



MEMORANDUM

To: Bruce Colby
From: Sirikhwan K. Weaver *SKW*
Date: April 9, 2015
Re: 2015 Special Tax Refunding Bonds – Authorizing Resolution & Financing Documents

Bruce, as you know, on April 23rd the Board will be asked to consider a resolution authorizing the issuance of the 2015 Special Tax Refunding Bonds to refund a portion of the outstanding Special Tax Bonds, Series 2004. The resolution includes approving the forms of various bond documents related to the Refunding Bonds issuance (which will be finalized with information available after the bond sale). In preparation for the Board's consideration of these items, I am writing to briefly review the role of each of the primary documents.

Seventh Supplemental Resolution

In addition to authorizing the sale of the Refunding Bonds based on a competitive bid process, the *Resolution* also:

- Authorizes the refunding within certain parameter, including only if the refunding achieves a minimum present value savings (after costs) of 3% of the amount of the Series 2004 Bonds to be refunded
- Prescribes certain terms and conditions of the Refunding Bonds, including the payment dates, the method of interest calculation, and bond redemption and defeasance procedures
- Approves the forms of various documents related to the Refunding Bonds (as further described in the following sections), and authorizes certain District officials to execute the final versions of the documents with information available after the sale

Form of Escrow Agreement

U.S. Bank National Association is the escrow agent and, pursuant to the *Escrow Agreement*, will be authorized to use proceeds from the Refunding Bonds to refund the Series 2004 Bonds. The *Escrow Agreement* sets forth the establishment of the escrow fund, the escrow agent's role, and the use and investment of escrow proceeds.

Form of Agreement to Provide Paying Agent Services

U.S. Bank National Association is the paying agent on the Refunding Bonds, and will be, amongst other responsibilities, holding a costs of issuance fund and making payments to various professional firms in connection with the Refunding Bonds, receiving debt service payments from the District and forwarding such payments to the bondholders when due, pursuant to the *Agreement to Provide Paying Agent Services*.

Form of Bond Purchase Agreement

The *Bond Purchase Agreement* specifies the terms and conditions under which the underwriter (to be selected using a competitive bidding process) will buy the Refunding Bonds from the District, including the principal amount, interest rate, and call option on the Refunding Bonds.

Form of Continuing Disclosure Certificate

The *Continuing Disclosure Certificate* outlines the District's responsibilities for updating the municipal market and investors with information after the Refunding Bonds have been issued. The intent is to inform the market of the annual financial condition of the District as well as other events that may be significant to investors. The required content of the annual report and the list of significant events are outlined in the *Continuing Disclosure Certificate*.

Preliminary Official Statement

The function of the preliminary *Official Statement*, which is authorized to be distributed by the bond *Resolution*, is to provide potential investors with material information about the Refunding Bonds being offered for sale.

Although the Board may reasonably rely on the research and analysis provided by professional staff, Arthur Levitt, the former Chairman of the Securities and Exchange Commission, has stated that public officials play a "critical role in assuring the accuracy and completeness of disclosure documents." In fact, in connection with the Orange County bankruptcy (1994), the SEC determined that the Orange County Board of Supervisors' failure to review disclosure documents when issuing debt constituted fraud. Therefore, each Board member should review the preliminary *Official Statement* and let District staff know if there are any concerns that the preliminary *Official Statement* fails to provide accurate and complete information that a reasonable investor would consider significant in making a decision to purchase the Refunding Bonds. Based on the current schedule of events, it would be very helpful if any questions or comments regarding the preliminary *Official Statement* could be shared with us by May 8th.

In reviewing the preliminary *Official Statement*, please keep in mind that it is written with a certain amount of disclaimer and formality. This style is consistent with the industry standard for preparing such documents and enables us to effectively market the Refunding Bonds to potential investors. Also note that the preliminary *Official Statement* is currently in draft form and will not be finalized until approximately one week before the sale of the Refunding Bonds.

After the sale of the Refunding Bonds, we will incorporate the terms of the sale, including the final principal amounts and interest rates, at which point this document becomes the final *Official Statement*. The *Resolution* also authorizes officers of the District to execute the final *Official Statement*.

Bruce, please let me know if you have any questions or comments.

SKW/abm