



February 19, 2009

To: Board of Directors – Los Osos Community Services District

From: Jon S. Seitz, Interim District Legal Counsel

Regarding: Agenda Item 4B – 2/19/09 Board Meeting
Appointment of U.S. Bank National Association as the
Successor Custodian for the Securities Related to the Reserve
Account for the 2002 Limited Obligation Improvement Bonds

Attachments: Letter Authorizing Appointment

President

Joe Sparks

Vice-President

Marshall Ochylski

Director

Chuck Cesena

Maria Kelly

Steve Senet

BACKGROUND

The bank of New York Mellon Trust Company, N.A. is the current Custodian for the reserve fund for the 2002 bond issue (approximately \$463,000). By contract, the Bank of New York Mellon receives its investment instruction from Lehman Financing (currently under bankruptcy). The Reserve Fund Securities will mature on March 2, 2009. As part of the bankruptcy proceedings, Jay Michelson retained the services of attorney William Opdyke to review the District's 2002 bond reserves. District Legal Counsel, Joe Sholder (District Bankruptcy Counsel) and attorney Opdyke have been discussing the District's options related to the \$463,000 once the monies have matured.

Staff and the above-referenced attorneys believe the option of transferring the Reserve Fund to U.S. Nation Bank Association as custodian makes a great deal of sense because U.S. Bank National Association is the current custodian for distributing the assessment payments to the bond holders. The two accounts would be held with a single banking institution. Additionally, Lehman Financing would be eliminated from the equation. Attorney Opdyke has made contact with MBIA, the insurer of the reserve bonds, U.S. Bank National Association and the Bank of New York Mellon Trust Company, N.A. to ensure an easy transfer.

Mr. Opdyke believes that, absent extraordinary occurrences, he can provide legal services to facilitate the transfer for \$2,500.

RECOMMENDATION

Staff recommends that the Board, by motion, provide instructions to the District's Interim General Manager to sign the attached letter authorizing the appointment of U.S. Bank National Association as the new custodian and approve payment up to \$2,500 to attorney Opdyke to facilitate the transfer.

General Manager

Utilities Manager

George J. Milanés

Fire Chief

Matt Jenkins



Offices At:

2122 9th Street

Los Osos, California 93402

Mailing Address:

P.O. Box 6064

Los Osos, California 93412

Phone 805/528-9370

Fax 805/528-9377

www.losososcscsd.org



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President

Joe Sparks

Vice-President

Marshall Ochyalski

Director

Chuck Cesena
Maria Kelly
Steve Senet

Jacqueline M. Nowak, Vice President
The Bank of New York Mellon
Trust Company, N.A.
700 South Flower Street, Suite 500
Los Angeles, CA 90017

Stephen Rivero, Vice President
U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, CA 91108

Re: Los Osos Community Services District Wastewater Assessment
District No. 1 Limited Obligation Improvement Bonds

General Manager

Dear Jacki and Steve,

Utilities Manager

George J. Milanés

Please accept this letter as notice that we have appointed U.S. Bank National Association as the successor Custodian for the securities to be purchased under the Reserve Agreement dated as of April 22, 2003, and the Amended and Restated Reserve Fund Agreement dated as of September 22, 2004, each by and between Los Osos Community Services District and Lehman Brothers Special Financing Inc.

Fire Chief

Matt Jenkins

Please transfer the securities held or payment proceeds thereof to U.S. Bank National Association by March 2, 2009, per instructions to be provided by U.S. Bank National Association.



Sincerely,

Francis M. Cooney, Interim General Manager
Los Osos Community Services District

Acceptance of Appointment as Reserve Fund Custodian
U.S. BANK NATIONAL ASSOCIATION

Offices At:
2122 9th Street
Los Osos, California 93402

Stephen Rivero, Vice President _____
Date

Mailing Address:
P.O. Box 6064
Los Osos, California 93412
Phone 805/528-9370
Fax 805/528-9377
www.losososcsd.org

Acknowledged and Agreed:
The Bank of New York Mellon Trust Company, N.A.

Jacqueline M. Nowak, Vice President _____
Date