



**MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER**

TO: Honorable Board of Supervisors

FROM: Thomas M. Miller, County Executive Officer
By: Jeff Bell, County Budget Administrator

DATE: October 20, 2009

SUBJECT: Proposition 1A Securitization

ACTION REQUESTED

It is requested that the Board:

1. Adopt a resolution approving and authorizing the execution and delivery of a purchase and sale agreement and related documents with respect to the sale of Placer County's Proposition 1A receivable from the state; and directing and authorizing the required actions in connection with that sale (Attachments A and B) and;
2. Adopt a resolution approving and authorizing the execution and delivery of a purchase and sale agreement and related documents with respect to the sale of Placer County Service Area 28 (All Zones of Benefit) Property Tax receivable from the state; and directing and authorizing the required actions in connection with that sale (Attachments C and D)

BACKGROUND

Proposition 1A Suspension: Proposition 1A was passed by California voters in 2004 to ensure local property tax and sales tax revenues remain with local government thereby safeguarding funding for public safety, health, libraries, parks, and other local services. Provisions can only be suspended if the Governor declares a fiscal necessity and two-thirds of both houses of the Legislature concur.

The emergency suspension of Proposition 1A was passed by the Legislature and signed by the Governor as ABX4 14 and ABX4 15 as part of the 2009-10 State Budget Act on July 28, 2009. Under the provision, the State will borrow 8% of the amount of property tax revenue apportioned to cities, counties and special districts. The state will be required to repay those obligations plus interest by June 30, 2013. Per the letter sent by the State Director of Finance dated September 25, 2009, the interest rate established for property tax revenues borrowed from cities, counties, and special districts is 2%.

PROPOSITION 1A SECURITIZATION PROGRAM:

Authorized under ABX4 14 and ABX4 15, the Proposition 1A Securitization Program was instituted by California Communities to enable Local Agencies to sell their respective Proposition 1A Receivables to California Communities. Under the Securitization Program, California Communities will simultaneously purchase the Proposition 1A Receivables, issue bonds ("Prop 1A Bonds") and provide each local agency with the cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010 (to coincide with the dates that the State will be shifting property tax from local agencies). The purchase price paid to the local agencies will equal 100% of the amount of the property tax reduction. All transaction costs of issuance and interest will be paid by the State of California, and local agencies will have no obligation on the bonds and no credit exposure to the State.

If Placer County sells its Proposition 1A Receivable under the Proposition 1A Securitization Program, California Communities (the joint powers authority sponsoring the securitization program) will pledge the County's Proposition 1A Receivable to secure the repayment of a corresponding amount of the Prop 1A Bonds. The County's sale of its Proposition 1A Receivable will be irrevocable. Bondholders will have no recourse to the County if the State does not make the Proposition 1A Repayment. The County has no obligation with respect to the payment of the bonds, nor any reporting, disclosure or other compliance obligations associated with the bonds.

Proceeds of the Sale of the County's Proposition 1A Receivable:

Upon delivery of the Proposition 1A Bonds, California Communities will make available to the county its fixed purchase price, which will equal 100% of the local agency's Proposition 1A Receivable. These funds may be used for any lawful purpose of the county and are not restricted by the program.

If the decision were made to securitize the receivable owed to Placer County as a result of the Proposition 1A suspension, it would result in a restoration of funds that are essentially "one-time" in nature to an already balanced FY 2009-10 County Budget. As such, and pursuant to existing Board Budget and Financial Policy, it is not recommended that these revenues be targeted for ongoing programs.

As of August, an \$18 million General Fund deficit had been projected for the coming FY 2010-11 Budget. This estimate included the restoration of Proposition 1A property tax revenue taken by the state in 2009-10. Since then, state revenues are reportedly \$1 billion below estimates for the current year. Additionally, based upon current indicators, there will be reductions in property tax revenue beyond what was anticipated in August, resulting in significant additional revenue reductions in the coming fiscal year.

Thus, given their one-time nature, the need in recent times to draw upon the County General Fund Reserves, current economic indicators, and the strong likelihood of additional state cutbacks in FY2010-11, should securitization be approved, it is recommended these funds be set aside for high priority capital infrastructure projects or be placed in reserve for the coming fiscal year.

Proposed Proposition 1A Receivables Sale Resolution:

This staff report includes two very similar resolutions and sale agreements; one for the General Fund, Fire Fund, and the Library Fund, (Placer County, California, Purchase and Sale Agreement) and the other for Placer County, County Service Area 28. Each contains Purchase and Sale Agreement Items and Exhibits, described in the following sections:

The proposed Proposition 1A Receivables Sale Resolution:

- (1) Authorizes the sale of the County's Proposition 1A Receivable to California Communities for 100% of its receivable;
- (2) Approves the form, and directs the execution and delivery of the Purchase and Sale Agreement with California Communities and related documents;
- (3) Authorizes and directs any Authorized Officer to send, or to cause to be sent, an irrevocable written instruction required by statute to the State Controller notifying the State of the sale of the Proposition 1A Receivable and instructing the disbursement of the Proposition 1A Receivable to the Proposition 1A Bond Trustee;
- (4) Appoints certain County officers and officials as Authorized Officers for purposes of signing documents; and
- (5) Authorizes miscellaneous related actions and makes certain ratifications, findings and determinations required by law.

Proposed Purchase and Sale Agreement

Proposed Purchase and Sale Agreement Items:

- (1) Provides for the sale of the Proposition 1A Receivable to California Communities;
- (2) Contains representations and warranties of the county to assure California Communities that the Proposition 1A Receivable has not been previously sold, is not encumbered, that no litigation or other actions is pending or threatened to disrupt the transaction and the this is an arm's length "true sale" of the Proposition 1A Receivable.
- (3) Provides mechanics for payment of the Purchase Price.
- (4) Contains other miscellaneous provisions.

Proposed Purchase and Sale Agreement Exhibits:

- (BI) Opinion of Counsel: This is an opinion of the County Counsel covering basic approval of the documents, litigation, and enforceability of the document against the

Seller. It will be dated as of the Pricing date of the bonds (currently expected to be November 10, 2009).

- (B2) Bringdown Opinion: This simply "brings down" the opinions to the closing date (currently expected to be November 19, 2009).
- (C1) Certificate of the Clerk of the Local Agency: A certificate of the Clerk confirming that the resolution was duly adopted and is in full force and effect.
- (C2) Seller Certificate: A certification of the Seller dated as of the Pricing Date confirming that the representations and warranties of the Seller are true as of the Pricing Date, confirming authority to sign, confirming due approval of the resolution and providing payment instructions.
- (C3) Bill of Sale and Bringdown Certificate: Certificate that brings the certifications of C2 down to the Closing Date and confirms the sale of the Proposition 1A Receivable as of the Closing Date.
- (D) Irrevocable Instructions to the Controller: Required in order to let the State Controller know that the Proposition 1A Receivable has been sold and directing the State to make payment of the receivable to the Trustee on behalf of the Purchaser.
- (E) Escrow Instruction Letter: Instructs Transaction Counsel (Orrick) to hold all documents in escrow until closing, and if closing does not occur by December 31, 2009 for any reason, to destroy all documents.

FISCAL IMPACT

Due to the state Proposition 1A suspension, the FY 2009-10 Placer County Final Budget was short \$11.1 million in General Fund property tax revenue. Additionally, the Library Fund was short over \$321,000 and the Fire Fund nearly \$105,000 as a result of the Proposition 1A suspension. Finally, Zones of Benefit within County Service Area (CSA) 28 that receive property tax revenue were shorted just over \$220,000 due to the suspension. When combined, over \$11.7 million in property tax revenues were "borrowed" by the state. Securitization of this receivable would result in restoration of these funds to the county coffers in FY2009-10.

RECOMMENDED ACTION:

Adopt the proposed Proposition 1A Sale Resolutions and approve the associated Purchase and Sale Agreements.

ATTACHMENTS

- Attachment A: Resolution for Placer County
- Attachment B: Placer County Purchase and Sale Agreement
- Attachment C: Resolution for Placer County, CSA 28 (All Zones of Benefit)
- Attachment D: Placer County, CSA 28 (All Zones of Benefit) Purchase and Sale Agreement