

**Ambac**

California School District Achieves Savings with Synthetic Fixed Rate Bonds

Ambac Guarantees Bonds and Swap for an Innovative Special Tax Financing

\$91,125,000

San Dieguito Public Facilities Authority

Special Tax Revenue Bonds

The school districts of greater San Diego are growing so fast that one of their biggest challenges is keeping up with facility needs. One large district in the affluent northern area of San Diego County, San Dieguito Union High School District, issued Mello Roos bonds in 1998 and 2004 to fund construction of new schools. San Dieguito schools have delivered impressive student performance and are widely recognized as among the top schools in the state. This strong reputation and track record has continued to fuel facility needs.

In 2006, the district once again needed to find ways to raise new money. Its primary goal for this bond issue was to maximize bond proceeds. To accomplish this, the district decided to structure its bond issue with a variable interest rate that, in combination with an interest rate swap, would be converted to a synthetic fixed rate, a rare approach to Mello Roos or Special Tax bonds. San Dieguito sought to enlist a top-rated financial guarantor on the transaction to strengthen the deal and reassure potential investors. The 1998 and 2004 Bonds would be refunded and overall debt service lowered, creating additional debt capacity within the limited revenue stream.

Ambac, which had insured the 1998 and 2004 issues slated for refunding, was selected to guarantee the bonds. Although debt service coverage on the new bonds is low, Ambac became comfortable with the deal, in part because of the strong growth potential in the school district, quality academics and management, and the demand for housing in the area. The bonds are secured by special taxes from nine Community Facilities Districts (CFDs). Another unique feature of the transaction is that each CFD is obligated to cover any shortfall in debt service if another is unable to fully contribute its portion.

To mitigate basis risk on the swap, Ambac worked closely with the district's financing team, executing rigorous statistical analyses to establish adequate fund levels for a special basis risk reserve fund. Importantly, Ambac also agreed to insure the swap and provide swap termination insurance. In July 2006, San Dieguito successfully sold \$91.125 million of Revenue Refunding Bonds achieving significant debt service savings and enabling access to previously escrowed project funds.

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