DRAFT:

DEBT MITIGATION PLAN

FOR

CERTIFICATES OF PARTICIPATION

Draft 1 - Palo Verde College Debt Mitigation Plan

The College has made, and continues to make, a conscientious effort in identifying and planning for payment of its liabilities and future obligation. Staff in the Fiscal Services Office has scrutinized current obligations for three purposes: 1) Financial planning to pre-determine anticipated costs or savings based on current obligations; 2) Ensuring the accuracy of invoices compared to services received; 3) Providing quote opportunities for all major contracts and services to ensure cost effectiveness and efficiencies. These efforts have proved effective in reducing the annual costs of operational contracts and services, and have set in motion a process whereby all invoices and purchase requests are scrutinized for accuracy and cost efficiency.

TWO MAJOR AREAS OF LONG-TERM DEBT:

1) SERP Payments (Early Retirement Incentive): Approximately $766,366 is budgeted annually to cover the costs associated with the early retirement plans and these obligations end in spring, 2016.

2) COP Payments: The more costly long-term debt is associated with the COP payments. The annual COP payment is approximately $2,350,000 (varies slightly each year based on interest adjustments). The table below outlines the current COP debt.

July 2008	$31,995,000 District issued COPs to refinance original $18.6 million of the COPs
January 1, 2037	Final payoff date for a total of $60,449,063 paid over 25 years
Annual Cost	Average annual debt service: $2,318,000/year
Current Interest Rates	4.00% - 5.5% $28,454,063 in total interest

The institution has the funds for the COP payments identified and protected through 2028 as shown on the following page. The COP payment from 2012 through 2015 is made from the $855,000 budgeted from the General Fund plus $1,495,000 from the LAIF/Capital Fund account.

Although this is not the plan, from 2016 through 2028, if the COPs are not restructured, purchased, or refinanced, the College will continue to budget $766,366 (from what were the SERP dollars) and $855,000 for a total of $1,621,366. These funds will be added to $740,900 from the LAIF/Capital Fund to make the annual payment. The table below serves as the *base* debt obligation for planning purposes and demonstrates the College's recognition that it clearly understands how long its current LAIF/Capital funds will last to address the debt. The table lists the year-by-year COP debt and where the funds are currently budgeted to cover the debt.

PVC LONG-TERM COP DEBT OBLIGATIONS & CURRENT FUNDING PLAN

YEAR	COP PAYMENT	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
2012	$1,664,350	0	$855,000	$14,490,726
2013	$2,354,350	$1,499,350	$855,000	$12,991,276
2014	$2,351,750	$1,497,750	$855,000	$11,493,526
2015	$2,353,150	$1,498,150	$855,000	$9,995,376

2016	$2,355,900	$740,900	$760,000 + $855,000	$9,254,476
2017	$2,349,278	$734,278	$760,000 + $855,000	$8,520,198
2018	$2,349,278	$734,278	$760,000 + $855,000	$7,785,920
2019	$2,349,277	$734,277	$760,000 + $855,000	$7,051,643
2020	$2,349,277	$734,277	$760,000 + $855,000	$6,317,366
2021	$2,349,278	$734,278	$760,000 + $855,000	$5,583,088
2022	$2,354,050	$739,050	$760,000 + $855,000	$4.844,038
2023	$2,354,050	$739,050	$760,000 + $855,000	$4,104,988
2024	$2,354,050	$739,050	$760,000 + $855,000	$3,362,938
2025	$2,354,050	$739,050	$760,000 + $855,000	$2,623,888
2026	$2,354,050	$739,050	$760,000 + $855,000	$1,884,838
2027	$2,350,465	$735,465	$760,000 + $855,000	$1,149,373
2028	$2,350,465	$735,465	$760,000 + $855,000	$413,908
2029	$2,350,465	$735,465	$760,000 + $855,000	($321,557)
2030	$2,350,465	$735,465	$760,000 + $855,000	($735,465)
2031	$2,350,465	$735,465	$760,000 + $855,000	($735,465)
2032	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2033	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2034	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2035	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2036	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2037	$2,352,650	$737,650	$760,000 + $855,000	($737,650)
	$60,449,063			

As reported in the April 2012 Special Report to the Commission, the College has no issues in making its short and long-term debt obligations through 2028, however, a conscientious plan for addressing the debt that goes beyond 2028 is being developed with multiple options being considered.

The College realizes that although efforts are being made to increase new sources of revenue, actual new income will take time to realize and although valuable to consider and plan for, cannot be the primary source for a Debt Mitigation Plan. The College and Board of Trustees are well aware that implementable plans need to be expedited and finalized to address the debt obligations that exist after 2028, to assure the Commission that the institution is simply not just talking about debt mitigation, but actively doing something about it. Such plans are under review by the Budget Committee and the Board's Finance and Audit Committee with eventual submittal to the Board of Trustees for review and approval by the end of the fall semester.

COP Debt Mitigation

One form of evidence that Palo Verde College is diligently assessing many options is demonstrated through the study that Magis Advisors, Public Financing Advisors, completed for the College in May 2012 (see Appendix) to project the outcome of various COP restructuring options. The table on page 16 outlines the impact on the College's COP debt using the various outlined scenarios.

The options directly related to the COP debt include:

1) **Refinancing**: Column (3) shows the impact of only completing a refinance scenario which results in a COP debt decrease from $58,785M to $38,851M.

2) **Buying-back of COPs** from the investors: When the College does a "call" of the COPs in 2016 (which is the earliest we are permitted to do so) as shown in Column (4), the debt lowers to $37,137M.

3) **Defeasance** (a provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt which legally extinguishes the debt): Columns (5) and (6) reflect remaining debt after defeasing $11.3M or $12.7 M respectively to $35,153M or $32, 296M.

Each option alone results in significant COP debt reduction and if combined, results in even greater reductions. Since the College is already budgeting over $1.6M annually, the importance of this study is to demonstrate that there are viable cost-effective options that significantly reduce the COP debt obligation long-term, making it feasible for the College to maintain instructional, student service, and operational integrity, and living within its budget while making payments with funds already available.

By the end of the fall semester, the Board will be presented with a written Debt Mitigation Plan to review and approve. The Board's Finance and Audit Committee will provide a verbal report at their October 23, 2012 Board meeting. At their November 13, 2012 Board meeting, Mr. Tim Schaefer from Magis Financial Advisors, and CM Brahmbhatt (external financial consultant), having reviewed the plan, will make a presentation to the Board, answering questions regarding the plan's viability. At their December 11, 2012 meeting, the Board is to approve the Debt Mitigation Plan.

Related to the COPs, the Debt Mitigation Plan overall includes a "call" of the COPs in 2016 and then refinance, further decreasing the current debt obligation which will give relief to the College's General Fund budget, freeing up dollars for program improvement and other institutional one-time and on-going needs. In addition, the Board is considering other options related to the sale of some of its property which has been discussed in Closed Session, but is not available for public disclosure at this writing.

MAGIS FINANCIAL ADVISORS' COP DEBT REDUCTION SCENARIOS

Palo Verde Community College District
2008 Certificates of Participation
Refinancing/Defeasance Options & Estimated Results
Preliminary Analysis (May 2012)

(1) D/S Date	(2) Existing Debt Service Schedule (000s)	(3) New Debt Service Requirements in Refinancing Scenario (000s)	(4) Remaining DS after defeasing $11.3 million (callable bonds only, '17-37) (000s)	(5) Remaining DS after defeasing $11.3 million (term bonds '37 only) (000s)	(6) Remaining DS after purchasing $12.7 million (term bonds '37 @ 105%) (000s)
1/1/2013	$ 2,354	$ 1,576	$ 1,755	$ 1,731	$ 1,656
1/1/2014	2,352	1,572	1,752	1,729	1,653
1/1/2015	2,353	1,573	1,753	1,730	1,655
1/1/2016	2,356	1,574	1,756	1,733	1,657
1/1/2017	2,354	1,574	1,436	1,730	1,655
1/1/2018	2,349	1,564	1,433	1,726	1,650
1/1/2019	2,347	1,564	1,432	1,724	1,648
1/1/2020	2,347	1,562	1,432	1,724	1,649
1/1/2021	2,350	1,563	1,434	1,727	1,651
1/1/2022	2,354	1,567	1,436	1,731	1,655
1/1/2023	2,353	1,563	1,436	1,730	1,655
1/1/2024	2,355	1,562	1,437	1,732	1,656
1/1/2025	2,354	1,559	1,436	1,110	959
1/1/2026	2,354	1,558	1,436	1,110	959
1/1/2027	2,351	1,550	1,434	1,108	958
1/1/2028	2,349	1,546	1,433	1,108	957
1/1/2029	2,354	1,550	1,436	1,110	959
1/1/2030	2,349	1,541	1,433	1,107	957
1/1/2031	2,350	1,540	1,433	1,108	957
1/1/2032	2,351	1,537	1,434	1,108	958
1/1/2033	2,352	1,537	1,435	1,109	958
1/1/2034	2,348	1,534	1,433	1,107	957
1/1/2035	2,349	1,529	1,433	1,107	957
1/1/2036	2,349	1,525	1,433	1,107	957
1/1/2037	2,353	1,529	1,435	1,109	959
Total P+I	$ 58,785	$ 38,851	$ 37,137	$ 35,153	$ 32,296
	Gross Savings:	19,934	21,648	23,632	26,489
	Present Value:	12,020	12,732	13,062	14,641

MAGIS ADVISORS public finance consulting 00117276.XLSX 5/12/2012

INSERT CALCULATIONS FOR 3 OPTIONS AS NOTED ON THE FOLLOWING PAGES

YEAR	COP PAYMENT	COP PAYMENT PROJECTION IF $10M PURCHASED IN 2016	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
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2016			$740,900	$760,000 + $855,000	
2017			$734,278	$760,000 + $855,000	
2018			$734,278	$760,000 + $855,000	
2019			$734,277	$760,000 + $855,000	
2020			$734,277	$760,000 + $855,000	
2021			$734,278	$760,000 + $855,000	
2022			$739,050	$760,000 + $855,000	
2023			$739,050	$760,000 + $855,000	
2024			$739,050	$760,000 + $855,000	
2025			$739,050	$760,000 + $855,000	
2026			$739,050	$760,000 + $855,000	
2027			$735,465	$760,000 + $855,000	
2028			$735,465	$760,000 + $855,000	
2029			$735,465	$760,000 + $855,000	
2030			$735,465	$760,000 + $855,000	
2031			$735,465	$760,000 + $855,000	
2032			$734,590	$760,000 + $855,000	
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2035			$734,590	$760,000 + $855,000	
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2037			$737,650	$760,000 + $855,000	
	$60,449,063				

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2022			$739,050	$760,000 + $855,000	
2023			$739,050	$760,000 + $855,000	
2024			$739,050	$760,000 + $855,000	
2025			$739,050	$760,000 + $855,000	
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2031			$735,465	$760,000 + $855,000	
2032			$734,590	$760,000 + $855,000	
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2034			$734,590	$760,000 + $855,000	
2035			$734,590	$760,000 + $855,000	
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	$60,449,063				

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2019				$734,277	$760,000 + $855,000	$7,051,643
2020				$734,277	$760,000 + $855,000	$6,317,366
2021				$734,278	$760,000 + $855,000	$5,583,088
2022				$739,050	$760,000 + $855,000	$4.844,038
2023				$739,050	$760,000 + $855,000	$4,104,988
2024				$739,050	$760,000 + $855,000	$3,362,938
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2026				$739,050	$760,000 + $855,000	$1,884,838
2027				$735,465	$760,000 + $855,000	$1,149,373
2028				$735,465	$760,000 + $855,000	$413,908
2029				$735,465	$760,000 + $855,000	($321,557)
2030				$735,465	$760,000 + $855,000	($735,465)
2031				$735,465	$760,000 + $855,000	($735,465)
2032				$734,590	$760,000 + $855,000	($734,590)
2033				$734,590	$760,000 + $855,000	($734,590)
2034				$734,590	$760,000 + $855,000	($734,590)
2035				$734,590	$760,000 + $855,000	($734,590)
2036				$734,590	$760,000 + $855,000	($734,590)
2037				$737,650	$760,000 + $855,000	($737,650)
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PVC LONG-TERM COP DEBT OBLIGATIONS & CURRENT FUNDING PLAN

YEAR	COP PAYMENT	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
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2025	$2,354,050	$739,050	$760,000 + $855,000	$2,623,888
2026	$2,354,050	$739,050	$760,000 + $855,000	$1,884,838
2027	$2,350,465	$735,465	$760,000 + $855,000	$1,149,373
2028	$2,350,465	$735,465	$760,000 + $855,000	$413,908
2029	$2,350,465	$735,465	$760,000 + $855,000	($321,557)
2030	$2,350,465	$735,465	$760,000 + $855,000	($735,465)
2031	$2,350,465	$735,465	$760,000 + $855,000	($735,465)
2032	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2033	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2034	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2035	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2036	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2037	$2,352,650	$737,650	$760,000 + $855,000	($737,650)
	$60,449,063			

PVC DEBT MITIGATION OPTION A – COP PURCHASE OPTION IN 2016

YEAR	COP PAYMENT	COP PAYMENT PROJECTION IF $10M PURCHASED IN 2016	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
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2018			$734,278	$760,000 + $855,000	
2019			$734,277	$760,000 + $855,000	
2020			$734,277	$760,000 + $855,000	
2021			$734,278	$760,000 + $855,000	
2022			$739,050	$760,000 + $855,000	
2023			$739,050	$760,000 + $855,000	
2024			$739,050	$760,000 + $855,000	
2025			$739,050	$760,000 + $855,000	
2026			$739,050	$760,000 + $855,000	
2027			$735,465	$760,000 + $855,000	
2028			$735,465	$760,000 + $855,000	
2029			$735,465	$760,000 + $855,000	
2030			$735,465	$760,000 + $855,000	
2031			$735,465	$760,000 + $855,000	
2032			$734,590	$760,000 + $855,000	
2033			$734,590	$760,000 + $855,000	
2034			$734,590	$760,000 + $855,000	
2035			$734,590	$760,000 + $855,000	
2036			$734,590	$760,000 + $855,000	
2037			$737,650	$760,000 + $855,000	
	$60,449,063				

PVC DEBT MITIGATION OPTION B – COP REFINANCE OPTION IN 2016

YEAR	COP PAYMENT	COP PAYMENT PROJECTION ONLY REFINANCED CURRENT DEBT IN 2016	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
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2018			$734,278	$760,000 + $855,000	
2019			$734,277	$760,000 + $855,000	
2020			$734,277	$760,000 + $855,000	
2021			$734,278	$760,000 + $855,000	
2022			$739,050	$760,000 + $855,000	
2023			$739,050	$760,000 + $855,000	
2024			$739,050	$760,000 + $855,000	
2025			$739,050	$760,000 + $855,000	
2026			$739,050	$760,000 + $855,000	
2027			$735,465	$760,000 + $855,000	
2028			$735,465	$760,000 + $855,000	
2029			$735,465	$760,000 + $855,000	
2030			$735,465	$760,000 + $855,000	
2031			$735,465	$760,000 + $855,000	
2032			$734,590	$760,000 + $855,000	
2033			$734,590	$760,000 + $855,000	
2034			$734,590	$760,000 + $855,000	
2035			$734,590	$760,000 + $855,000	
2036			$734,590	$760,000 + $855,000	
2037			$737,650	$760,000 + $855,000	
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PVC DEBT MITIGATION PLAN OPTION C – COPs PURCHASE & REFINANCING IN 2016

YEAR	COP PAYMENT	COP PAYMENT PROJECTION IF $10M PURCHASED IN 2016	COP PAYMENT PROJECTION IF $10M PURCHASED IN 2016	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
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2014	$2,351,750			$1,497,750	$855,000	$11,493,526
2015	$2,353,150			$1,498,150	$855,000	$9,995,376
2016				$740,900	$760,000 + $855,000	
2017				$734,278	$760,000 + $855,000	
2018				$734,278	$760,000 + $855,000	
2019				$734,277	$760,000 + $855,000	
2020				$734,277	$760,000 + $855,000	
2021				$734,278	$760,000 + $855,000	
2022				$739,050	$760,000 + $855,000	
2023				$739,050	$760,000 + $855,000	
2024				$739,050	$760,000 + $855,000	
2025				$739,050	$760,000 + $855,000	
2026				$739,050	$760,000 + $855,000	
2027				$735,465	$760,000 + $855,000	
2028				$735,465	$760,000 + $855,000	
2029				$735,465	$760,000 + $855,000	
2030				$735,465	$760,000 + $855,000	
2031				$735,465	$760,000 + $855,000	
2032				$734,590	$760,000 + $855,000	
2033				$734,590	$760,000 + $855,000	
2034				$734,590	$760,000 + $855,000	
2035				$734,590	$760,000 + $855,000	
2036				$734,590	$760,000 + $855,000	
2037				$737,650	$760,000 + $855,000	
	$60,449,063					

Palo Verde Community College District

2008 Certificates of Participation

Refinancing/Defeasance Options & Estimated Results

Preliminary Analysis (May 2012)

(1) D/S Date	(2) Existing Debt Service Schedule (000s)	(3) New Debt Service Requirements in Refinancing Scenario (000s)	(4) Remaining DS after defeasing $11.3 million (callable bonds only, '17-37) (000s)	(5) Remaining DS after defeasing $11.3 million (term bonds '37 only) (000s)	(6) Remaining DS after purchasing $12.7 million (term bonds '37 @ 105%) (000s)
1/1/2013	$ 2,354	$ 1,576	$ 1,755	$ 1,731	$ 1,656
1/1/2014	2,352	1,572	1,752	1,729	1,653
1/1/2015	2,353	1,573	1,753	1,730	1,655
1/1/2016	2,356	1,574	1,756	1,733	1,657
1/1/2017	2,354	1,574	1,436	1,730	1,655
1/1/2018	2,349	1,564	1,433	1,726	1,650
1/1/2019	2,347	1,564	1,432	1,724	1,648
1/1/2020	2,347	1,562	1,432	1,724	1,649
1/1/2021	2,350	1,563	1,434	1,727	1,651
1/1/2022	2,354	1,567	1,436	1,731	1,655
1/1/2023	2,353	1,563	1,436	1,730	1,655
1/1/2024	2,355	1,562	1,437	1,732	1,656
1/1/2025	2,354	1,559	1,436	1,110	959
1/1/2026	2,354	1,558	1,436	1,110	959
1/1/2027	2,351	1,550	1,434	1,108	958
1/1/2028	2,349	1,546	1,433	1,108	957
1/1/2029	2,354	1,550	1,436	1,110	959
1/1/2030	2,349	1,541	1,433	1,107	957
1/1/2031	2,350	1,540	1,433	1,108	957
1/1/2032	2,351	1,537	1,434	1,108	958
1/1/2033	2,352	1,537	1,435	1,109	958
1/1/2034	2,348	1,534	1,433	1,107	957
1/1/2035	2,349	1,529	1,433	1,107	957
1/1/2036	2,349	1,525	1,433	1,107	957
1/1/2037	2,353	1,529	1,435	1,109	959
Total P+I	**$ 58,785**	**$ 38,851**	**$ 37,137**	**$ 35,153**	**$ 32,296**
	Gross Savings:	**19,934**	**21,648**	**23,632**	**26,489**
	Present Value:	**12,020**	**12,732**	**13,062**	**14,641**

MAGIS ADVISORS
public finance consulting

MEMORANDUM

To: Denise Whittaker
Palo Verde Community College District

From: Tim Schaefer
Magis Advisors

Copy: C. M. Brahmbatt

Date: May 8, 2012

Subject: Initial scenario analysis of options for reducing the District's 2008 COP indebtedness

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In the e-mail exchange of last night and this morning, you asked for a basic analysis of the effect of reducing the District's annual debt service obligations by applying funds on hand to repurchase outstanding debt. This analysis shows three scenarios for applying the funds on hand. In addition, we have also analyzed a refinancing of the District's debt at current rates of interest, using the funds on hand as a "source of funds" to pay off a portion of the old debt before refinancing the balance.

SUMMARY

We produced four alternative scenarios for the District's consideration. The results are shown in Table 1, on page 3. It appears likely that the District can reduce its annual debt service by a significant amount, whichever scenario it chooses. The preliminary analysis points to a strategy of creating a "defeasance escrow" for a portion of the old "term" certificates (maturing in 2037), placing about $13.05 million into the escrow, and then exercising the call option on the certificates in 2016. There are additional considerations for this approach discussed below.

BACKGROUND

The District issued Certificates of Participation in 2007 to handle what was described as "cash flow problems" with the physical education center. This offering was in the form of "auction rate certificates," which bear interest at low rates but that must be rolled over frequently. Because of the onset of the financial crisis of 2008, the District restructured this debt into more conventional fixed-rate, fixed term certificates in July 2008, at which time it also borrowed additional funds, bringing the total indebtedness up to the current $31.995 million.

The District has determined that there are unspent proceeds of the 2008 issue available to either redeem the 2008 certificates early, or make a purchase of them in the open market. We are operating with the assumption that these funds amount to approximately $13.07 million.

DISCUSSION

We began the exercise by validating the debt service requirements on the 2008 conversion, in order to establish a measurement baseline and perform additional analysis on the efficiency of refunding all or a portion of the outstanding 2008 issue. We compared the sources and uses of funds to the District's official statement issued in connection with that offering. In general terms, we were able to replicate the debt service, but the sources of funds raised in that offering were insufficient to fund all of the uses. Accordingly, we adjusted the capitalized interest figure to reconcile to the sources and uses statement in the official statement. This situation will need to be investigated further before proceeding.

To ascertain if a refunding of the old debt is feasible, we used interest rates available today on a "Baa-rated" issue in California, rounding those rates up to the nearest 0.05%. We estimated issuance costs of $300,000, and presumed that proceeds of the new issue would be invested in U.S. Treasury SLGs ("State and Local Government Series"). Applicable federal tax law prohibits issuing tax-exempt debt when the proceeds of such a borrowing are invested at higher yields than the yields on the new debt. Treasury SLGs are designed to handle this phenomenon. However, because the old debt cannot be redeemed until January of 2016, the refinancing now produces a "negative arbitrage." That is to say, the earnings on the borrowed funds **are significantly less** than the interest cost of carrying the old debt to the first date on which it may be redeemed at the District's option. At today's rates, this negative arbitrage amounts to more than $3.7 million. Nevertheless, the refinancing of the old debt produces a "cash flow" savings of about $765,000 per year.

We then examined the price levels at which the District's outstanding certificates are trading. In fact, this was not fruitful, as the majority of the 2008 issue appears to have been placed at the time of sale and there have been few secondary market trades to guide us on likely pricing, should a repurchase be undertaken. We next consulted our secondary market pricing service to determine what valuation that service places on the certificates at present. As of May 4, 2012, the pricing service valued the certificates at 104.9% of their face value for the 2037 maturity.

We then consulted Thomson Reuters eMAXX data to learn if there was a concentration of holders of the District's outstanding debt and learned that the Franklin California Tax-Free Income Fund (managed by Franklin Templeton Investments in San Mateo) owned $21.0 million (out of $21.435 million) of the District's term certificates maturing in 2037 as of March 30, 2012. This maturity accounts for 67% of the District's outstanding indebtedness from this issue. Moreover, this maturity bears interest at the highest rate from the 2008 offering, 5.5%. Accordingly, this holder and this part of the issue represent an excellent opportunity to negotiate a secondary market purchase of the certificates, assuming that a fair deal can be struck on the economics to the holder and District alike. This may be more difficult than it looks. Keep in mind that this holder knows that they are vulnerable to the District refinancing the outstanding indebtedness at today's lower rates. They also understand that if the District does that, then they (Franklin) are entitled to receive a "call premium" of 2% of the face amount of the certificates

they own at that time. That would suggest that Franklin believes that they should receive at least that amount to sell the certificates early. Arguably, we should expect Franklin to expect something closer to 105% of the face value, if the pricing service is credible (which it often is not).

Finally, we examined the utility of redeeming the certificates early from cash on hand, assuming that cash on hand totals approximately $13.07 million. We chose this number because it preserves capital reserves for the District. We are happy to revise the analysis if the District wishes to target a higher funding level. Table 1, below shows the estimated effect of the various scenarios, assuming application of the $13.07 million sum.

TABLE 1: COMPARATIVE DATA, FOUR SCENARIOS

D/S Date	Existing Schedule	Refinancing Scenario	Call All Bonds Uniformly	Repurchase $21.0 Million @ 105	Call Term Bonds Only
1/1/2013	2,354,350	1,575,938	1,381,163	1,670,700	1,632,200
1/1/2014	2,351,750	1,571,508	1,380,163	1,668,100	1,629,600
1/1/2015	2,353,150	1,573,058	1,383,563	1,669,500	1,631,000
1/1/2016	2,355,900	1,574,008	1,391,813	1,672,250	1,633,750
1/1/2017	2,353,519	1,574,358	1,382,631	1,669,869	1,631,369
1/1/2018	2,348,881	1,564,108	1,382,444	1,665,231	1,626,731
1/1/2019	2,346,913	1,563,558	1,385,788	1,663,263	1,624,763
1/1/2020	2,347,313	1,562,408	1,382,388	1,663,663	1,625,163
1/1/2021	2,349,763	1,563,483	1,382,413	1,666,113	1,627,613
1/1/2022	2,353,925	1,567,233	1,385,575	1,670,275	1,631,775
1/1/2023	2,353,175	1,563,373	1,385,825	1,669,525	1,631,025
1/1/2024	2,354,925	1,561,978	1,389,575	1,671,275	1,632,775
1/1/2025	2,353,925	1,558,578	1,391,575	990,275	911,775
1/1/2026	2,354,300	1,558,113	1,388,350	988,050	911,750
1/1/2027	2,351,100	1,550,363	1,393,200	984,450	910,350
1/1/2028	2,349,325	1,545,950	1,390,575	984,475	912,575
1/1/2029	2,353,700	1,549,638	1,385,750	992,850	913,150
1/1/2030	2,348,675	1,540,950	1,383,725	984,025	907,075
1/1/2031	2,349,525	1,540,363	1,389,225	983,825	909,625
1/1/2032	2,350,700	1,537,400	1,386,700	986,700	905,250
1/1/2033	2,351,925	1,537,063	1,386,425	992,375	914,225
1/1/2034	2,347,925	1,534,113	1,393,125	985,575	910,725
1/1/2035	2,348,700	1,528,550	1,386,250	986,850	915,300
1/1/2036	2,348,700	1,525,375	1,391,350	990,650	912,400
1/1/2037	2,352,650	1,529,350	1,392,600	991,700	907,300
Total P+I	**58,784,713**	**38,850,808**	**34,672,188**	**32,861,563**	**31,399,263**
	xxx	19,933,904	24,112,525	25,923,150	27,385,450
	xxx	xxx	4,178,621	5,989,246	7,451,546
	xxx	xxx	xxx	1,810,625	3,272,925
	xxx	xxx	xxx	xxx	1,462,300

CONCLUSION

Using the District's funds on hand, it appears that creating a defeasance escrow and exercising the call option on the outstanding term certificates in 2037 may present the best alternative. This option produces savings of about $3.2 million better than calling the outstanding certificates uniformly, and a $1.46 million advantage to repurchasing the Franklin position of $21 million at an assumed price of 105% of the face amount of the certificates.

The District should keep in mind, however, that the exercise of the call option will require establishment of a "one-way" escrow for the certificates being called, which will effectively remove the liability from the District's balance sheet. That approach comes at some cost. Since the certificates continue to earn interest until their respective maturity dates, and the escrow is invested at sharply lower rates (we used an assumption of 0.75%), there will be a significant amount of "negative arbitrage." Nevertheless, from an economic standpoint, this may be the best of the worst alternatives.

Finally, this preliminary analysis should not be treated as "final" without benefit of additional discussion. There are numerous factors that go into making this decision, especially regarding tax matters to keep the District in compliance with Federal tax law. That must be fully vetted against these results.

We are pleased to be of service to the District. The "next steps" should include a telephone conference to review this material.

MAGIS ADVISORS

Timothy J. Schaefer
Principal Owner/President