



Midpeninsula Regional
Open Space District

R-15-78
Meeting 15-11
May 6, 2015

AGENDA ITEM 1

AGENDA ITEM

Informational Presentation on General Obligation Bonds

GENERAL MANAGER'S RECOMMENDATION

A handwritten signature in black ink, appearing to be "SLL", written over the end of the "GENERAL MANAGER'S RECOMMENDATION" heading.

Receive an informational presentation on General Obligation Bonds by Bond Counsel Chris Lynch and Municipal Advisor Sohail Bengali.

SUMMARY

The Midpeninsula Regional Open Space District (District) is preparing to issue the first tranche of General Obligation Bonds to secure proceeds to begin funding Measure AA projects, consistent with voter approval at the June 3, 2014 general election. The General Manager asked the finance team to create an informational presentation that explains the financing process, including the relevant responsibilities and obligations of the District and of each individual Board member, to further prepare the Board for its responsibilities under Measure AA implementation. The Board will receive this presentation at a special meeting to be held on May 6, 2015. This informational presentation precedes the May 13, 2015 Regular Board Meeting at which time the Board of Directors will consider approving the financing and disclosure documents required to issue the first tranche of Measure AA bonds.

DISCUSSION

On June 3, 2014, District voters approved a \$300 Million General Obligation Bond to fund 25 Top Tier Vision Plan Projects over the course of 30 years. The District is now getting ready to finalize the financial documentation required to proceed with the sale of the first tranche of bonds, which is scheduled for end of July 2015. As part of this effort, the General Manager has requested the District's Bond Counsel and Municipal Adviser to provide a high-level informational presentation to ensure that the Board of Directors and public are well informed of the upcoming next steps and related obligations (see Attachment).

As a reminder, General Obligation Bonds are subject to securities law disclosure rules that require issuers to ensure that, in connection with the issuance and sale of municipal securities to the public, prospective purchasers are provided the information they need to make an informed investment decision. In order to comply with these laws, the District is preparing a document analogous to a corporate prospectus, called a "Preliminary Official Statement" that includes all of the information, aside from pricing, that an investor would need in order to decide whether to

purchase the offered bonds. This information includes statements about the security for the bonds (in the case of the General Obligation Bonds, an ad valorem tax levied on taxable property in the District's boundaries), potential risks, the projects or programs to be financed, the rating assigned to the General Obligation Bonds by the rating agencies, and the financial condition of the District itself. This documentation must be fully complete in the sense that the investor should not be expected to conduct any investigation beyond reading the document and any publicly available materials incorporated by reference. This document, in the form of a "Preliminary Official Statement", as well as other financing documents, will be brought to the Board on May 13, 2015 for review and approval. The Preliminary Official Statement will be distributed to potential investors. Following the actual bond sale, the "Final Official Statement" will be available for investors of the Bonds; the Final Official Statement will be identical to the Preliminary Official Statement, except that it will include the final pricing information for the bonds (principal amount, interest rates, maturity schedule et al.). Under federal and state securities laws, the District, including the issuing staff and Board of Directors, are ultimately legally responsible for the accuracy of statements of fact provided in these documents and, if the disclosure provided has material misstatements or omissions, members of the staff and the Board of Directors can face civil or even criminal penalties, depending, of course, on the nature of the omissions and the underlying circumstances.

The District's disclosure obligations and other important and pertinent information will be discussed in greater detail as part of the informational presentation.

BOARD COMMITTEE REVIEW

This item was not previously reviewed by a Board Committee.

FISCAL IMPACT

As an informational report, this item results in no fiscal impact. Costs associated with the future issuance of General Obligation Bonds will be paid by the bond proceeds.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This informational item is not a project under the California Environmental Quality Act (CEQA).

NEXT STEPS

The Board of Directors will consider approval of the District's financing documents, including the Preliminary Official Statement, on May 13, 2015. These financing documents will then be distributed to the rating agencies, who will establish the credit rating for the General Obligation Bonds. The Preliminary Official Statement will then be distributed to investors. Bonds are expected to go to sale at the end of July with proceeds delivered in mid-August.

Attachment: Midpeninsula Regional Open Space District – Bonds 101 Powerpoint Slides

Responsible Manager:
Stephen E. Abbors, General Manager

Prepared by:
Ana Ruiz, AICP, Assistant General Manager

Contact person:
Same as above



JONES HALL

Midpeninsula Regional Open Space District – Bonds 101

Chris Lynch, Jones Hall

Sohail Bengali, BPF Capital LLC

May 6, 2015

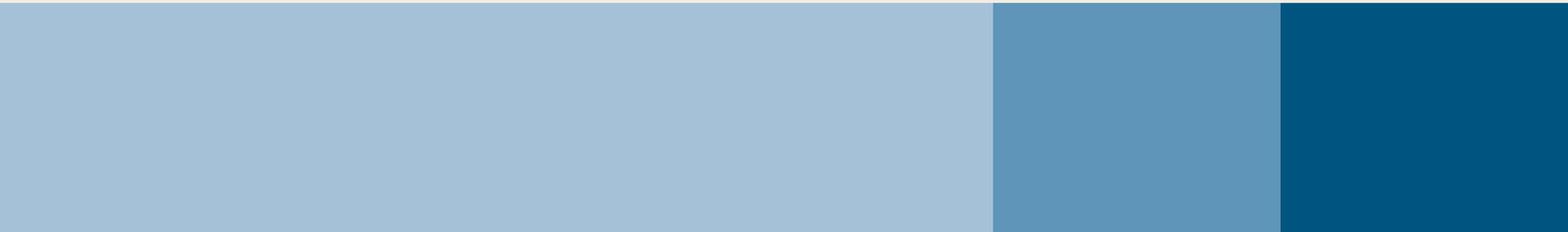
Agenda

- ▣ Available financing tools
- ▣ Bond issuance process
- ▣ Initial and Continuing Disclosure



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Available Financing Tools



Promissory Notes

▣ Public Resources Code § 5544.2

- A district may acquire all necessary and proper lands and facilities, or any portion thereof, by means of a plan to borrow money or by purchase on contract.
- Indebtedness may not exceed an amount equal to the anticipated property tax revenue allocations for the next five-year period.
- Indebtedness incurred on or after January 1, 2012 shall be repaid during a period not to exceed 30 years
- Indebtedness authorized by this section is in addition to, and this section shall not apply to, any bonded indebtedness authorized by vote of the electors.

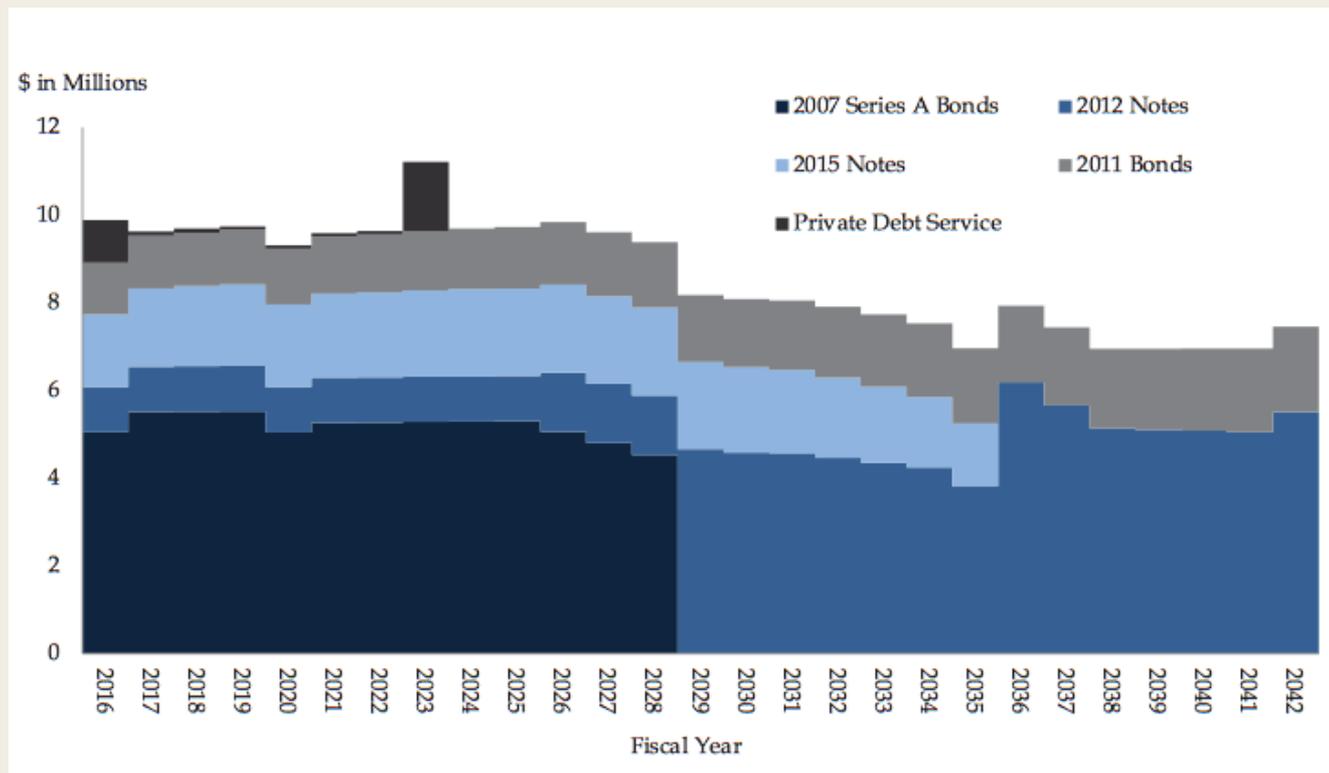
Promissory Notes

- ▣ Distinction between publicly-sold notes and privately-placed notes

Promissory Notes

▣ Outstanding promissory notes

- District's annual debt service payment profile



Lease Revenue Bonds

▣ Public Resources Code

- 5563.5. Board of Directors may, without obtaining the consent of the voters, lease real property for a term not exceeding 50 years. A lease entered into pursuant to this section shall be authorized by a resolution adopted by the affirmative votes of at least two-thirds of the members of the board, upon making an express finding that the purpose of the lease is for park or open-space purposes, or for an historic preservation, recreation, or agricultural purpose which is compatible with public use and enjoyment of the real property.

▣ Use of Midpeninsula Regional Open Space District Financing Authority

▣ 2011 Lease Revenue Bonds

General Obligation Bonds

▣ California Constitution Article XIII A

- Article XIII A, § 1: authorizes bonds for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

▣ Public Resources Code

- § 5568: authorizes bonds for the purpose of acquiring, constructing, or completing any improvement or improvements authorized by this article, or for the purpose of acquiring any land or other property necessary or useful therefor

▣ Government Code

- § 53506 et seq: bond law available to all public agencies issuing general obligation bonds

General Obligation Bonds

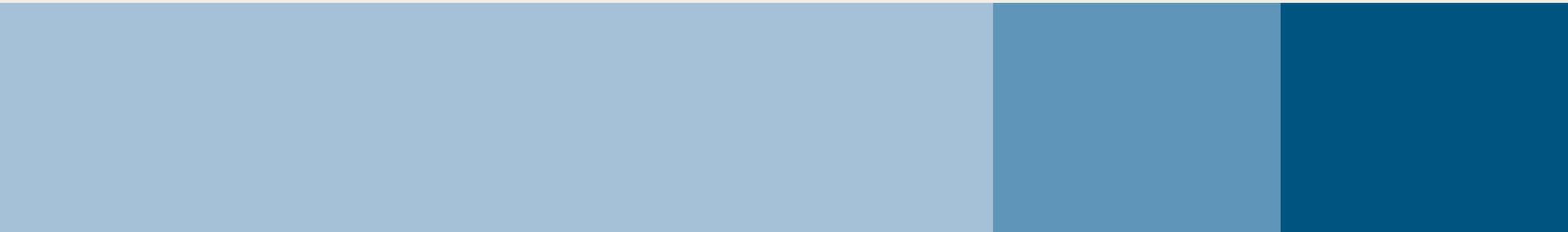
▣ Tax Levy under Public Resources Code

- § 5568: authorizes bonds for the purpose of acquiring, constructing, or completing any improvement or improvements authorized by this article, or for the purpose of acquiring any land or other property necessary or useful therefor
- § 5569. authorizes the levy and collection each year of a tax sufficient to pay principal of and interest on bonds.
- § 5571: board of supervisors of each county in which any part of the district is located, shall, at the time of making the general tax levy in each year, levy a tax upon all the real and personal property within the district and within their respective county at a rate sufficient to meet the proportion of taxes necessary to be raised in the county for the purpose of paying the principal and interest of the bonds. The amount of taxes to be raised in each county shall be in the same proportion as the assessed valuation of the taxable property in the district within the county is to the assessed valuation of all property in the district.



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Bond Issuance Process



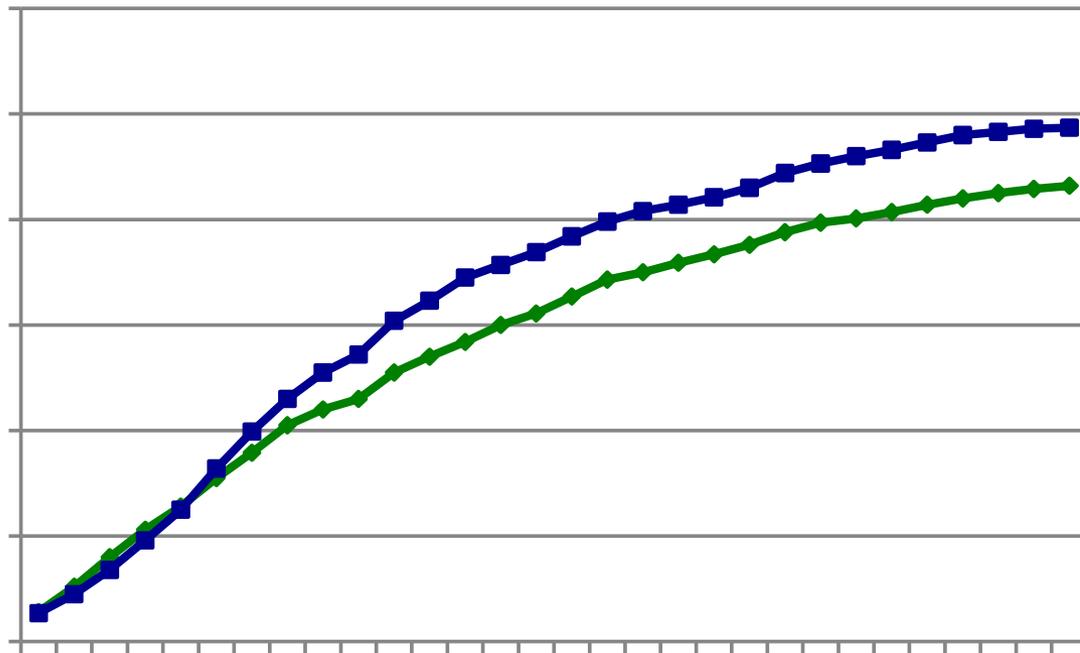
Debt (bond) Financing Process

- ▣ Objectives of the debt issue
 - New capital proceeds
 - Refinancing for lower annual payments, net present value savings

- ▣ Structure, format and options for the debt issue
 - Nature of security: Notes vs. Lease vs. General Obligation Bonds
 - “Issuer”: District vs. Authority
 - Level debt payments profile, rising or declining profile
 - Maturity of debt and amortization of principal
 - Current interest vs. capital appreciation bonds
 - Insured (credit enhanced) vs. un-enhanced bonds
 - Credit ratings and rating agencies
 - Ratings process and the AAA category
 - Narrow current market spreads within very high grade ratings
 - Callable bonds vs. non-callable bonds
 - Negotiated vs. competitive sale formats
 - Tax-exempt debt vs. taxable debt

Debt (bond) Financing Process...contd

- ▣ The 'Yield Curve'



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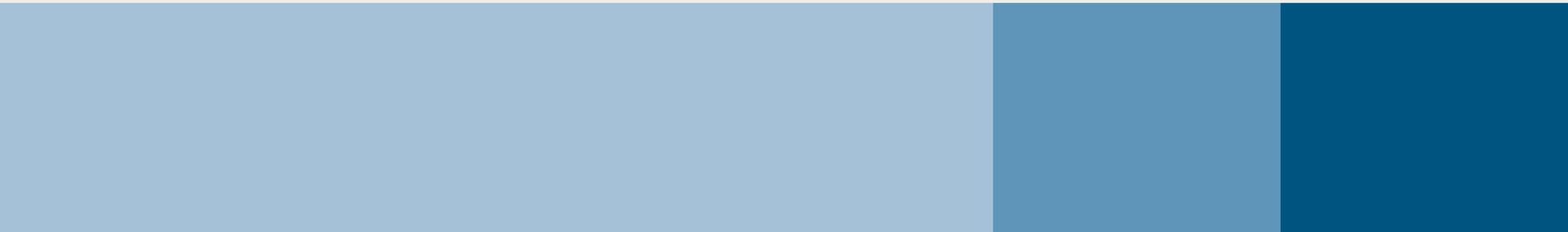
Debt (bond) Financing Process...contd

- ▣ Board approval of financing/documents by resolution
- ▣ Distribution of Preliminary Official Statement
- ▣ Competitive sale (official notice of sale, receipt of bids)
- ▣ Negotiate sale (pre-pricing and pricing)
- ▣ Sale date
- ▣ Rating agencies
- ▣ Distribution of Final Official Statement
- ▣ Closing



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Initial and Continuing Disclosure



Key Laws

**Securities Act of 1933
(' 33 Act)**

**Securities Exchange Act of 1934
(' 34 Act)**

SEC Rule 10b-5
SEC Rule 15c2-12
Dodd-Frank reforms

Securities Exchange Act of 1934

- ▣ Anti-Fraud
 - Section 10(b) & Rule 10b-5
- ▣ Rule 15c2-12

Rule 15c2-12

Initial Disclosure

NEW ISSUE / FULL BOOK-ENTRY ONLY

FINAL OFFICIAL STATEMENT / JANUARY 8, 2015
RATED S&P AA / FTCH AA+



MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

\$23,630,000
2015 REFUNDING PROMISSORY NOTES
(2004 PROJECT LEASE)

DATED / DATE OF DELIVERY	DUE: SEPTEMBER 1 (see inside cover)
PURPOSES OF ISSUE:	Midpeninsula Regional Open Space District will issue promissory notes (the Notes) to prepay its 2004 lease obligations and refund the 2004 revenue bonds. The Notes will also pay for issuance costs. No reserve fund or reserve facility will be established for the Notes.
PAYMENT SOURCE:	The Notes are secured by limited property tax revenues (mainly property tax collections that Santa Clara County and San Mateo County allocate to the District) to pay principal and interest on the Notes. The District will pledge the limited property tax revenues for Note payments, but no other property or revenues, nor the District's full faith and credit, will be pledged for the Notes. The pledge will be on par with the District's pledge of the limited property tax revenues to existing and future District promissory notes as described in SECURITY AND SOURCES OF PAYMENT. The Notes are not a general obligation of the District. No other government has any duty or obligation to make Note payments. This includes the State of California and counties where the District owns land – Santa Clara, San Mateo and Santa Cruz.
ISSUE STRUCTURE:	The Notes pay interest each March 1 and September 1, starting September 1, 2015, and are issued in \$5,000 denominations and whole multiples of \$5,000. Redemption of the Notes will occur on mandatory sinking fund redemption dates and when the District properly elects to redeem Notes on an optional basis as described in NOTE REDEMPTION.
PAYMENT SYSTEM	The District will pay principal and interest on the Notes to the Trustee (The Bank of New York Mellon Trust Company, N.A.), and in turn, the Trustee will remit Note payments to Cede & Co., as the only registered Note owner under the book-entry system of The Depository Trust Company (DTC). The DTC system will route payments to Note investors as described in APPENDIX F.
INVESTORS:	Investors must read this entire document before deciding whether to invest. Any purchase of the Notes involves risks including those discussed under CERTAIN INVESTMENT CONSIDERATIONS.
LEGAL MATTERS:	The District has engaged Jones Hall, A Professional Law Corporation, as its bond counsel, and the District will issue the Notes only upon receipt of bond counsel's approving legal opinion. Assuming the District complies with all tax covenants for this transaction, bond counsel's legal opinion is that Note interest is excluded from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (with certain exceptions described in TAX MATTERS), and is exempt from California personal income taxes. The full text of bond counsel's proposed legal opinion appears in APPENDIX C and supersedes any other description of tax issues. The District's general counsel is acting as counsel to the District. Schiff Hardin LLP is acting as counsel for the Underwriter of the Notes.
DISCLOSURE:	The District has engaged Jones Hall, A Professional Law Corporation, as its disclosure counsel. The District has agreed to comply with its reporting obligations under a Continuing Disclosure Certificate as presented in APPENDIX D.
DELIVERY:	Through the facilities of DTC (when, as and if issued), on or about January 22, 2015.

STIFEL

Rule 15c2-12

- Continuing Disclosure
 - Annual reporting
 - Events reporting

TABLE 2
MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
DISTRICT SECURED AND UNSECURED TAX RECEIPTS (1,2)

STATE FISCAL YEAR	CURRENT SECURED TAX RECEIPTS			TOTAL DISTRICT
	SANTA CLARA COUNTY	SAN MATEO COUNTY	TOTAL	
2004/05	10,441,787	5,582,747	16,024,534	
2005/06	11,396,448	6,186,752	17,583,200	
2006/07	13,856,558	7,287,523	21,144,081	
2007/08	14,964,372	7,714,785	22,679,157	
2008/09	16,339,855	8,266,851	24,606,706	
2009/10	16,822,218	8,548,555	25,370,773	
2010/11	16,526,145	8,566,079	25,092,224	
2011/12	16,760,197	8,600,247	25,360,444	
2012/13	17,562,074	8,970,419	26,532,493	
2013/14	19,313,127	9,578,628	28,891,755	

STATE FISCAL YEAR	CURRENT UNSECURED TAX RECEIPTS			TOTAL DISTRICT SECURED AND UNSECURED RECEIPTS
	SANTA CLARA COUNTY	SAN MATEO COUNTY	TOTAL	
2004/05	1,179,607	477,665	1,657,272	\$17,881,806
2005/06	1,139,127	451,957	1,591,084	\$19,154,284
2006/07	1,153,029	389,466	1,542,495	\$22,886,576
2007/08	1,197,227	431,571	1,628,798	\$24,307,955
2008/09	1,302,047	470,683	1,772,730	\$26,379,416
2009/10	1,437,004	508,471	1,945,475	\$27,116,248
2010/11	1,310,410	454,345	1,764,755	\$26,856,979
2011/12	1,355,765	476,735	1,832,500	\$27,192,944
2012/13	1,578,996	484,919	2,063,915	\$28,896,408
2013/14	1,553,031	480,643	2,033,674	\$30,925,429

(1) THE DISTRICT ALSO RECEIVES A SHARE OF DELINQUENT TAXES, REDEMPTION FEES, SUPPLEMENTAL TAXES AND STATE SUBVENTION PAYMENTS RECEIVED BY EACH COUNTY. THIS REVENUE TOTALED \$967,353 IN 2013/14 AND \$646,240 IN 2012/13.

(2) DURING 2013/14 AND 2012/13, THE DISTRICT ALSO RECEIVED \$960,675 AND \$972,960, RESPECTIVELY, RELATED TO THE DISSOLUTION OF REDEVELOPMENT AGENCIES WITHIN THE DISTRICT.

SOURCE: DISTRICT CONTROLLER

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**MIDPENINSULA REGIONAL
OPEN SPACE DISTRICT**
ANNUAL FINANCIAL AUDIT REPORT
MARCH 31, 2014



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 100
SAN JOSE, CA 95129

Where they got it wrong

- ▣ Orange County, California
- ▣ Maricopa County, Arizona
- ▣ City of Syracuse, New York
- ▣ City of Miami, Florida
- ▣ Massachusetts Turnpike Authority
- ▣ City of San Diego, California
- ▣ State of New Jersey

SEC Guidance

“Lessons Learned from San Diego,” Linda Chatman Thomsen, Director, SEC Division of Enforcement (2007)

- ▣ “I can tell you that the Enforcement Division believes there are five critical lessons that municipalities should learn from our recent actions”
 - adopt written disclosure policies and procedures
 - provide appropriate training to city officials and employees
 - focus on the big picture issues facing the city
 - disclose the bad with the good
 - hire competent professionals

Common questions

1. Are members of the Board required to read every word of the District's disclosure documents?
2. Are members of the Board subject to personal liability under federal securities laws?

Useful resource

MSRB: Education Center

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Watch a video that tells our story. (<http://www.msrb.org/Videos-About-the-MSRB.aspx>)

Welcome to the MSRB Education Center. This free and objective set of resources seeks to educate investors, state and local governments, and others interested in learning about the \$3.6 trillion municipal securities market. A multimedia library of information explains how the market works and how participants can make more informed decisions.

Understanding the Municipal Market	For Investors	For State & Local Governments
<p>About Municipal Securities (/EducationCenter/Municipal-Market/About.aspx)</p> <p>Lifecycle of a Bond (/EducationCenter/Municipal-Market/Lifecycle.aspx)</p> <p>529 College Savings Plans (/EducationCenter/Municipal-Market/529-Plans.aspx)</p>	<p>Preparing to Invest (/EducationCenter/Investors/Preparing.aspx)</p> <p>Buying and Selling Bonds (/EducationCenter/Investors/Buying.aspx)</p> <p>Monitoring Bonds (/EducationCenter/Investors/Monitoring.aspx)</p>	<p>Issuing Municipal Securities (/EducationCenter/Issuers/Issuing.aspx)</p> <p>Monitoring Securities (/EducationCenter/Issuers/Monitoring.aspx)</p> <p>Disclosing Information to Investors (/EducationCenter/Issuers/Disclosing.aspx)</p>



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Questions

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