



January 26, 2017

**TO:** LOCSO Board of Directors  
**FROM:** Renee Osborne, General Manager  
**SUBJECT:** **Agenda Item 9D – 2/1/2018 Board Meeting**  
General Manager Report for January 2018

A handwritten signature in black ink, appearing to be "RO", located to the right of the "FROM:" line.

**President**  
Vicki L. Milledge

**Vice President**  
Marshall E. Ochylski

**Directors**  
Charles L. Cesena  
Jon-Erik G. Storm  
Louis G. Tornatzky

**General Manager**  
Renee Osborne

**District Accountant**  
Robert Stilts, CPA

**Unit Chief**  
Scott M. Jalbert

**Battalion Chief**  
Greg Alex

**Mailing Address:**  
P.O. Box 6064  
Los Osos, CA 93412

**Offices:**  
2122 9<sup>th</sup> Street, Suite 102  
Los Osos, CA 93402

**Phone:** 805/528-9370  
**FAX:** 805/528-9377

[www.losososcso.org](http://www.losososcso.org)

### 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 12<sup>th</sup>. 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  
Fax: 951.296.1998  
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.**

<u>MATURITY</u>	<u>CUSIP</u>
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.moody's.com/viewresearchdoc.aspx?docid=PBC\\_198329](http://www.moody's.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.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for additional regulatory disclosures for each credit rating.

James Eck

VP - Senior Credit Officer  
Financial Institutions Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Marc R. Pinto, CFA  
MD - Financial Institutions  
Financial Institutions Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

## MOODY'S INVESTORS SERVICE

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE

REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should

contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.