

San Dieguito

Union High School District

710 Encinitas Blvd.
Encinitas, CA 92024-3357
(760) 753-6491
www.sduhsd.net

Board of Trustees:

Joyce Dalessandro
Linda Friedman
Barbara Groth
Beth Hergesheimer
Deanna Rich

Superintendent:

Peggy Lynch, Ed.D.
(760) 943-3501 FAX

Canyon Crest Academy
Carmel Valley MS
Diegueno MS
Earl Warren MS
La Costa Canyon HS
North Coast Alternative HS
Oak Crest MS
San Dieguito Adult Education
San Dieguito HS Academy
Sunset HS
Torrey Pines HS

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

BOARD OF TRUSTEES SAN DIEGUITO PUBLIC FACILITIES AUTHORITY SPECIAL MEETING

THURSDAY, AUGUST 23, 2007

AGENDA

IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

A Special Meeting of the San Dieguito Public Facilities Authority of San Dieguito Union High School District has been scheduled for Thursday, August 23, 2007, in the large board room, immediately following the Regular Meeting of the Board of Trustees.

1. Call to Order

DISCUSSION / ACTION ITEMS

2. Approval of Minutes of the June 27, 2006 Meeting
Motion by _____, second by _____, to approve the Minutes of June 27, 2006, San Dieguito Public Facilities Authority Meeting as written.

INFORMATION ITEMS

3. San Dieguito Public Facilities Update,
Certificate Compliance Steve Ma
4. Adjournment

In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications, or accommodations, including auxiliary aids or services, in order to participate in the public meetings of the District's Governing Board, please contact FAX the office of the District Superintendent at (760) 943-3501. Notification 72 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with the meeting in appropriate alternative formats for persons with a disability.

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, Clerk

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

San Dieguito Public Facilities Authority

INFORMATION REGARDING BOARD AGENDA ITEM

TO: BOARD OF DIRECTORS

DATE OF REPORT: August 13, 2007

BOARD MEETING DATE: August 23, 2007

PREPARED BY: Steve Ma, Treasurer
John Addleman, Facilities Planning Analyst

SUBMITTED BY: Peggy Lynch, Ed.D.
Superintendent

SUBJECT: San Dieguito Public Facilities Update and
Certificate of Compliance

EXECUTIVE SUMMARY

Please see the attached Business memorandum updating the permit activity for 2006/07 and the resulting 2007/08 tax roll. As well, the memorandum summarizes the delinquencies for 06/07 compared to historical levels, and the basis for the executed CFD 94-2 Bond Covenant's Certificate of Compliance.

encl: Business Memo, Certificate of Compliance

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Memo

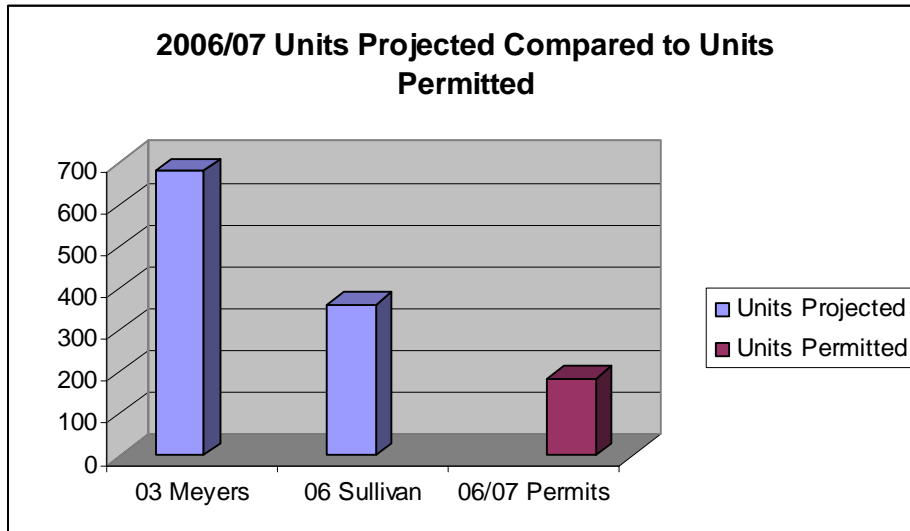
To: Stephen G. Ma, Treasurer
From: John Addleman, Facilities Planning Analyst
CC: File
Date: August 13, 2007
Re: San Dieguito Public Facilities Authority

On August 1st, we received the County of San Diego applied report (fixed charged special assessments reports) from MuniFinancial. Special tax revenue to be collected for payment on the 2006 Revenue Refunding Bonds for fiscal year 2007/08 will be \$5,869,181.00. The aggregate increase among the nine-bonded Community Facilities Districts was modest at 3.1% or \$179,399.00, as compared to previous fiscal years.

Permit Activity (2006-2007)

A total of 186 new residential units were permitted in 2006/07. The largest portion, 141 units, was permitted by Pardee Homes in Pacific Highlands Ranch, CFD 03-1.

The slow down in the new residential housing construction is first apparent when comparing the 186 new units to the 725 units permitted in 2005/06. Further evidence reflects that the 186 new residential units are 51% of the 362 units projected by the 2006 Sullivan Group Absorption Analysis Report and only 27% of the 681 units projected in the 2003 Meyers Group Absorption Analysis Report for 2006/07.



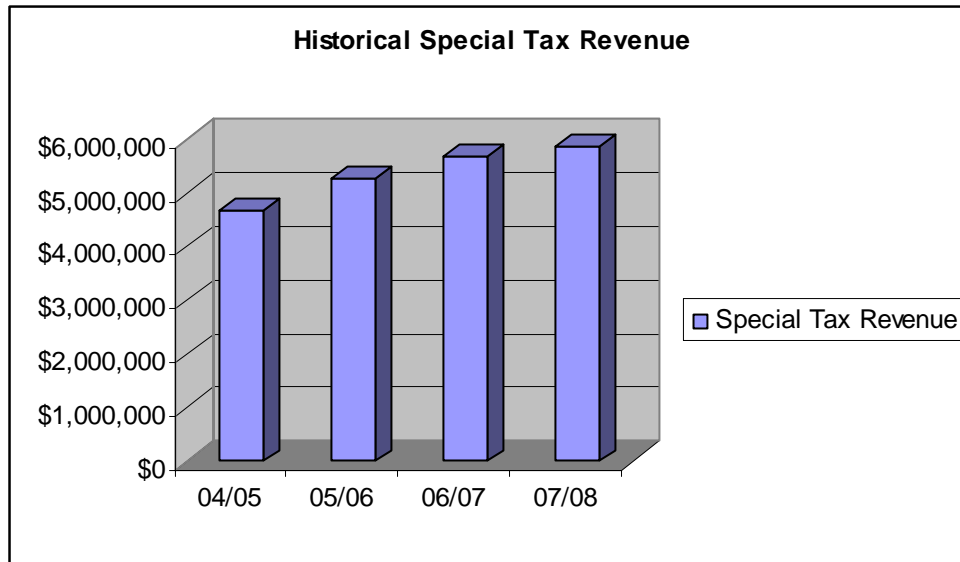
In review of the 2006 Sullivan Group Absorption Analysis Report for fiscal year 2006/07, the remaining phases of La Costa Oaks (CFD 94-2) located within our district did not come on-line as projected, as well as the units permitted in Pacific Highlands Ranch (CFD 03-1), which continued to slide further than estimated by Pardee Homes a year ago.

Special Tax Revenue

A total of \$5,869,181.00 in special tax revenue is expected to be collected in the nine Community Facilities Districts in 2007/08. All nine CFDs are bonded for the 2006 Revenue Refunding Bonds. As a result of the deposit and application of funds as provided in the 1998 and 2004 Escrow Agreements when the 2006 Bonds were issued, the 1998 and 2004 Bonds were defeased and all obligations thereunder were discharged.

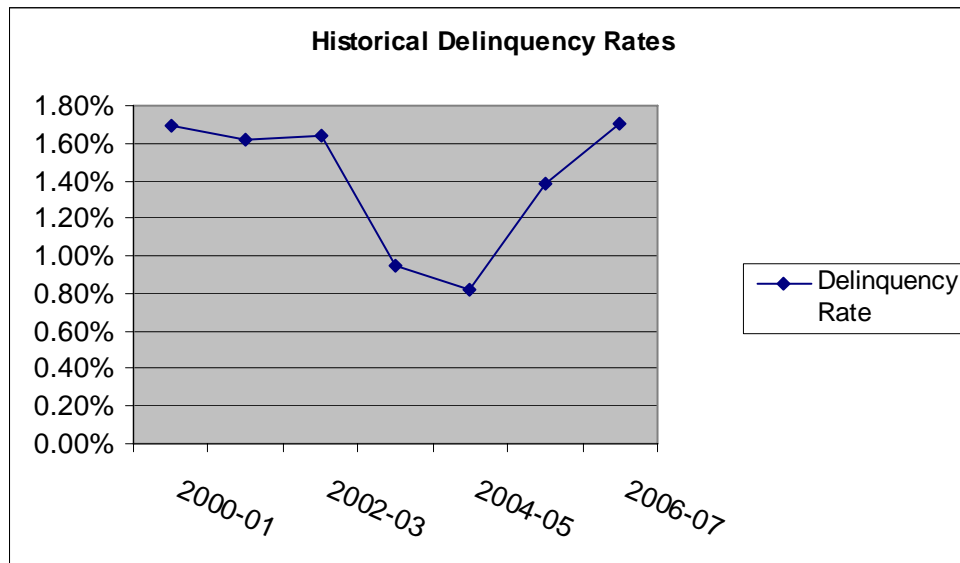
Special tax revenue will be collected in the following amounts from the Community Facilities Districts.

94-1	\$ 6,400.00	0.1%
94-2	\$1,774,400.00	30.2%
94-3	\$ 536,246.00	9.1%
95-1	\$2,132,865.00	36.3%
95-2	\$ 291,702.00	5.0%
99-1	\$ 339,342.00	5.8%
99-2	\$ 22,230.00	0.4%
99-3	\$ 71,820.00	1.2%
<u>03-1</u>	<u>\$ 694,176.00</u>	<u>11.8%</u>
Total	\$5,869,181.00	100.0%



Delinquency Rates

While the number of permits issued and the incremental special tax revenue have slowed, delinquencies have continued to rise to levels not seen since the early 2000's.



The aggregate 2006/07 delinquency rate is 1.7%. While no CFD is currently required to foreclose on homeowners due to delinquency, of concern are two CFDs which are experiencing higher than anticipated delinquency rates. Encinitas Ranch (CFD 94-3) and the communities of CFD 95-2 (Encinitas area) have delinquency rates of 2.3% and 3.5% respectively. Should the delinquency rate exceed 5% in these CFDs, the CFD will be required to take foreclosure action regardless of the amount or time of delinquency.

Staff has contacted MuniFinacial, and reminder/demand letters have been sent to the delinquent homeowners to address this concern.

94-2 Bond Covenant

Pursuant to Section 6.2(b) of the Series 2006 Indenture of Trust, the Authority shall certify annually to the Trustee that each bond year, the Pro Rata Portion of CFD 94-2 in such bond year together with all prior bond years shall not exceed the percentage of all monies disbursed (or designated to be disbursed) from the Transferred Project Fund or the Released Project Fund that have been expended (or are designated to be expended) for Qualified 94-2 Facilities.

On August 9, 2006, \$19,227,196.41 was deposited into the Transferred Project Fund. CFD 94-2's pro rata portion was 31.2%, or \$5,998,885.28. Earnings since August 9, 2006, are \$175,067.59, of which 31.2% or \$54,621.09 is attributed to CFD 94-2. CFD 94-2's total pro rata share as of July 31, 2007, is \$6,053,506.37.

As of July 31, 2007, \$1,335,897.77 was expended for Qualified 94-2 Facilities and \$4,717,608.60 was designated for Qualified 94-2 Facilities of the remaining \$12,312,395.05 in funds held.

Please find attached the Certificate of Compliance for you to sign as Treasurer of the Authority and return to our Trustee, US Bank, by August 31, 2007.

CERTIFICATE OF COMPLIANCE

I, Stephen G. Ma, Treasurer of the San Dieguito Public Facilities Authority (the "Authority"), based on the information made available to me do hereby state and certify that:

- (i) I am the Authorized Representative of the Authority;
- (ii) pursuant to Section 6.2 of the Indenture of Trust for the San Dieguito Public Facilities Authority Revenue Refunding Bonds, Series 2006, the Pro Rata Portion of CFD 94-2 does not exceed the percentage of all monies disbursed (or designated to be disbursed) from the Transferred Project Fund or the Released Project Fund that have been expended (or are designated to be expended) for Qualified 94-2 Facilities.

Dated: 8/13/07

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY


Stephen G. Ma, Treasurer