



July 26, 2017



To: Honorable LOCSD Board of Directors
From: Renee Osborne, General Manager
Subject: **Agenda Item 9D – 8/3/2017 Board Meeting**
General Manager Activity for July 2017

President
Jon-Erik G. Storm

Vice President
Vicki L. Milledge

Directors
Charles L. Cesena
Marshall E. Ochylski
Louis G. Tornatzky

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Renee Osborne

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GENERAL

- With the absence of the Utilities Supervisor, all Staff have been assisting with this position's work load. Interviews were conducted in July.
- Staff continues to work with the IRS and now Social Security on multiple payroll issues from 2015. These items are simple fixes, just time consuming.
- Legal Counsel and the General Manager has been working with SLOCEA on the District's union contract with Staff.
- AGP video has updated the streaming computer which will allow more public devices to access Channel 20 (total cost \$1,285).
- S&P Global Rating Services has adjusted their rating on MBIA Inc., the insurer of the Wastewater Assessment District No.1 Limited Obligation Bonds on June 26, 2017. We are required to disclose the attached event notice via the EMMA website. Attached to the General Managers Report is the "Material Event Notice" that NBS will post. There is no direct implication to the District's rating. It is good practice to advise the public in changes to the District's bond insurer.

BAYRIDGE/VISTA DE ORO

- Rob Miller, Frank Asuncion (Water Crew Chief) and the General Manager met with the County to plan the transfer of the Bayridge Estates and Vists De Oro collection systems to the County and to review some of the details for future operation and maintenance.
- Also discussed was the future repairs of Phase 2 to the Bayridge Estates system. This will involve coordination with the District Engineer and the District's operators.
- We reviewed the collection systems transfer agreement process and timing so we can coordinate with both legal counsels and prepare for each of our Board's approval.

PARKS & REC

- Staff has received the lease for the Dog Park from the County. District Counsel and General Manager has reviewed the lease and have minor suggestions/changes. The lease was presented to the Parks and Rec Committee for their suggestions and/or changes. Staff will bring the lease to your Board for approval and/or changes at your September 7, 2017 meeting.

ACCOUNTING/FINANCIALS

- The District Bookkeeper, Robert Stilts, and the General Manager have been working on the MIP/Accounting system. We received training from MIP/Abila on the budget and reporting portions of the system. While training, it was discovered that the system had not been updated in a few years. We have updated MIP to the most current version.
- All accounting is now being done through MIP. There are adjustments that need to be made before we can give the final numbers for the 2016-2017 fiscal year.
- All Staff that uses MIP will be trained/cross trained on how to use the updated system and will get a refresher course on proper AP/AR inputting.
- We are currently working on the reserve accounts for accuracy and will incorporate those accounts as part of the monthly reporting.
- Staff is working with the Auditor on a preliminary field test for the 2016-2017 fiscal year. With the past side accounting discovered, we would like to make sure that all items have been properly entered before the audit for 2016-2017 begins.



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MATERIAL EVENT NOTICE

Issuer: Los Osos Community Services District
Bond Issue: \$17,990,000
Wastewater Assessment District No. 1 Limited Obligation Improvement Bonds
Date of Issuance: November 7, 2002

CUSIP NOS.

<u>MATURITY</u>	<u>CUSIP</u>
2017	54559PAK2
2023	54559PAL0
2033	54559PAM8

Material Event: Rating Change

Material Event Notice:

On June 26, 2017, Standard & Poor's Ratings Services performed a rating change detailed in the attached report.

Contact Information:

NBS
(800) 676-7516
disclosure@nbsgov.com

RatingsDirect®

Research Update:

National, MBIA Inc. Downgraded; BAM, Assured, MBIA Corp. Affirmed; All Outlooks Stable

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Research Update:

National, MBIA Inc. Downgraded; BAM, Assured, MBIA Corp. Affirmed; All Outlooks Stable

Overview

- We completed our periodic review of the bond insurers.
- We are lowering our ratings on National and MBIA Inc. and affirming our ratings on BAM, Assured, and MBIA Corp.
- The outlooks for National, MBIA Inc., BAM, Assured, and MBIA Corp. are stable.
- AG London remains on CreditWatch Positive.

Rating Action

On June 26, 2017, S&P Global Ratings lowered its financial strength rating on National Public Finance Guarantee Corp. (National) to 'A' from 'AA-' and its long-term counterparty credit rating on MBIA Inc. to 'BBB' from 'A-'. We also removed our ratings on these issuers from CreditWatch Negative where we initially placed them June 6, 2017. The outlooks are stable.

We affirmed our 'AA' financial strength rating on Build America Mutual Assurance Co. (BAM) and removed it from CreditWatch Negative where we placed it June 6, 2017. The outlook is stable.

We affirmed our 'A' long-term counterparty credit rating on Assured Guaranty Ltd. (AGL) and our 'AA' financial strength ratings on its bond insurance subsidiaries (collectively Assured). The outlooks are stable.

We affirmed our 'CCC' financial strength rating on MBIA Insurance Corp. (MBIA Corp) and revised the outlook to stable from negative. We are also withdrawing our 'D' rating on MBIA Corp.'s surplus notes and preferred stock.

Our 'BB' financial strength rating on Assured Guaranty (London) LTD. (AG London) remains on CreditWatch with positive implications.

Rationale

The rating actions on National and MBIA Inc. are based on our view that National's business risk profile is weaker than its peers', as National has struggled to gain wide market acceptance. Its risk-adjusted pricing (RAP) ratio, although improving, has been the lowest in the industry and was 2.67% for the first five months of 2017, as compared to Assured's and BAM's of 4.93% and 4.38%, respectively. Although the low RAP can be attributed partially to trading differential, the very low volume of the par written is an additional

indication of National's limited market penetration and acceptance. We do not expect meaningful improvement in volume and market share or the company's business risk profile.

With regard to National's financial risk profile, the company's capital adequacy is very strong, with a capital adequacy ratio in excess of 1.0x. However, National has a Largest Obligor Test (LOT) violation that limits our view of capital adequacy. Notwithstanding the LOT violation, we expect National's capital position to remain supportive of the rating. Our rating on MBIA reflects its structural subordination to National.

The rating actions on BAM are based on our view that, although the company continues to trail Assured in business volume and pricing, it has gained strong market acceptance. Through the first five months of 2017, the company's share of insured U.S. public finance par was approximately 42% and its RAP was 4.39%. Based on the company's underwriting strategy, we do not expect a material change in its market share, nor do we expect a significant change in the risk profile of its insured portfolio. BAM has made operational changes that we expect to improve the long-term profitability of the company and help bolster its capital position. As a mutual company, however, BAM's RAP and profitability may always trail Assured's because its members seek a stable, low-cost source of insurance, and the driver of its capital growth is its members' surplus contributions.

BAM's capital adequacy is very strong with a capital adequacy ratio in excess of 1.0x. However, this is the first year the company incurred a LOT violation, which may create volatility in its capital position and limits our view of its capital adequacy, which could weigh on our future ratings.

The affirmation of our rating on Assured reflects our view of its strong competitive position built on a proven track record of credit discipline and market leadership in terms of par insured, premiums written, and risk-based pricing. For the first five months of 2017, the company reported a U.S. public finance RAP of 4.93%, and a RAP of 6.32% when we include the international public finance business.

Although much of Assured's business has been in the U.S. public finance market, it has the most diverse underwriting strategy of any bond insurer, also conducting business in the global structured finance and international public finance markets. Although some segments of these other markets have been risky in the past, we believe management's current approach to writing business in them is well thought-out and measured. We therefore believe this strategy provides flexibility to capitalize on growth trends and pricing opportunities in one sector while other sectors experience less-favorable trends, which we feel provides some competitive advantage versus its peers. Additionally, and importantly, we do not believe Assured's presence in these other markets will become a significant part of its overall business.

Assured's capital adequacy is very strong with a capital adequacy ratio in excess of 1.0x. However, Assured has a LOT violation that limits our view of

capital adequacy and could weigh on the rating. In addition, the company's exposure to issuers in Puerto Rico may pressure its capital position as losses begin to materialize. Our rating on AGL reflects its structural subordination to Assured.

The rating action on MBIA Corp. is based on our view that the company's liquidity position has somewhat improved; however, its liquidity remains weak and is subject to risks from payment timing on credit-default swap contracts and residential mortgage-backed securities excess spread recoveries. In our view, MBIA Corp.'s capital position is very weak, and we score its capital adequacy as less vulnerable. Given the size of MBIA Corp.'s insured portfolio versus its capital base and the limited opportunities to improve its capital position, we do not expect to see any improvement in its capital adequacy. The company is in run-off, and we view it as nonstrategically important to MBIA Inc.

With regard to AG London, the company was purchased from MBIA Insurance Corp in Jan. 2017 and there are no reinsurance or support agreements between AG London and any AGL subsidiary. AG London will remain in run off and we view it as nonstrategically important to Assured. Assured management is working to combine AG London with its other affiliated European insurance companies, at which time the insured obligations of AG London will become the obligations of the entity surviving the business combination. Any such combination will be subject to regulatory and court approvals.

Outlook

The outlook on National is stable, reflecting the strength of the company's capital position and the deleveraging that is occurring as the run-off of insured exposure is greater than the amount of new business being written.

The stable outlook on BAM reflects our view that its competitive position will remain strong, and we believe market demand for BAM's credit enhancement and risk-return requirements will help maintain an acceptable RAP. We also expect the company's operating performance to improve and become less of a drag on capital growth. The maintenance of capital adequacy at the current level is essential for rating stability.

The stable outlook on Assured reflects our view of the company's strong competitive profile and very strong capital adequacy, as well as its leadership position in the U.S. public finance market. The outlook also considers Assured's measured approach to insure international infrastructure and global structured finance transactions to capitalize on positive market trends in those markets. We also do not expect the non-U.S. public finance business to alter the overall risk profile of the insured portfolio. The maintenance of a capital adequacy ratio of more than 1.0x is essential for rating stability.

The stable outlook on MBIA Corp. reflects our view that the company's capital

and liquidity are adequate to meet claim payments through 2017. Given the risk of the remaining insured portfolio relative to MBIA Corp.'s capital base and limited opportunity to improve its capital position, we expect capital to remain under stress. If MBIA's capital stabilizes as a result of lower potential adverse loss development, we would view this as positive to the rating. If the company exhibits increased losses and diminished liquidity, so that the time to a possible breach of minimum regulatory levels shortens to less than two years, we could lower the rating.

CreditWatch

The CreditWatch Positive on AG London is based on our expectation that the company will be folded into one of Assured's affiliated European insurance companies and the insured obligations of AG London will become obligations of Assured and carry the same rating as Assured. We would maintain the rating on AG London if the company were not combined with one of Assured's affiliated European insurance companies or there were no reinsurance or support agreements that benefit AG London.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Insurance - Bond: Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Assured Guaranty (London) LTD.

Financial Strength Rating

Local Currency

BB/Watch Pos/--

Financial Enhancement Rating

Local Currency

BB/Watch Pos/--

Assured Guaranty Ltd.

Assured Guaranty US Holdings Inc

Counterparty Credit Rating

A/Stable/--

Research Update: National, MBIA Inc. Downgraded; BAM, Assured, MBIA Corp. Affirmed; All Outlooks Stable

Assured Guaranty (Europe) Ltd.
Municipal Assurance Corp.
Assured Guaranty Re Overseas Ltd.
Assured Guaranty Re Ltd.
Assured Guaranty Municipal Corp.
Assured Guaranty Corp
Counterparty Credit Rating
Local Currency AA/Stable/--

Assured Guaranty (Europe) Ltd.
Municipal Assurance Corp.
Assured Guaranty Re Overseas Ltd.
Assured Guaranty Re Ltd.
Assured Guaranty Municipal Corp.
Assured Guaranty Corp
Assured Guaranty (UK) Ltd.
Financial Strength Rating
Local Currency AA/Stable/--
Financial Enhancement Rating
Local Currency AA/Stable/--

Assured Guaranty (UK) Ltd.
Counterparty Credit Rating AA/Stable/--

Assured Guaranty Municipal Holdings Inc.
Counterparty Credit Rating
Local Currency A/Stable/--

Assured Guaranty Municipal Holdings Inc.
Senior Unsecured A
Junior Subordinated BBB+

Assured Guaranty US Holdings Inc
Senior Unsecured A
Junior Subordinated BBB+

Sutton Capital Trust I
Sutton Capital Trust II
Sutton Capital Trust III
Sutton Capital Trust IV
Woodbourne Capital Trust I
Woodbourne Capital Trust II
Woodbourne Capital Trust III
Woodbourne Capital Trust IV
Preferred Stock A+

Ratings Affirmed; CreditWatch/Outlook Action
To From
Build America Mutual Assurance Company

Research Update: National, MBIA Inc. Downgraded; BAM, Assured, MBIA Corp. Affirmed; All Outlooks Stable

Counterparty Credit Rating		
Local Currency	AA/Stable/--	AA/Watch Neg/--
Financial Enhancement Rating		
Local Currency	AA/Stable/--	AA/Watch Neg/--
Financial Strength Rating		
Local Currency	AA/Stable/--	AA/Watch Neg/--
Downgraded; CreditWatch/Outlook Action		
	To	From
MBIA Inc.		
Counterparty Credit Rating	BBB/Stable/--	A-/Watch Neg/--
National Public Finance Guarantee Corp.		
Municipal Bond Insurance Assn.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	AA-/Watch Neg/--
Financial Strength Rating		
Local Currency	A/Stable/--	AA-/Watch Neg/--
National Public Finance Guarantee Corp.		
Financial Enhancement Rating		
Local Currency	A/Stable/--	AA-/Watch Neg/--
MBIA Inc.		
Senior Unsecured	BBB	A-/Watch Neg
Not Rated Action		
	To	From
MBIA Insurance Corp.		
Subordinated	NR	D
Preferred Stock	NR	D
Ratings Affirmed		
MBIA Global Funding LLC		
Senior Secured	CCC	
Senior Unsecured	CCC	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
MBIA Insurance Corp.		
Counterparty Credit Rating		
Local Currency	CCC/Stable/--	CCC/Negative/--
Financial Enhancement Rating		
Local Currency	CCC/Stable/--	CCC/Negative/--
Financial Strength Rating		
Local Currency	CCC/Stable/--	CCC/Negative/--

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