January 26, 2017

TO: LOCSD Board of Directors

FROM: Renee Osborne, General Manager

SUBJECT: **Agenda Item 9D – 2/1/2018 Board Meeting**
General Manager Report for January 2018

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General

- We have received the first installment of funds from the Community Foundation in the amount of $10,000. A second installment of $30,000 will be forwarded by February 12th. As of this report, two of the six sewer laterals were completed and approved by the County. Both locations had their septic tanks cleaned and sealed. Payments will be forwarded to the contractors.

- I am currently working with the Chamber of Commerce on sponsorships for the Water Conservation Award Program. The sponsorship form is posted on the District website. At this time, I have gathered $900 in sponsorship funds.

- The California Infrastructure and Economic Development Bank (IBank) certificate was completed and payment sent to fulfill our first payment for 2018.

Bookkeeping/Auditor

- Staff has been working on budget adjustments and updating accounting procedures.

- The Bookkeeper and I have been working on fund balances for Bayridge, Vista, Wastewater and Drainage. Information was submitted to FAC for review per Board direction.

- Staff has been working with the Auditor to address questions from the Board regarding the Audit presented at their January meeting; edits have been made to pages 34 and 42. The Audit, as required by the District, has been distributed to the State and County Controllers, MBIA, IBank, US Bank, and NBS.

- Training has been scheduled with MIP for the Bookkeeper and myself to input the Mid-Year Budget. The January Revenue and Expenditures Statement will reflect the approved Mid-Year Adjustments.

NBS Report

On January 17, 2018, Moody's Investors Service adjusted their rating on MBIA (Ba3 from Ba1), the insurer of the District's Wastewater Assessment District No. 1 Bonds. As directed by Section 5 of the Continuing Disclosure Agreement for the Bonds, NBS is required to disclose a notice on the EMMA website following this event and is attached.

Attachment

32605 Temecula Parkway, Suite 100
Temecula, CA 92592
Toll free: 800.676.7516
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www.nbsgov.com

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.

MATURITY	CUSIP
2017	54559PAK2
2023	54559PAL0
2033	54559PAM8

Material Event: Rating Change

Material Event Notice:
On January 17, 2018, Moody's Investors Service performed a rating change detailed in the attached report.

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

Moody's
INVESTORS SERVICE

Rating Action: Moody's downgrades MBIA Inc. and National Public Finance Guarantee Corp. (IFS to Baa2); MBIA Insurance Corp. affirmed at Caa1

Global Credit Research - 17 Jan 2018

New York, January 17, 2018 -- Moody's Investors Service, ("Moody's") has downgraded the senior debt rating of MBIA Inc. (MBIA) to Ba3 from Ba1 and the insurance financial strength (IFS) rating of its principal operating subsidiary, National Public Finance Guarantee Corporation (National), to Baa2 from A3. The outlook for the ratings is stable.

Moody's also affirmed the Caa1 IFS rating of MBIA Insurance Corporation (MBIA Corp.) with a developing outlook.

Moody's will comment on the rating and outlook of MBIA Mexico S.A. de C.V. (MBIA Mexico) in a separate press release.

These rating actions also have implications for the various transactions wrapped by National as discussed later in this press release.

http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_198329

RATINGS RATIONALE

The downgrades of National and MBIA reflect several developments, including: 1) the placement of National into run-off; 2) an increased probability of more severe losses resulting from National's Puerto Rico exposures due to the protracted economic and revenue disruptions in Puerto Rico caused by Hurricane Maria; 3) higher asset risk at National following the company's large recent purchases of MBIA debt and equity securities; and 4) the weakened alignment of interests between the firm's shareholders and its policyholders and creditors.

RATINGS RATIONALE -- NATIONAL PUBLIC FINANCE GUARANTEE CORP.

National's Baa2 IFS rating and stable outlook reflects the insurer's substantial capital resources, the meaningful delinking from its weaker affiliates and the steady amortization of its insured portfolio. Offsetting these strengths is National's substantial exposure to below investment grade credits, which represented approximately 7.4% of its insured book and 190% of qualified statutory capital at 3Q2017, as well as the firm's transition toward a more aggressive investment posture, which has included a substantial investment allocation to debt and equity securities issued by its parent, MBIA. Pro forma for purchases made subsequent to the end of the third quarter, we estimate that National holds MBIA securities with a market value of approximately $525 million, which amounts to approximately 13% of National's total cash and invested assets.

At 3Q2017, National had approximately $3.9 billion of gross par exposure to the debt securities of Puerto Rico issuers (including accreted interest on capital appreciation bonds). While the situation in Puerto Rico remains fluid, the protracted economic and revenue disruptions caused by Hurricane Maria, which struck Puerto Rico on September 20, 2017, are likely to result in lower debt servicing capacity, and thus higher loss severity on debt insured by National in the debt restructuring process.

Additionally, Moody's believes that the placement of National into run-off significantly weakens the alignment of interests between shareholders and policyholders. The purchase of holding company securities by an operating company is unusual and signals the likelihood of further shareholder-friendly actions in the future that may adversely affect the interests of policyholders and creditors.

RATINGS RATIONALE -- MBIA INC.

The Ba3 senior unsecured debt rating and stable outlook of MBIA Inc. reflects the credit profiles of its subsidiaries and its adequate liquidity profile stemming from the firm's significant level of cash and invested assets held at the holding company level, estimated to be approximately $540 million following certain capital management actions taken subsequent to the end of 3Q2017. While we expect ordinary dividend payments from National to continue for at least the next several years, the ability of MBIA Inc. to receive funds from the tax escrow account are likely to be reduced or eliminated over the next few years due to losses arising from National's Puerto Rico exposures. The firm's high debt burden and meaningful asset risks, a large share of which support its wind-down operations, remain a distinct weakness. The notching between MBIA Inc.'s senior debt rating and the IFS rating of its lead insurance subsidiary, National, is four notches, reflecting the group's high financial leverage, lower projected cash flows from the tax escrow account and the significantly weaker credit profile of MBIA Corp.

RATINGS RATIONALE -- MBIA INSURANCE CORPORATION

MBIA Corp.'s Caa1 IFS rating and developing outlook reflects the firm's weak capital adequacy position and the volatility associated with the outcomes of several ongoing loss recovery efforts, which could put either upward or downward pressure on its IFS rating. MBIA Corp.'s liquidity position remains very weak, with liquid assets of less than $100 million at 3Q2017.

MBIA Corp.'s longer-term viability rests on the ability of the company to recover the substantial majority of the firm's $1.5 billion of booked salvage recoverables, primarily relating to excess spread recoveries on second-lien RMBS securities, a mortgage loan put-back settlement related to alleged breaches of representations and warranties by Credit Suisse on a legacy insured RMBS transaction and recoveries from sales of collateral backing the defaulted Zohar I and Zohar II collateralized loan obligation transactions.

The inability of MBIA Corp. to realize substantial recoveries from these efforts would likely result in regulatory intervention, which could result in a claims payment freeze, partial claims payments, or rehabilitation proceedings.

Moody's added that the ratings of MBIA Corp.'s preferred stock (C (hyb)) and surplus notes (Ca (hyb)) reflect their high expected loss content given the company's weak capital profile and the deeply subordinated nature of these securities.

According to Moody's, credit deterioration at MBIA Corp. has only a limited impact on the broader MBIA group given the substantial delinking following the removal of the cross-default provision with MBIA Inc.'s debt in 2012, and MBIA Corp.'s repayment of a loan from affiliate National.

RATING DRIVERS

National Public Finance Guarantee Corporation

Given National's run-off status and financial profile, there is unlikely to be positive rating pressure over the near to medium term. Conversely, the following factors could result in a downgrade of National's rating: 1) developments in Puerto Rico result in losses that reduce the firm's qualified statutory capital by more than 40% over a twelve month period; 2) capital extraction in excess of the firm's ordinary dividend capacity without a commensurate reduction of insured risk; and 3) provision of material capital support to MBIA Corp.

MBIA Inc.

The following factors could lead to an upgrade of MBIA's senior debt rating: 1) an upgrade of National; and/or 2) a significant reduction in adjusted financial leverage. Conversely, the following factors could result in a downgrade: 1) a downgrade of National; and/or 2) constrained liquidity at the holding company with visible projected cash inflows and existing liquid assets covering less than two years of debt service.

MBIA Insurance Corporation

The following factors could result in an upgrade of MBIA Corp.'s rating: 1) improved capital adequacy and liquidity profile; 2) a reduction in exposure to large single risks; and 3) favorable settlement of outstanding RMBS put-back claims and substantial recoveries from Zohar collateral sales. Conversely, the following factors could result in a downgrade: 1) unfavorable settlement of outstanding RMBS put-back claims; 2) failure to secure substantial recoveries on Zohar collateral; 3) portfolio losses meaningfully in excess of current expectations; 4) a meaningful reduction in expected excess-spread recoveries on second-lien RMBS; and 5) further deterioration in the company's liquidity profile.

RATING LIST

The following ratings have been downgraded:

MBIA Inc. -- Senior unsecured debt to Ba3 from Ba1;

National Public Finance Guarantee Corporation -- insurance financial strength to Baa2 from A3.

The following ratings have been affirmed:

MBIA Insurance Corporation -- insurance financial strength at Caa1, surplus notes at Ca(hyb) and preferred stock at C(hyb).

Outlook Actions:

MBIA Inc. -- outlook to stable, from negative

National Public Finance Guarantee Corporation -- outlook to stable, from negative

MBIA Insurance Corporation -- outlook remains developing

TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's methodology "Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts" (May 2017).

MBIA Insurance Corporation and National Public Finance Guarantee Corporation are financial guaranty insurance companies domiciled in New York State and are wholly owned subsidiaries of MBIA Inc. [NYSE: MBI]. As of September 30, 2017, MBIA Inc. had consolidated gross par outstanding of approximately $99 billion and total claims paying resources at its operating subsidiaries of approximately of $6.0 billion.

The principal methodology used in these ratings was Financial Guarantors published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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