Mrs. Hergesheimer, that the minutes of the Board of Directors of the San Dieguito School Public Facilities Authority of June 8, 2006, be approved as written.

AYES: Dalessandro, Groth, Hergesheimer, Rich, Friedman
ABSENT: None
NOES: None
ABSTAIN: None

Motion unanimously carried.

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY REVENUE REFUNDING BONDS, SERIES 2006/ ADOPTION OF AUTHORITY RESOLUTIONS 3.

Mr. Ma reported that staff has been working with a finance team since January to analyze options on the refunding of the 1998 and 2004 Mello Roos Bonds. This was prompted by a slow down in the housing market and its effect on special tax revenue collected by the Authority. The goals and strategy of the refunding include:

a) Develop a structure to allow for the release of the remaining funds ($17.9 million) in escrow
b) Minimize or eliminate the potential of funds held in escrow being used to redeem bonds rather than being available for facilities
c) Generate savings from the refunding

Due to the rising interest rate, the traditional fixed rate structure was deemed financially unattractive and would not achieve the goals described. The staff and the finance team then proposed a "synthetic fixed rate structure" to achieve the district's goals. Under this method, the Authority would be issuing short-term variable rate notes. Using the synthetic fixed rate versus the interest rate swap would allow the Authority to generate approximately $3 million in savings. The Authority would enter into a long-term swap agreement with Morgan Stanley, agreeing to pay them a fixed swap rate for the duration of the bonds. In exchange, the Authority would receive from Morgan Stanley a percentage (65%) of the one-month LIBOR rate, which is matched to the short-term variable rate notes issued by the Authority. This swap agreement is used as a financial hedge against variable interest rate fluctuations inherent in short-term notes.

Mr. Glenn Casterline, from Bond Logistix, explained the swap risk factors, which include basis risk, counterparty risk, and credit risk. Basis risk is when there is a mismatch between the variable leg of the swap and the variable interest rate on the debt. The finance team is trying to mitigate this risk by selecting a highly correlated rate (% of LIBOR). The insurer is requiring the Authority to fund a cash reserve for the duration of the bonds. The counterparty risk is being mitigated by selecting a high quality investment bank (Morgan Stanley). The credit risk is deemed to be low because of the quality of the special tax revenue and underlying asset value. The Authority, at its June 8 meeting, adopted a swap policy, which governs the appropriate use of interest rate swaps in debt management. The administration is also recommending entering into a swap monitoring program with an outside consultant to periodically monitor all areas of risk associated with this refunding.

The staff met with AMBAC and two rating agencies on June 15 to review the proposed transaction. The goal is to have AMBAC fund a full surety for the bonds. An insured transaction would generate the lowest interest cost to the Authority. Current negotiations with AMBAC revolve around the amount of cash reserve (two times stress test of $2 million), to be funded by the Authority for the duration of the bonds. This reserve would not be available for facilities, but would act as an insurance policy for AMBAC under a worse case scenario. The finance team is expecting excellent rating for this transaction because of the quality and underlying stability of the asset.

The proposed refunding will have the Authority issuing $92.4 million in bonds of which approximately $19.5 million will be immediately available for facilities. This money will be used to pay existing obligations at Canyon Crest Academy and San Dieguito Academy, as well as future projects identified by the board. The expected all-in cost interest rate is approximately 4.03% and the expected present value savings from the refunding is approximately $3 to $4 million.

Mr. Casterline reviewed the list of documents to be approved by the Authority tonight and by the Board of Trustees at the 6:30 p.m. Regular meeting.

The board briefly discussed the "Extraordinary Pre-Payment" provision in the event of the sale of the La Costa Valley site for private use. Mr. Sohaili explained that the Authority would be obligated to use a portion of sales proceed to redeem bonds in the amount of the original purchase price ($5.8 million) plus a portion for "private use" as defined by an IRS formula.

Motion by Mrs. Hergesheimer, second by Mrs. Dalessandro, to adopt the attached Resolution of the Board of Directors of the San Dieguito Public Facilities Authority; Authorizing the Issuance of the San Dieguito Public Facilities Authority Revenue Refunding Bonds, Series 2006; Authorizing the Execution and Delivery by the Authority of the Indenture, the Purchase Contract, the Loan Agreement, two Installment Purchase Agreements, the Auction Agent Agreement, the Swap Agreement and the Official Statement; and Taking Certain Other Actions Related Thereto.

AYES: Dalessandro, Groth, Hergesheimer, Rich, Friedman
ABSENT: None
NOES: None
ABSTAIN: None

Motion unanimously carried.

INFORMATION ITEM

2006 SULLIVAN GROUP ABSORPTION REPORT/ SUMMARY AND IMPLICATIONS
4.

Mr. Ma reported on the update from the Sullivan Group on CFD permit projections. The new report indicates that demand for housing in San Diego has begun to soften after five years of unprecedented growth and home appreciation. This slowing is attributable to a number of factors. They reviewed a table which compared the original estimates of special tax revenues when the 2004 bonds were issued with the current projections. If no refunding occurred, the Authority's ability to release the remaining funds from escrow would be seriously impaired because of reduced revenues. The staff estimates that approximately $3 million would still be in escrow when escrow collapses in 2009. This money would go to redeem bonds and would not be available for facilities.

ADJOURNMENT
5.

There being no further business to come before the Board of Directors of the San Dieguito Public Facilities Authority, President Friedman adjourned the meeting at 5:40 p.m.

Joyce Dalessandro 8/23/07

Joyce Dalessandro, Clerk

Peggy Lynch 8/23/07

Peggy Lynch, Ed.D., Superintendent and
Secretary to the Board