



C.M. deCRINIS & CO., INC.

MEMORANDUM

DATE: June 19, 2013

TO: Michael LeBrun – General Manager
Lisa Bognuda – Finance Director

FROM: Curt de Crinis

RE: Nipomo Community Services District
Water Revenue Certificates of Participation Series 2013

On Wednesday June 19th the District sold \$9,660,000 in Certificates of Participation (the Series 2013 COPS) by negotiated sale to Citigroup Global Markets (“Citi”). Citi was hired as underwriter as a result of an RFP process earlier in the month and was also the underwriter of the District’s Series 2003 A Water Revenue Refunding Bonds. The District elected to undertake a negotiated sale of bonds due to the threat of and filing of litigation against the District involving phase I of the Supplemental Water Project. The initial financing plan was to include the Series 2003 COP refunding as part of the supplemental water project financing. The District subsequently decided to separate out the refunding of the \$3,235,000 in Series 2003 Certificates of Participation from the new money borrowing for the Supplemental Water Project due to delays and uncertainty caused by the unresolved litigation and desire to lock in savings. In hindsight this turned out to be a very good decision since interest rates have risen significantly since May 30th and \$192,836 in present value savings would have been lost.

The Series 2013 COPS received a rating from Standard and Poor’s of “A”, a strong rating. The Series 2013 COPS have the same bond rating as the 2013 A Refunding Revenue Bonds. The rating was below that of the “AA” rated Series 2012 Wastewater Bonds due primarily to uncertainty over the impact of the supplemental water project on future system revenues. The Series 2013 COPS benefited since the Nipomo CSD is coastal California, has strong financials, and the Series 2013 COPS are secured by

water and property tax revenues on par with the Series 2013 Refunding Water Revenue Bonds.

As you know bond market conditions have been very unsettled over the past three weeks and interest rates had been rising almost daily. Market interest rates on the day of pricing (June 19th) were somewhat more stable allowing Citi to market and underwrite the COPS with only a modest re pricing. Following the announcement of the Federal Reserve Board meeting later in the day, the bond market was hit hard and municipal interest rates rose 10 to 15 basis points on Thursday and again on Friday, the day of the Closing. Fortunately the District was on a highly accelerated bond sale and closing program. Had the District marketed the COPS on Thursday for example, the present value increase in interest cost would have exceeded \$200,000.

The Bonds were qualified for bond insurance by Build America Mutual (BAM) and the bond insurance and debt service reserve surety policy used. The bond insurance raised the bond rating to "AA". The use of the bond reserve fund surety policy also lowered the bond issue size since it was not necessary to fund a bond reserve fund. This also reduced annual debt service.

In the Staff Report dated June 12, 2013, it was estimated that the true interest rate cost of the Series 2013 Bonds would be less than 4.75%. The final true interest rate is 4.67%. Maximum annual debt service on the Series 2013 COPS together with the previously issued 2013 A Refunding Water Revenue Bonds is \$760,005. The debt service is below what was stated in the Staff Report primarily since it was not necessary to bond a reserve fund.

While there were no direct comparable underwritings priced on Wednesday there were issues priced within the past few weeks to review. Given the litigation risk, litigation disclosure, fast closing and the volatile market place the District did not incur a material interest rate penalty. On the day of sale, Citi had orders for over two thirds of the COPS and bought the balance into their account. The firm "stepped up".

In conclusion, the District successfully sold COPS at attractive interest rates by any historical standard. It also funded \$9 Million in project costs in the face of threatened litigation. The District and its Staff is to be commended for managing through a difficult and challenging financing.