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October 8, 2015

Lynne Esselstein
Board of Trustees
Hillsborough City School District
300 El Cerrito Avenue
Hillsborough, California 94010

Re: $22,680,011.75 Hillsborough City School District
(County of San Mateo, California)
General Obligation Bonds, Election of 2002, Series C

Dear Lynne:

You have asked us whether the issuance of the above-referenced bonds (the "Series C Bonds") complied with applicable legal requirements which were in effect as of the date on which the Series C Bonds were issued. This question is relevant because a substantial portion of the Series C Bonds were issued in the form of Capital Appreciation Bonds maturing on September 1 in each the years 2015 through 2045.

The issuance of Capital Appreciation Bonds by school districts has recently been the subject of intense scrutiny and criticism, since by their nature Capital Appreciation Bonds entail the accrual of a substantial amount of interest which must repaid from property tax collections. In the case of the Series C Bonds, $19.6 million was issued in the form of Capital Appreciation Bonds having a maturity value of $149.3 million, which means that nearly $120 million of interest will accrue on these Bonds through their final maturity in 2045.

It should be noted that the Series C Bonds which were issued as Capital Appreciation Bonds are subject to redemption on September 1, 2021, or on any date thereafter. At the time the Series C Bonds were issued, the industry standard was for Capital Appreciation Bonds to be non-callable. Having a 10-year redemption provision is extremely valuable to the District, and allows it to restructure the debt in just six years. Any such restructuring could significantly reduce the amount of interest that accrues on the debt.

Capital Appreciation Bonds have been issued by scores of school districts throughout California in order to comply with limitations which have been imposed by the California Legislature on the tax rate that must be levied to repay the bonds. In the case of the Hillsborough City School District, the applicable law (Section 15268 of the Education Code) requires that when bonds are issued, the District must ensure that the tax rate needed to repay the bonds, and all other bonds which are issued under the original voter authorization, is not expected to exceed $30 per $100,000 of assessed valuation based on projected growth rates in assessed valuation as permitted by Article XIIIA of the California Constitution.

This legal restriction became problematic after the recession of 2008-09, when assessed valuation growth slowed or turned negative in many districts throughout the State. In order to maintain their project construction schedule, as authorized by the voters, many districts found that in order to meet the tax rate limitation it was necessary to issue Capital Appreciation Bonds to defer interest payments into later years, thereby matching debt service payments to the expected growth of assessed valuation.

Because of widespread objections to the over-use of Capital Appreciation Bonds by school districts, the California Legislature enacted AB182 in 2013, which became effective on January 1, 2014. Under AB182, a school district is permitted to issue Capital Appreciation Bonds subject to various legal limitations. This law was not retroactive, and it clearly does not apply in the case of the Series C Bonds which were issued almost two years prior to the effective date of AB182.

In our opinion, the issuance of the Series C Bonds complied with all applicable requirements of California law which were in effect when the Series C Bonds were issued. In order to certify compliance with the $30 tax rate limitation which is discussed above, the Series C Bonds were structured on the basis that assessed valuation growth would be 1.55% in fiscal year 2011/12, 3.00% in fiscal year 2012/13, 5.00% in fiscal year 2013/14 and 6.50% in each fiscal year thereafter. In fact, the District experienced growth through 2013/14 which was greater than the amount which was certified in connection with the issuance of the Series C Bonds. During the 30-year period prior to the issuance of the Series C Bonds, the assessed valuation of properties in Hillsborough grew at a rate over 7.70% per year. Based on this historical growth rate, the long-term assumed growth rate of 6.50% certainly appears reasonable. For these reasons, in our opinion the $30 tax rate limitation required under the Education Code was complied with in connection with the Series C Bonds.

As discussed above, the restrictions of AB182 were not adopted by the State Legislature, and indeed were not even the subject of any pending legislation, when the Series C Bonds were issued in January of 2011. For that reason, it is not appropriate to apply the legal restrictions contained in AB182 retroactively to the issuance of the Series C Bonds.

We would like to emphasize that the Series C Bonds must be viewed in the context of the entire bond program which was approved by the voters in 2002. Looking at the Series A Bonds, the Series B Bonds and the Series C Bonds as a whole shows that they were issued pursuant to a common financing plan. Debt service on the combined three issues is calculated to increase approximately 6.50% in every year between 2015 and 2045. This rate of increase is designed to track the expected growth of assessed valuation of properties within the District over that period. It would be misleading to analyze the Series C Bonds on an isolated basis, without taking into account the overall financing plan that was implemented by the District pursuant to all three of the outstanding bonds issues.

Please let me know if you have any additional questions or if we can provide any additional assurances with regard to the issuance of the Series C Bonds.

Very truly yours

C F Adams

Charles F. Adams

cc: Anthony Ranii, Superintendent