August 26, 2014

AN OPEN LETTER TO THE SWEETWATER COMMUNITY

Re: Sweetwater Union High School District Asset Utilization Plan/Independent Review

In the nearly 100 years since the establishment of the Sweetwater Union High School District, we’ve gone from a small organization of one school and a few hundred students to over 30 campuses with almost 41,000 students in grades 7-12 and over 22,000 adult learners.

As an organization that serves the community and the entire population of South County, it has been our continuing effort to grow with the community and accommodate all students. This process has included the purchase of land and properties to meet the needs of students. Over the years, this has resulted in the Sweetwater District holding properties throughout Chula Vista that includes our current district office on Fifth Avenue, district department offices on Moss Street and L Street and a property that was never developed on Third Avenue in Chula Vista.

At the direction of the Board of Trustees, a recent open and closed session meeting was held on August 14, 2014 regarding our overall plan for the Sweetwater District’s properties both now and in the future. This process, known as the Asset Utilization Plan (“A/U Plan”) has been developed to move forward as a district and ensure that we maximize the best use of properties currently held and those that may be acquired in the future. As a result of this initial in-depth discussion, the Board of Trustees authorized staff to issue a Request for Proposal for an independent third party to conduct a review of the District’s A/U Plan and entitlement process. This review and report about the A/U Plan will be shared publicly at a future Board meeting.

On behalf of the Sweetwater District, it is our goal to share with you an overview and historical timeline of the applicable public information received for review and discussion at these meetings. We hope that this information is helpful to understanding the complexities of the L Street Project, a major component of the A/U Plan. While this letter has a lot of information, I hope it will provide clear, understandable information about the Sweetwater Union High School District properties.

Initial Plan for a Single District Office – 2005

In February of 2005, on the advice of former consultants and several former legal advisors, the District sought to acquire 23 acres of property located at 642-652 Arizona Street and 650-690 L Street in Chula Vista, California (L Street Property) utilizing a lease financing structure. The purpose of the L Street Project was to acquire property that would provide a District Office, Adult Education Facilities and a Corporate Yard, incorporating all such District facilities at one location. It was the initial plan that any unused portions of the L Street Property along with the Moss Street property, the Third Avenue Property and the Fifth Avenue property described in an “Exchange Agreement,” also executed at that time, would be developed and sold to the applicable developer to generate funds to pay off the “L Street Lease.”

Initial Financing Plan for a Single District Office - 2005

The agreements to purchase and lease/finance of the L Street Property were complex. The District entered into the L Street Lease with the intent and obligation to eventually acquire ownership. The
District did not have the initial funds to purchase the L Street property. Therefore, the District entered into a set of agreements to lease and ultimately acquire the L Street Property on the basis of the provisions of the L Street Lease.

The initial source of funds to purchase the L Street property came from tax-exempt and taxable financing proceeds of “Bonds” issued by the California Statewide Communities Development Authority (“CSCD/Authority”). The funds from the bond sales were loaned by the CSCD/Authority to Plan Nine Partners (“PNP”), a non-profit corporation, to acquire the L Street Property. PNP then leased the L Street Property to the Sweetwater District. The plan in 2005 was that the tax-exempt and taxable financing obligations of the CSCD Authority would be retired within a few short years with Exchange Property sale proceeds and, if necessary, other District funds.

**Property Exchange Plan to Support the L Street Purchase**

As a part of the initial plan, the district properties held in Chula Vista at Moss Street, Third Avenue and Fifth Avenue would be used as an exchange for the ultimate purchase of the one large property on L Street. The Exchange Properties listed above were assigned as collateral for the financial obligations of the District under the L Street Lease looking toward retirement of the amount borrowed by PNP from the CSCD/Authority. Simply stated, the Exchange Agreement provides that proceeds from District owned property at Moss Street, Third Avenue, and Fifth Avenue (when properly entitled and eventually sold), must be used for prepayment of annual L Street rent to PNP and by PNP to the CSCD/Authority to retire the Bonds issued relating to the purchase of the L Street Property.

Thus, the Third Avenue, Moss Street, and Fifth Avenue properties, while currently owned by the Sweetwater District, are controlled and governed by the Exchange Agreement relating to the L Street Project. The District has been advised it does not have the legal right to transfer the Exchange Properties and otherwise use the proceeds until the obligations to PNP and the CSCD/Authority are retired. If there are funds remaining after the retirement of the Bonds, such remaining amount, if any, may be used by the District, consistent with applicable law.

**The Exchange Plan Payment Process**

The “Annual Rent” amounts paid to PNP by the District are tied to the applicable loan payments to be paid by PNP to the CSCD/Authority. The District’s L Street Lease Annual Rent paid to PNP are applied to the loan to PNP from the CSCD/Authority to pay the interest on the Bonds issued by the CSCD/Authority.

**The Goal for Buying L Street in 2005**

The plan in 2005 was created based on economic assumptions and recommendations relevant to the time. Unfortunately, assumptions made by the former consultant and legal teams did not occur. These assumptions led to actions taken by the District and challenges that the District currently faces.

**Challenge #1**

In 2005, the consultants to the District believed the Exchange Properties could be sold with appreciation over a short time period. However, shortly after entering into the agreement on the L Street Project, the local and national real estate market suffered a substantial downturn resulting in significant depreciation in value of virtually all property in our state and county, including the L Street Property and Exchange Properties.

Presently, $33.65 million is owed on the L Street Property. One estimate of the present value of the L Street Property, on the basis of current zoning without entitlements, is approximately $17.7 million. There are projections that if the L Street Property is reasonably entitled to its highest and best use, the L Street Property valuation could be $40 million. Opinions have been expressed that this estimate is speculative. In order to gather the most accurate information, the Board of Trustees is seeking independent, third party appraisals of the value of the Exchange Properties. Unfortunately, as of today, as all agree, the real estate assets involved have only depreciated in value since 2005.
Challenge #2
In 2005, the District was advised by its consultants and believed it would have access to funds from the City of Chula Vista Redevelopment Agency. Such an understanding never materialized and in 2012, the Legislature of California enacted statutes to dissolve redevelopment agencies. Again, unfortunately, the assumed redevelopment funds anticipated in 2005 for the L Street Project by the District never materialized.

Next steps: Sweetwater’s Goal for Gaining Title to the L Street Property
Currently in discussions with PNP and the CSCD/Authority, the District has proposed termination of the relationship with PNP. With the consent of PNP and the consent of all other parties, including the CSCD/Authority, the District proposes to substitute its own non-profit corporation, Sweetwater Financing Corporation, for PNP. This is subject to obtaining tax-exemption status for the Sweetwater Financing Corporation from the Internal Revenue Service. A positive note is that exemption from State of California income taxation status has been obtained for the Sweetwater Financing Corporation. The district looks forward to receiving the tax-exempt status for the Sweetwater Financing Corporation in the next few months.

Next steps: Moving Forward
The Board of Trustees was advised that the Bonds issued by the CSCD/Authority are presently variable rate bonds secured by a “Letter of Credit” issued by Union Bank. This Letter of Credit from Union Bank expires February 1, 2015, and the District is in the process of obtaining an extension of this Letter of Credit from Union Bank to maintain the current rent on the L Street Lease, which is tied to the applicable interest rate on the Bonds.

Moving forward, the current Board of Trustees was advised of the importance of not taking any actions that would be inconsistent with the tax-exempt status of the applicable portion of the Bonds as described earlier. The Board was also advised to pursue the extension of the Letter of Credit from Union Bank and to pursue substituting the Sweetwater Financing Corporation for PNP as soon as the tax exemption is obtained from the IRS. These actions would also be subject to agreement of all involved parties.

The Board of Trustees and I, along with our present consultants and present legal counsel firms, are evaluating the best way to move forward consistent with the obligations of the L Street Lease and Exchange Agreement in a manner not affecting the tax-exempt status of the applicable portion of the Bonds issued by the CSCD/Authority.

Despite the challenges that we face, the Sweetwater District is working diligently to move forward and do what is in the best interest of the community and of the students. A critical component of this process is ensuring that the community has the opportunity to provide input and feedback to the process. Any comments and questions regarding this letter or its contents can be directed to gcomm@sweetwaterschools.org We thank you for your continued support and look forward to doing what is best for the entire community.

Sincerely,

Timothy Glover, Ed.D.
Interim Superintendent