

**CARPINTERIA SANITARY DISTRICT  
IN THE  
COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA**

**MINUTES**

These are the **minutes** of the **regular** meeting of the Governing Board of the Carpinteria Sanitary District in the City of Carpinteria, County of Santa Barbara, and State of California.

The Governing Board of the Carpinteria Sanitary District held a regular meeting on **December 2, 2008**, at 5:30 p.m. at its District administrative office located at 5300 Sixth Street, Carpinteria, California.

Directors Present: Lin Graf – President  
Michael Damron – President Pro-Tem  
Jeff Moorhouse – Secretary  
Pat Horwitz – Secretary Pro-Tem  
Doug Treloar – Treasurer

Staff Present: Craig Murray – General Manager  
Judy Kirkman – Board Secretary - **Absent**  
Hamid Hosseini – Finance Director

Legal Counsel  
Present: Anthony Trembley

President Graf called the meeting to order, and Director Treloar led the Board, staff and public in the Pledge of Allegiance.

President Graf asked if there were any modifications and/or changes to the agenda. Hearing none, the agenda stood as submitted.

**Approval of Minutes of the Meeting of November 18, 2008** – Director Treloar made a motion that the Board approve the November 18, 2008 Minutes as submitted; Director Horwitz seconded the motion, and the motion was approved by a 4-0 vote. Director Damron abstained from voting since he was absent from the November 18, 2008 Board Meeting.

**Public Forum.** None

**General Manager's Status Report - IRWMP Meeting Report** – General Manager said he attended a meeting of the cooperating partners on November 20, 2008 and also a meeting today, December 2<sup>nd</sup>, which was a kickoff meeting with Kennedy/Jenks, the grant administration consultant, and SWRCB staff. On December 5, 2008 the SWRCB representative will be here at the District to tour our project site on the bluffs. The remainder of the IRWMP meeting focused on near term steps, including final determination of regional boundaries, participation in an expedited funding round, and development of a new MOU for all participating partners. General Manager said one of the determinations that the partners will have to make as a region will be to decide whether to partner with the other counties that exist within Region 3 (San Luis Obispo, part of San Benito and Santa Cruz

counties, and Monterey County). General Manager said that was what the State intended, but provided an option for our County to submit as a stand-alone region for the next round. General Manager said the next thing the Board might see would be a MOU to continue the District's participation as a member agency in the IRWMP process for Proposition 84. General Manager said there would be some funding agreements, much like those for Proposition 50. General Manager said there was an expedited round of funding, but did not think our region would be ready to pursue, based upon the timing from the State;

**Proposition 84 IRWMP Presentation** – General Manager said he attended a meeting that was a presentation from the California Department of Water Resources (DWR) regarding the Proposition 84 IRWMP grant program at the Goleta Sanitary District on November 21<sup>st</sup>. The presentation was about that process and how it differed from Proposition 50 program, what types of projects might be eligible for Prop. 84 funding, and also what projects might be eligible for Prop. 1E funds, which is another voter-initiative grant program that was passed a couple of years ago. Prop. 1E is geared towards flood control projects and not wastewater projects;

**ASCE Disaster Response Training** – General Manager said he attended a one-day training and certification program on November 19<sup>th</sup> put on by the Office of Emergency Services' Post Disaster Safety Assessment Program. General Manager said it was training for engineers, architects and building officials to qualify them to go in and evaluate buildings and determine if they are habitable after an earthquake. General Manager said it could be useful in some of the other community emergency response planning efforts going on in the city;

**Operations Update** – The Treatment Plant is running fine and in full compliance with our NPDES permit. There are no problems to report within the Collection system, and the pump stations were inspected and cleaned as necessary prior to the rain event.

**Resolution No. R-218 – Authorizing Issuance of Limited Obligation Improvement Bonds and Directing Related Actions** – General Manager said information on this action item would be presented to the Board. Staff, Scott Ferguson and Adam Bauer will talk about some different items, and then open it up to the Public for their comments.

General Manager said Resolution No. R-218 Authorizes Issuance of Limited Obligation Improvement Bonds and Directs Related Actions for Assessment District 2007-1 that was approved by a vote of property owners within that assessment district back in October, 2007.

General Manager said in the fall of this year, cash payment notices were circulated to all of the property owners within the assessment district boundary. This provided an opportunity for homeowners to pay their assessment up-front and in cash to avoid going through the long-term financing options that will be discussed tonight. General Manager said by the October 17, 2008 deadline the District received 53 cash prepayments out of 133 pre-assessed parcels. General Manager said the remaining 82 parcels have elected the bond financing to pay for their assessments, which will add up to a bond amount of approximately \$6.05 million.

General Manager said Resolution No. R-218 authorizes the proposed bond sale. It also approves and authorizes execution of the Preliminary Official Statement, Bond Purchase Contract (agreement between the District and the bond underwriters), and a Fiscal Agent Agreement (agreement between the District and the Bank of New York to authorize them to act a fiscal agent).

General Manager introduced Scott Ferguson of Jones Hall and Adam Bauer of Fieldman, Rolapp and Associates and said Scott would walk the Board and public through the resolution, the Official Statement, the Bond Purchase Contract and the Fiscal Agent Agreement. General Manager said after that Adam would lead a discussion regarding the current municipal bond market and the assessment bond market in general.

Scott Ferguson said the Fiscal Agent Agreement was a basic legal document that would secure the bonds and was between the District and the Bank of New York Mellon

Trust Company (BNY). Mr. Ferguson said BNY would get a payment twice a year from the District that represents the assessments collected. Mr. Ferguson said the assessments are collected by the County and passed down to the District, and, in turn, the District sends the money to the Fiscal Agent. The Fiscal Agent makes the payments to the bond holders. Mr. Ferguson said the Fiscal Agent Agreement hires and gives the Fiscal Agent its duties, and it also contains facts and legal terms about the bonds and provides other details for the bondholders.

Mr. Ferguson said the Bond Purchase Contract is an agreement between the District and Stone & Youngberg, the bond underwriter. Mr. Ferguson said this agreement would be signed on the day that Stone & Youngberg goes out to the market to price the bonds. The agreement is brought to the General Manager, and after the agreement is signed, two or three weeks later the bonds will close. Mr. Ferguson said the agreement obligates Stone & Youngberg to pay the full purchase price on the day of closing. Director Moorhouse asked if this would be a negotiated deal. Mr. Ferguson said it was decided two years ago when the District entered into the agreement with Stone & Youngberg.

Mr. Ferguson said the Preliminary Official Statement was a document that disclosed to potential bond holders everything material about the bonds. Mr. Ferguson said there would be very little reference to the District in this document, as the credit for the bonds are the assessments within the assessment district. Mr. Ferguson said there would be a lot of tables in the statement having to do with assessed values, description of the District, and the rest of the document describes the bonds, the terms of the bonds, and information regarding the parcels within the three benefit zones of the assessment district. Mr. Ferguson said the members of the District's financing team will finalize the document once it has dates, and Stone & Youngberg will be obligated to purchase the bonds from the District and to conduct a public offering of the bonds to investors. Mr. Ferguson said this document was a one-time disclosure document for investors.

Mr. Ferguson said another thing he wanted to point out was that the resolution authorizes the General Manager to go forward with the pricing within maximum parameters, the first one being the principle amount of the bonds, \$6,055,000. Mr. Ferguson said the second parameter is the true interest cost of the bonds can not exceed 9% for bonds maturing in 32 years.

General Manager said he'd like to go back to what Mr. Ferguson had referred to as maximum parameters that were put into the resolution. General Manager said 9% as a maximum bond interest rate is a number that the project finance team have been in discussions recently about what is going on in the local credit market and how it is effecting this bond issue. General Manager said there has been tremendous volatility and uncertainty in the market, and the 9% was put in as a placeholder. It could change, either up or down. General Manager said the number could change, but it didn't mean that will be what the bonds will be sold for. General Manager said Adam would talk about where the market is currently, but 9% was placed in the resolution to give us the flexibility that was needed.

Adam Bauer began by saying he'd like to break up his conversation into two categories, the first being generally how the market has acted in the last year, and secondly, the next steps, as a team, to move forward. Mr. Bauer said in the municipal market, the year has been difficult. From an investor's perspective, it is not all bad, because you are hearing of yields in the 9% range, and when you take that into consideration, with the tax bracket exemption, you're looking at 12-15%. Mr. Bauer said money had flooded into the Treasury bill market, which is considered the safest area, so you will see yields in treasuries dropping very, very low. Other types of bonds, such as these, you will see those yields start to rise. The spread between the two has been a lot greater in recent months than it has been in the last four or five years. Once we start to see signs of that spread returning to more normal levels, something else seems to happen in the credit market. Now it's the auto industry

bailout, before that Freddie/Fannie, and before that Indy Mac. There are all these different things that keep getting in the way of stabilization between the two. Mr. Bauer said it was difficult to say when we would return to that more normal market, but we are in the market that we are in, and that gets us into the next steps as we move forward. Scott indicated that we are preparing the documents that allow staff to "pull the trigger" if it's the right time to go forward. Mr. Bauer said the finance team would be working together to get constant updates as to what we're seeing and here's where other types of single A, triple B type credits are going out, and from there, when it's time to move forward. The finance team will work with staff to try to get the best deal possible in that market. Mr. Bauer said there would be a pre-pricing call with the underwriter, and in that call the underwriter will propose a scale to go out the next day. Two things will be proposed, interest rates and their compensation. Mr. Bauer said their compensation would include what they have to pay their brokers to sell the bonds, which will be compared to other transactions to see if that's as competitive as it should be. Mr. Bauer said they would also work with an advance. Mr. Bauer said usually if they are on a pre-pricing call they will determine that's what they've talked about and are ready to move forward. Mr. Bauer said the day of pricing the underwriter will go out in the market and try to sell the bonds. If it's a successful sale, they will sell a portion of it and will underwrite another portion of it, and two weeks later the transaction will close.

Mr. Bauer said at this time they are seeing a number of double A type credit deals getting done. The middle of September the market locked up and there's a two-week period where only one or two deals were completed. Since that time there has been a constant backlog, and other issuers, such as yourself, are trying to come into the market and you're competing with some of these other deals that are coming into the market also. Mr. Bauer said even though the market may be slow, there has not been very many of this type of credit out there. Mr. Bauer said the District is sitting in a unique spot. You have credits that are below you and then you have the double A and high single A issuers. Mr. Bauer said there may be an appetite for something in the middle, so that's why having the window to go out is a good thing. Mr. Bauer, said, having said all that, a single A scale at this point is looking at a long bond of about 7.38% and the 2009 bonds are at about 3.05%. Mr. Bauer said these are higher than historical standards, but they have improved some.

General Manager said, as the District Manager, we are representing the homeowners in this community who have asked us to undertake this project and provide this financing vehicle. General Manager said when the cash payment notices were sent out, staff felt it was important to give the property owners some idea of where we thought the bond interest rate would be when we sold the bonds. General Manager said that was not always easy to do. There are things that move around, but we told them, conservatively, that the range of interest rates would be somewhere between 5.75% and 7%, and that was in August. Since that time the credit market basically imploded. At the time we looked again at the market and were ready to go out and do this deal the rates were 60/70 bases points higher than those Adam just mentioned. General Manager said it was up over 8% on the long bonds. General Manager said that gave him some pause, and the finance team thought that we're kind of in an anomalous situation because the spread between the treasuries and this kind of bond issue are at all time highs. General Manager said what the team wanted to do was to be prepared to complete the bond sale, but have the flexibility to try and wait out the market to see it normalize. General Manager said hopefully we could come back into that range, or maybe into the lower end of that range that we talked about back in August.

General Manager said the Board is being asked to adopt this resolution, approve these bond sale documents and agreements, authorize the team to make the right decision and enter the market when we feel we are getting the best price available in a timeframe that is not detrimental to the overall project schedule. General Manager said the District did not

want to put the State Water Regional Water Board grant in jeopardy or throw the timeline off so people could not get the sewer improvements that they are expecting.

General Manager said Santa Barbara City College recently sold some bonds, and they sold at a fairly competitive rate. General Manager said those were General Obligation Bonds and different than what we were dealing with here.

President Graf said he'd like to open up this item for public comments, and he called on the first speaker, Giti White. Ms. White suggested that there should be greater disclosure in the documents of the history of controversy surrounding this project. Ms. White also commented on restrictions on the use of bond funds. Ms. White cautioned the Board about the level of discretion being passed down to the staff level and suggested that the Board retain responsibility for making decisions related to the bond sale instead of the finance team.

George Froley said what he heard was that the bonds were not going to be actually rated, but there would be an implied rating. Mr. Ferguson said the bonds would not be rated. Mr. Froley asked what the redemption schedule would be, and what would happen in the event of an earthquake at Rincon or a tsunami. Mr. Froley requested a copy of the preliminary official statement and asked about the possibility of buying bonds on the open market and potentially retiring bond indebtedness on individual properties.

President Graf asked if any member of the finance team would like to respond to any of the public comments. Adam Bauer said he could respond. Mr. Bauer said the security for the bonds assessments stay on the properties within the Assessment District. Mr. Bauer said if a tsunami comes it will be up to the property owner whether those property taxes get paid, and the assessments are collected on the property taxes. Mr. Bauer said as far as getting a copy of the prospectus when it is ready to go to market, it is part of the Staff Report, but it is not finalized and will not be distributed to investors until the bonds are marketed. A copy of the official prospectus will be available at that time. Director Moorhouse said the Preliminary Prospectus was part of our packet, but asked if it should have been marked up a little better. Director Moorhouse said he was concerned with providing copies of the Preliminary Prospectus to the public without some kind of disclosure stating that it is not the official document, but it is only provided for purposes of the Board Meeting. General Manager said it stated on the top of the document "Agenda Document." Legal Counsel said as part of the agenda packet it was a public document. Scott Ferguson said the only official way to buy bonds was through Stone & Youngberg, so anyone getting a copy of the Preliminary Prospectus as a public record who wanted to buy bonds would have to go to Stone & Youngberg. Stone & Youngberg would tell them to set up an account with Stone & Youngberg, and they would then be given a copy of the official statement. General Manager said over the past two years in talking with Stone & Youngberg part of their marketing strategy would be to market the bonds to homeowners within these assessment district communities.

Legal Counsel stated that while property owners or investors in the assessment area could purchase these securities, Board Members may not purchase these bonds.

President Graf said he had a question regarding the timeline with regards to the grant. General Manager said he just received the executed grant agreement from the State Water Board, and that starts our three-year time clock running on the grant. General Manager said for Sandyland and Sand Point Road communities, there is a shorter timeline than Rincon Point. For Rincon Point, there will be a lot of upfront work to complete. General Manager said if the market normalizes the end of December or in January to within the range previously communicated to homeowners, the District would go forward.

Steve Halstad asked if the Staff Report could be posted on the District's website. General Manager said staff has not posted these documents to the website, but they could be posted.

President Graf asked if there were any other public comments. Hearing none, this item was brought back to the Board for questions or discussion. Director Horwitz asked for a clarification regarding payment from the County. Director Horwitz asked if the County would collect the assessments and pay the District whether or not they collect all payments. General Manager said assessments are different than sewer service charges collected by the County. General Manager said he has had several conversations with the counties and they don't allow this type of special assessment to be included in the Teeter Plan which guarantees payment.

Director Horwitz asked what would happen if the District could not sell the bonds. Scott Ferguson said if you can't sell them, then you regroup and try to go out again. Mr. Ferguson said with this type of credit, you will be able to sell them at some point. Director Horwitz asked if there was only a one-day window. Mr. Ferguson said when the District conducts the pre-pricing call, staff and his office would start aggressively moving forward with the bond sale.

Director Moorhouse said he was curious about the rating and asked if at some point could they become rated. Mr. Bauer said staff had been very thorough, and when a member of the finance team has thrown out general municipal bond rules based on experience, your staff has said "prove it". Fieldman Rolapp did a cost analysis and determined that it would cost between \$15,000 and \$20,000 to get rated. An associated decrease in interest rates would not likely generate in the fifteen to twenty thousand dollar savings. Mr. Bauer said rating agencies, in order to give an investment grade rating, normally look to have 500 units, so you can spread it across a lot of properties and if a tsunami hits it would not likely get all 500. Mr. Bauer said here, if the tsunami hit the 82 units, chances are it would be totally wiped out. Director Moorhouse asked if the tsunami hits and the 82 units are four feet under water, what would be the District's liability. Mr. Bauer said the District had no liability. The bonds are solely paid from the assessments. Legal Counsel said in this case if there was a default of an assessment that would require the District to pursue foreclosure, then the District would proceed with foreclosure and go through that process.

Director Treloar said construction was expected to begin in late 2009 or early 2010, and that the first interest payment would be due March, 2009. Director Treloar asked if there was a rush to get this going. General Manager said he thought the sequence gap here is the time when the final engineering design would be completed, soliciting construction bids, and obtaining permits. General Manager said once the District has the proceeds from the bond sale, then we will begin to pay the interest. General Manager said it would be some time before pipe goes into the ground.

Director Treloar asked if we checked with both counties, since we will be collecting through property taxes, to see if there will be an additional charge for collecting these assessments. General Manager said staff has worked with both county assessors to ensure that we understand the process and they understand the assessments.

Director Treloar said there was mention of property owned by FDIC, and asked if there were any properties that might be in default. Mr. Bauer said the finance team was not aware currently of any properties in default, but that was the type of thing that the underwriters would keep any eye on before going out to market.

Director Treloar said the Board is being asked to approve the Preliminary Official Statement and is delegating authority to District staff to make any changes after Board approval, but before it's printed. Director Treloar said he did not like being responsible knowing that changes could be made after Board approval. General Manager said a lot of the information that would be inserted into the Preliminary Statement is based on the pricing of bonds. Mr. Ferguson said the normal way to proceed is that the document is in substantially final form and the changes that are delegated are because of the "wait and see" market. Mr. Ferguson said the changes would be dates and not substantial changes in the terms, but if

something changed and there were delays because of the market, the financing team would want to bring back a revised document for Board approval before going out. General Manager said Mr. Bauer's firm was looking at the market on a daily basis, and every other day or at least once a week the finance team has a conference call to talk about where the market is at. Director Treloar asked if it would be two weeks after the go ahead to get everything together. Mr. Bauer said the underwriters would probably want two weeks to get that official statement out and market to investors. Director Moorhouse said this was a six-million dollar issue and there might be one buyer out there.

Director Horwitz said she had a question on page 33 where it said "add information on proximity to faultlines; any special landslides risk, etc." Director Horwitz asked if information would be added later. Mr. Bauer said that was a note to themselves that needed to be deleted.

President Graf asked if there would be any reason we would want to delay this decision for market conditions at this point. Mr. Bauer said there was a possibility that the market would improve down the road, but there is a possibility that it would get worse. Mr. Bauer said having maximum parameters that staff could execute on seemed to be the best choice.

Director Treloar said he felt sorry for all the homeowners who have been delayed throughout this process, and would like to make a motion that the Board adopt Resolution No. R-218, Authorizing Issuance of Limited Obligation Improvement Bonds and Directing Related Actions for Assessment District 2007-1 as presented (and direct staff to make requested changes or modifications to the bond documents); Director Horwitz seconded the motion, and the motion was approved by the following 5-0 roll call vote: Director Moorhouse voted aye, Director Damron voted aye, Director Horwitz voted aye, Director Treloar voted aye, and Director Graf voted aye.

## **Board Committee Reports**

**Finance Committee** – did not meet.

**Personnel Committee** – did not meet.

**Public Relations Committee** – did not meet.

## **Board General Items**

**CASA Legislative Committee Report** – Director Moorhouse said he did not have anything to report.

**Future Agenda Items** – Remedies to Illegal/Illicit Connections and Board Organizational Meeting.

**Adjournment.** There being no further items to discuss, President Graf adjourned the meeting at 6:40 p.m.

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Lin Graf  
President

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Pat Horwitz  
Secretary Pro-Tem

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Michael Damron - **Absent**  
President Pro-Tem

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Doug Treloar  
Treasurer

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Jeff Moorhouse  
Secretary