



MEMORANDUM

TO: DR. JEFF ROBERTS
FROM: JEFF SMALL & CATHY DOMINICO
SUBJECT: DISTRICT'S OUTSTANDING COP RESTRUCTURING OPPORTUNITY
DATE: OCTOBER 22, 2009

Background

In 2006, the District identified a shortfall in the funding for the construction of Cobblestone School. Construction was already underway and the cost to stop construction far outweighed the cost to complete the project. This was due to the actual cost to both stop and eventually restart the project, security and liability on a partially completed construction project, and the risk of a lawsuit from the builder due to a breach of contract. As a result, the District borrowed \$7.2 million through a Certificate of Participation (COP) issuance to fund the construction shortfall.

The District's COP is outstanding at an average interest rate of 5.165%, with annual payments of approximately \$475,000. The District had hoped that the annual payments on the COP could be funded from a combination of new developer fee collections and excess special tax collections (after meeting debt obligations on the outstanding special tax bonds). Although the excess special tax collections have been available to fund a portion of the debt payments, the slow down in the economy and the resulting uncertainty of future developer fee collections is a concern to the District. Without this revenue source, the District must fund its debt obligation from the General Fund.

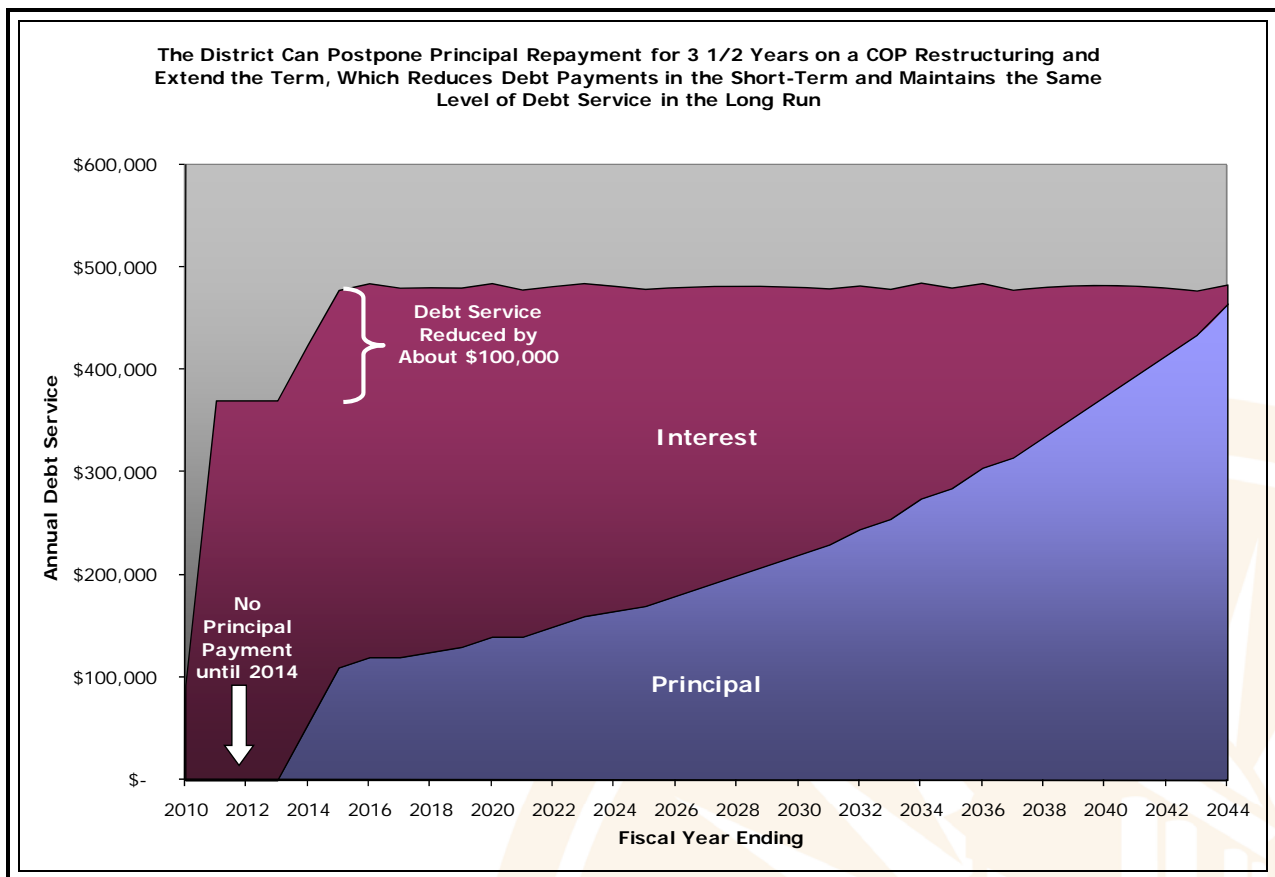
Current COP Situation

The District's COPs are "call protected" until June 1, 2010. Meaning, they cannot be paid off until the call protection date without depositing money into an escrow account. Such a transaction would be called an "advance refunding" if money is deposited in the escrow account more than 90 days from the call date. A public agency is limited to one advance refunding for each debt issuance, meaning that if an advance refunding takes place the agency can no longer advance refund the debt. However, within 90 days of the call protection date, the COPs can be refinanced as a "current refunding". There is no limitation on the number of times that a current refunding can take place on a particular debt issuance. Additionally, an escrow fund isn't needed, which saves costs.

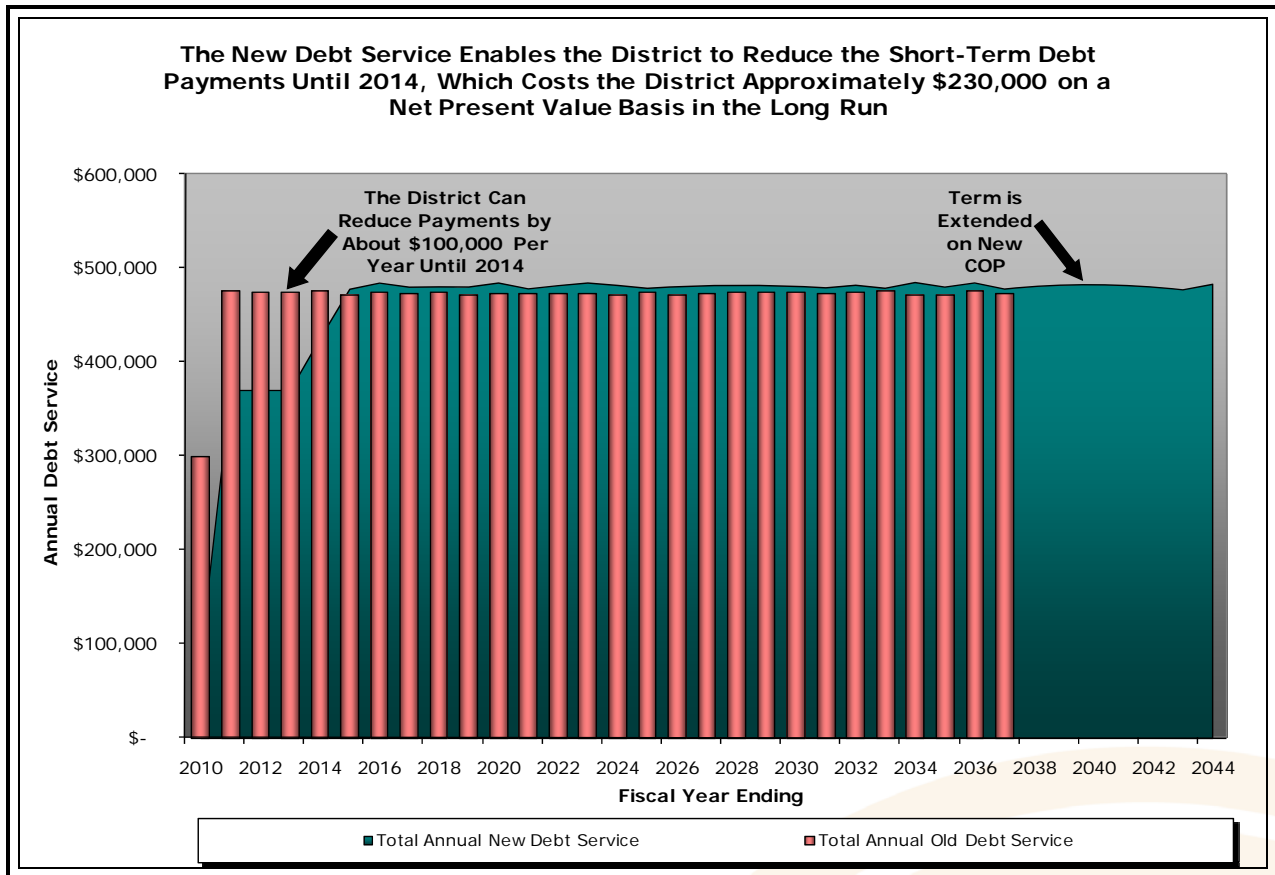
Currently, the municipal tax-exempt market is experiencing low interest rates. The District can take advantage of these low rates to re-structure the COPs into a new COP that provides some flexibility to the District in the short-term.

COP Restructuring Concept

With a restructured COP, the District can postpone the repayment of principal until 2014-15, to reduce the total annual debt payment by approximately \$100,000 until 2014-15. To do so, the District will need to extend the term of the COP to 35 years. This is shown in the following graph.



Then, beginning in 2014-15 through the end of the term of the COP, the District will maintain the same level of payments that it is currently payment. In the long run, the net present value cost of this restructuring is approximately \$230,000. A comparison of the existing COP repayment versus the suggested restructured COP repayment is shown in the following graph.



Moving Forward

At the October 27, 2009 Board meeting, the Board will have the opportunity to consider whether to move forward with the restructuring plan. If they would like to do so, they can direct staff to engage the services of legal counsel to prepare the necessary documents, and direct staff to finalize the financial plan.

Then, at the December Board meeting, the final financial plan and legal documents will be presented to the Board for consideration and approval. Additionally, the Board will set the parameters by which the restructuring should be completed.

With this Board approval, we will schedule the sale and closing of the restructured COPs so that it fits within the appropriate timeframe for a current refunding.

Jeff, please let us know if you have any questions or concerns.

JS:CD/cd