MUNICIPAL MARKET DISCLOSURE: CURRENT TOPICS AND PRACTICES

DISCLOSING GENERAL OBLIGATION (GO) CREDITS

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

March 19, 2014

INTRODUCTIONS

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OUTLINE

- Overview
- Nature of California GO Bonds
- GO Bonds in Bankruptcy
- Rating Agency Perspectives
- Current Disclosure
- Suggested Changes

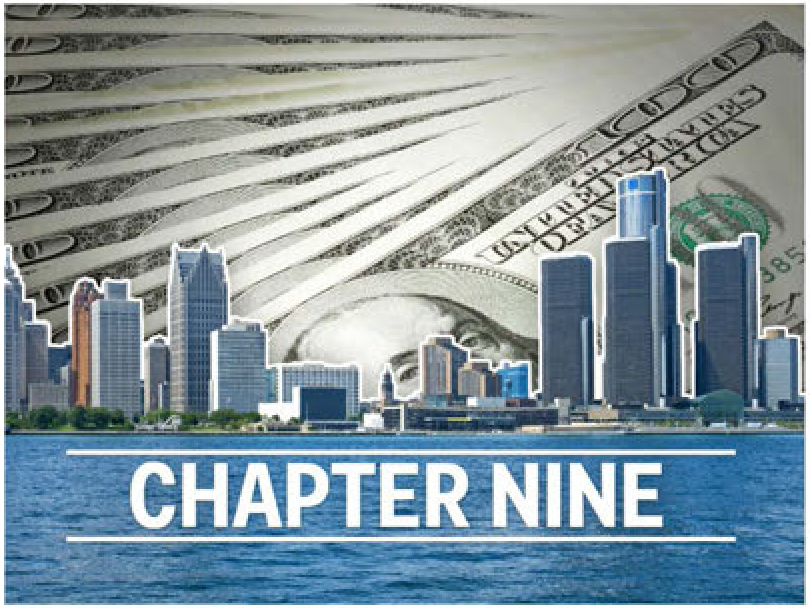
Overview

MONEYBEAT

Rolling the Dice on Municipal Bankruptcies

THE BOND BUYER

Detroit's GO Treatment Sparks Market Debate



NBC NEWS

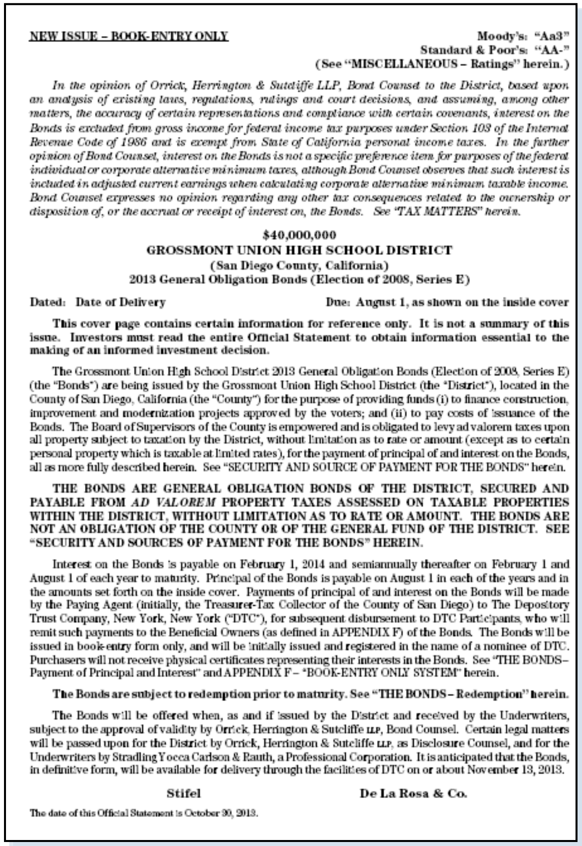
Detroit Bonds: Obligation or Just a Promise?

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

THE OFFICIAL STATEMENT

❑ Standard Disclosure Today

- Nature of Security (unlimited ad valorem property tax)
- Property Tax Base Information
  - Assessed Valuation Analysis
  - Ad Valorem Tax Rates
  - Delinquency Rates
  - Top Owners
  - Overlapping Liens
  - Teeter plan
- General Fund Finances



NEW ISSUE – BOOK-ENTRY ONLY

Moody's: "Aa3"
Standard & Poor's: "AA-"
(See "MISCELLANEOUS – Ratings" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$40,000,000
GROSSMONT UNION HIGH SCHOOL DISTRICT
(San Diego County, California)
2013 General Obligation Bonds (Election of 2008, Series E)

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Grossmont Union High School District 2013 General Obligation Bonds (Election of 2008, Series E) (the "Bonds") are being issued by the Grossmont Union High School District (the "District"), located in the County of San Diego, California (the "County") for the purpose of providing funds (i) to finance construction, improvement and modernization projects approved by the voters; and (ii) to pay costs of issuance of the Bonds. The Board of Supervisors of the County is empowered and is obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

THE BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT, SECURED AND PAYABLE FROM *AD VALOREM* PROPERTY TAXES ASSESSED ON TAXABLE PROPERTIES WITHIN THE DISTRICT, WITHOUT LIMITATION AS TO RATE OR AMOUNT. THE BONDS ARE NOT AN OBLIGATION OF THE COUNTY OR OF THE GENERAL FUND OF THE DISTRICT. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" HEREIN.

Interest on the Bonds is payable on February 1, 2014 and semiannually thereafter on February 1 and August 1 of each year to maturity. Principal of the Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside cover. Payments of principal of and interest on the Bonds will be made by the Paying Agent (initially, the Treasurer-Tax Collector of the County of San Diego) to The Depository Trust Company, New York, New York ("DTC"), for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners (as defined in APPENDIX F) of the Bonds. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of a nominee of DTC. Purchasers will not receive physical certificates representing their interests in the Bonds. See "THE BONDS–Payment of Principal and Interest" and APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are subject to redemption prior to maturity. See "THE BONDS – Redemption" herein.

The Bonds will be offered when, as and if issued by the District and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, and for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about November 13, 2013.

Stifel **De La Rosa & Co.**

The date of this Official Statement is October 30, 2013.

Nature of GO Bonds

NATURE OF GO BONDS

Not All General Obligation Bonds Are Equal

- Traditionally "general obligation" meant full faith and credit pledge
  - Issuer pledges to use all available resources and taxing power to pay debt service
- However, the use of the term may be a misnomer because the strength and extent of security for such bonds varies widely by state and local governmental unit within a state
- Can include unlimited property tax pledge, limited property tax pledge, and general fund pledge

NATURE OF GO BONDS

California Local Government GO Bonds

- Most local government GO bonds are secured only by a pledge of ad valorem property taxes
- Unlimited in rate and amount
- Voter approval required for a tax ‘override’, which is in addition to the 1% ad valorem property tax
- The counties levy and collect (and for school districts also hold) property tax revenues until paid
- Proceeds may be used only for debt service on related GO bonds
- Generally, NO pledge of issuer’s general fund or any other available funds

NATURE OF GO BONDS

- State of California GO Bonds
  - Payable in accordance with the related State Bond Act and related bond resolution out of the State's general fund, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education
  - The State Bond Acts each provide that the State will collect annually in the same manner and at the same time as it collects other State revenue an amount sufficient to pay principal of and interest on the related series of Bonds in that year
  - The State Bond Acts also each contain a continuing appropriation from the State's General Fund of the sum annually necessary to pay the principal of and interest on the related series of Bonds as they become due and payable

NATURE OF GO BONDS

- State of California GO Bonds (continued)
  - The State Bond Acts each provide that the bonds issued thereunder "shall be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State is hereby pledged for the punctual payment of the principal of, and interest on, the bonds as the principal and interest become due and payable"
  - The pledge of the full faith and credit of the State alone does not create a lien on any particular moneys in the General Fund or any other assets of the State, but is an undertaking by the State to be irrevocably obligated in good faith to use its taxing powers as may be required for the full and prompt payment of the principal of and interest on all general obligation bonds as they become due
- States cannot file for bankruptcy so no additional risk of a payment default or of recovery to holders as a result of a bankruptcy proceeding

NATURE OF GO BONDS

- From CDIAC Primer:
  - Interestingly, relatively few statutes (other than those relating to the state's bonds) use the designation, "general obligation bonds" and it may be more accurate to think of these obligations as "unlimited tax bonds."
- Investors and analysts must go beyond the title of a bond to understand its security

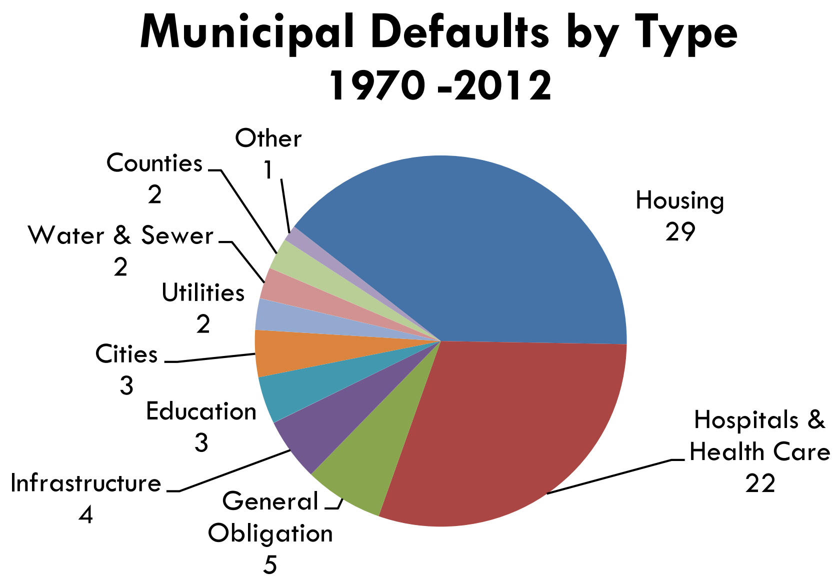
GO Bonds in Bankruptcy

THE RELEVANCY OF BANKRUPTCY

- Rating agencies generally base credit ratings on the probability that an issuer will default on a debt instrument, and the recovery to holders of such debt after default
- Bankruptcy can affect bondholders by creating a risk of default, and it may also impair the recovery to holders after default
- Different types of security are treated differently in bankruptcy and, therefore, a bankruptcy may affect the timely payment of debt service on different bonds and the recovery to holders of such bonds after a default differently

RARE EVENTS DESPITE RECENT ATTENTION

- Risk of a municipal bankruptcy or default is remote



- Because so few have occurred, the law remains unclear on many important issues

Source: Moody's

ABILITY TO FILE; ELIGIBILITY

- State limitations on ability to file
- Preconditions for eligibility
- What happens if not permitted to file
- No involuntary bankruptcy in Chapter 9
- For purposes of this discussion, assume local California governmental general obligation bond issuer has the ability and would meet preconditions

RISK OF DEFAULT THROUGH AUTOMATIC STAY

- Normal course upon payment default: *mandamus* action to compel payment, etc.
- A bankruptcy filing may result in an immediate cessation of debt service payments because of the automatic stay provision which stops creditor recovery actions against the debtor/issuer
- Special revenues have protections against automatic stay

SPECIAL REVENUE

- Revenues derived from the ownership, operation or disposition of certain projects or systems including transportation, utility or other services or specific projects
- Not revenue that is available for the general purposes of the municipality
- Definition not always simple to apply
- Rating agency perspective: local government GO repayment revenues likely not special revenues
- Are special revenue debt instruments stronger credits?

RISKS OF RECOVERY AND OTHER CHANGES

- Debt Classifications
  - Secured
  - Unsecured
- Priority of Payment

SECURED OBLIGATIONS

- Bonds Secured by Statutory Lien
  - The definition of "statutory lien" is not always simple to apply
  - Lien attaches to property (including revenues) acquired after bankruptcy filing
  - Not clear whether terms of bonds can be altered as part of plan
    - Lien continues to apply to revenues
    - Municipality likely has no incentive to exert leverage on bondholders
- Bonds Secured by Consensual Pledge of General Revenues
  - Lien does not attach to post petition revenues
  - Automatic stay applies
  - Terms of bonds can be altered as part of plan

SECURED OBLIGATIONS (Cont'd)

- Bonds Secured by Consensual Pledge of Special Revenues
  - The definition of "special revenues" is not always simple to apply
  - There must be a pledge – it is not enough merely for the revenues to be "special revenues"
  - The pledge does attach to revenues acquired after bankruptcy filing
  - "Net revenues"
  - Limited exception from automatic stay, but there has been litigation over the scope of the exception
  - Not clear whether terms of bonds can be altered as part of plan
  - Not clear whether rate covenant continues to be enforceable

SECURED OBLIGATIONS (Cont'd)

- Bonds Secured by Property Taxes Restricted by State Law
  - Bankruptcy court cannot alter state law relating to state control of municipalities
  - State law restricting how a municipality must spend certain funds should be enforceable in bankruptcy
  - Bankrupt municipality cannot use these property taxes for any other purposes
  - Subject to automatic stay (but why bother)
  - Unclear whether terms of bonds can be altered as part of plan, but the property tax revenues cannot be used for any other purpose
  - Little incentive for bankrupt municipality to try to exert leverage on bondholders, because there is nothing else that can be done with the revenues
  - While state law may require unlimited increases in property taxes, bankruptcy courts have generally required municipality to increase taxes only to the extent that the increase is reasonable under the circumstances

IMPLICATIONS ON DISCLOSURE

- Evaluation of issuer’s overall credit quality
- Full financial disclosure

Rating Agency Perspectives

RATING AGENCY PERSPECTIVES

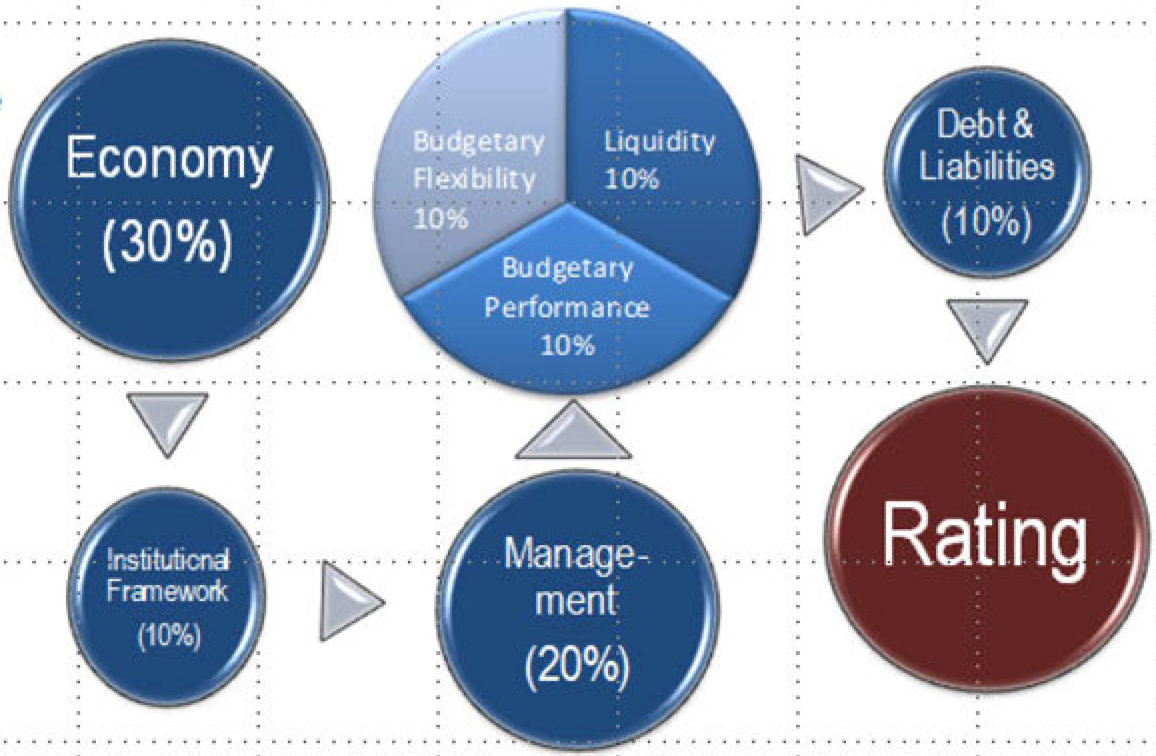
- Both Moody's and S&P have recently released new general obligation rating methodologies for U.S. Local Government Debt
  - *S&P's methodology published last fall focuses on municipalities (i.e. cities and counties) – <u>not</u> school or other special districts*
  - *Moody's methodology published in January has a broader focus than S&P; however California receives specific attention*

S&P GO RATING METHODOLOGY

- The scoring in S&P's *revised* Local Government GO Ratings Methodology is based on seven key factors:
  - Institutional framework, economy, management, budgetary flexibility, budgetary performance, liquidity and debt/contingent liabilities

S&P GO RATING METHODOLOGY

1. **Economy**
   a) **EBI as % of national average**
   b) **Per capita market value**
2. Institutional Framework
3. **Management**
4. Budgetary Flexibility
5. Budgetary Performance
6. Liquidity
7. Debt & Contingent Liabilities



Economy and Management receive greatest emphasis "because of management's ability to tap the local economic base for additional revenues if it chooses…"

— Standard & Poor's Ratings Direct, U.S. Local Governments General Obligation Ratings: Methodology And Assumptions, September 12, 2013

MOODY'S GO RATING METHODOLOGY

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

- Moody's report published in January of 2014 is a methodology focusing on *all* US Local Government General Obligation Debt; however, California debt was specifically addressed in this report and a follow up report published in February 2014

MOODY'S GO RATING METHODOLOGY

Broad Rating Factors	Factor Weight	Rating Subfactors	Subfactor Weight
Economy/Tax Base	30%	Tax Base Size	10%
		Full Value Per Capita	10%
		Wealth (median family income)	10%
Finances	30%	Fund Balance (% of revenues)	10%
		Fund Balance (5-year change)	5%
		Cash Balance (% of revenues)	10%
		Cash Balance Trend (5-year change)	10%
Management	20%	Institutional Framework	5%
		Operating History	5%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's adj. Net Pension Liability (3-yr ave.) to Full Value	5%
		Moody's adj. Net Pension Liability (3-yr ave.) to Revenue	5%

MOODY'S ON CALIFORNIA GOs

- *"An illustration in the variety in the meaning of "General Obligation" arises in California, where a local government "General Obligation" bond is not secured by the full faith and credit of the local government, but solely by an unlimited ad valorem tax. We rate California local government GO bonds under this methodology, and even though they do not benefit from the broader pledge that secures GO bonds in many other states(*), this is not necessarily a weakness."*

MOODY'S ON CALIFORNIA GOs (cont'd)

- *"The primary rationale for this inclusion is threefold: First, our GO ratings reflect a comprehensive evaluation of a municipality's overall credit quality, which includes more than just an evaluation of pledged, legal security…we believe a California local government's overall financial profile and general management wherewithal can provide meaningful indicators of GO bond default probability. Second, the stronger a local government's overall, general credit quality, the less likely the local government will ever seek bankruptcy court protection. Third, our GO methodology is sufficiently flexible to recognize the unique strengths and weaknesses of each state's particular version of GO bonds, including California's, with "below-the-line" adjustments…"*

Current Disclosure

THE OFFICIAL STATEMENT

Standard Disclosure

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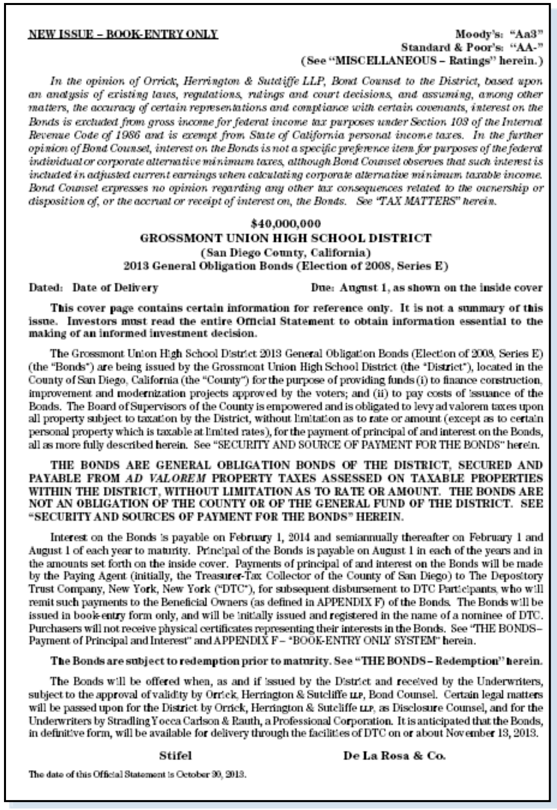

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$40,000,000
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(San Diego County, California)
2013 General Obligation Bonds (Election of 2008, Series E)

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Stifel **De La Rosa & Co.**

The date of this Official Statement is October 30, 2013.

THE OFFICIAL STATEMENT - APPENDICES

- Standard Disclosure
  - Appendix A
    - General Fund Disclosure
    - Local economic/demographic information
  - Issuer Audited Financial Statements
  - Aggregate Debt Service Schedules
    - Detailed schedules for all outstanding Public Agency GO bonds
  - County Investment Pool
    - Latest fund balances and investment vehicles
  - Continuing Disclosure Certificate

APPENDIX A DISCLAIMER

FINANCIAL AND OPERATING INFORMATION

The information in this Part II of Appendix A concerning the operations of the District, the District's finances, and State funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District or from State revenues. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the front section of this Official Statement.

Suggested Changes

GO DISCLOSURE

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

- How is our GO bond disclosure?
- Should anything be added or taken away?
  - For school GOs, should there be a greater focus on the county setting, levying and collecting the taxes?
  - Should there be a detailed bankruptcy discussion?

PRESENTERS

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Mr. Field is a Partner in the Public Finance Department of Orrick, Herrington & Sutcliffe LLP and the leader of Orrick's School Finance/General Obligation Bonds Practice Group. He is also a member of Orrick's Assessment/Mello-Roos Practice Group, Leasing Practice Group and Revenue Practice Group. He has extensive experience, as bond counsel, disclosure counsel and underwriter's counsel, in the financing techniques used by school and community college districts, cities, counties and other special districts in California. His practice focuses on local governmental infrastructure financing, including general obligation bond financing, land-secured financing and municipal lease financing. He has appeared as a panelist and lecturer for numerous organizations and is the principal author and editor of the third edition of *The XYZ's of California School District Debt Financing*, published by Orrick in 2005. Mr. Field was named as one of the Top 25 Municipal Lawyers of 2011 in California by the Los Angeles and San Francisco *Daily Journal*.

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Mr. Ferguson joined Jones Hall in 1999, and became a partner in 2003. He has practiced real estate, land use, corporate and public finance law since 1994. He has experience as bond counsel, disclosure counsel and underwriter's counsel in a wide range of municipal financings, including lease revenue bonds and certificates of participation, utility enterprise revenue bonds, general obligation bonds, Mello-Roos special tax bonds, and limited obligation assessment bonds, with a focus on disclosure counsel engagements. Mr. Ferguson attended the University of Freiburg, Germany, and the University of Virginia, where he received his B.A. degree in 1987, and Hastings College of the Law, where he received his J.D. degree in 1994, and was admitted to the Order of the Coif. He was admitted to the California Bar in 1994 and is a member of the Bar Association of San Francisco and the National Association of Bond Lawyers.

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STIFEL

Ms. Van Degna is a Vice President with Stifel Nicolaus. Since joining the firm's public finance division in 2002, Ms. Van Degna has structured and brought to market more than 100 municipal bond transactions totaling several billions of dollars for California cities, schools and special districts. Her expertise includes general obligation, land-secured, enterprise revenue and lease-backed financings. Ms. Van Degna speaks regularly as conferences and workshops orchestrated by organizations such as the Bond Buyer, CSMFO, CleanTECH San Diego, C.A.S.H., MMANC and ULI. She maintains FINRA Series 7 and 63 licenses.

Prior to joining Stifel, Ms. Van Degna worked in the investment banking division of Morgan Stanley. She also spent time working in London as a corporate treasury analyst for a U.S.-based commercial bank. Ms. Van Degna graduated from Cornell University with a Bachelor's degree in Hospitality Administration. She currently serves on the Executive Committee of the Northern California Chapter of Women in Public Finance and as Treasurer of the Coro Center for Civic Leadership in San Francisco.