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Orrick Opinion Helps SDUSD GOs to AAA.

Changes Rating Prospects for other California General Obligation Bonds

For the last several years, Orrick's General Obligation Bond Group has led an effort to improve the rating agencies' understanding of the special character of California local agency general obligation bonds. The purpose of the effort was to improve the ratings and reduce the borrowing costs associated with California General Obligation Bonds for all school and community college district, city, county, and other local governments that issue General Obligation Bonds. Today that effort has borne fruit.

In partnership with San Diego Unified School District, Orrick drafted and assisted in the enactment of Senate Bill 222, which established a statutory lien for the benefit of bondholders on the property taxes levied to pay general obligation bonds. SB 222 was signed into law on July 13, 2015. Several rating agencies reacted by saying that while SB 222 was positive, it was not likely sufficient to change the ratings on California General Obligation Bonds because, while the property taxes levied to pay California General Obligation Bonds would ultimately be required to be applied to pay the bonds, the application of the taxes to the payment of the bonds could be temporarily interrupted by the automatic stay in the event of an issuer bankruptcy.

In response to the ratings agencies, Orrick drafted and delivered an opinion to certain rating agencies addressing whether the property taxes levied to pay general obligation bonds would be considered "special revenues," and thereby not subject to the automatic stay.

Orrick and San Diego Unified School District presented the opinion and its bankruptcy analysis to several rating agencies. On November 4, 2015, Fitch assigned a "AAA" rating to $550 million of San Diego Unified School District 2016 General Obligation Bond (Dedicated Unlimited Ad Valorem Property Tax Bonds). Fitch's announcement refers to and concurs with the opinion it received that the property taxes levied to repay the bonds would be "special revenues" in the event of a district bankruptcy, and states that "as a result, the rating is based on special tax analysis without regard to the District's financial operations."

This signals what should become a sea change in the rating and sale of school district, community college district and other local agency general obligation bonds in California.

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