



# The County of El Dorado

## Chief Administrative Office

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Gayle Erbe-Hamlin  
Chief Administrative Officer

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August 20, 2009

TO: Board of Supervisors  
FROM: Gayle Erbe-Hamlin, Chief Administrative Officer  
RE: Proposition 1A Suspension

A handwritten signature in blue ink, appearing to read "Gayle Erbe-Hamlin".

### Background:

On July 28, 2009 Governor Arnold Schwarzenegger signed the 2009-10 California State Budget. As part of the adopted budget Proposition 1A was suspended and the loan provisions were enacted. Counties, cities, and special districts are now required to lend 8% of the FY 2009-10 property tax revenue to the State for a period of 3 years.

The precise methodology on the formula for determining the property tax base for borrowing is currently under review by the Department of Finance and the State Controllers Office. The potential impact to the County General Fund could be as high as \$7.2 million depending on the base. The money is anticipated as a one time expense in FY 2009-10 with a receivable due in three years (June 30, 2013). However, the legislation does provide for a Proposition 1A Securitization Program to allow counties, cities and special districts to offset the revenue loss. Each jurisdiction decides independently whether or not to pursue securitization.

Outlined below are a number of options on how the County can cover the loss of these funds.

**Securitization Option:** California Communities Joint Powers Authority (California Communities) is a joint powers authority established in 1988 with the support of the California State Association of Counties and the League of California Cities. The organization has had many successes in the area of short term and long term financing. Since 1988 California Communities has established 1,219 financings plans and issued over \$41.9 billion of tax-exempt debt.

California Communities is currently developing a program to securitize the Proposition 1A receivable due counties, cities and special districts by the State of California (Exhibit B). The securitization program involves California Communities issuing bonds. The proceeds of the bonds will be distributed to the program participants. Then, the State will repay the bondholders with interest. Counties will also be reimbursed by the State for the finance cost of securitizing.

The counties, cities and special districts are not required to participate in the securitization program however the intent is for local agencies to receive 100% of their Proposition 1A receivables. If the county, city or special district does not wish to participate the State of

California, by June 30, 2013, will repay the Proposition 1A receivable plus interest at the current pooled money investment account rate but no higher than 6%. The opportunity cost of securitization is the current pooled money investment account rate which averaged a yield of 2.224 for FY 2008-09 (Exhibit C). Similar rates of return may be able to be achieved by the County Treasurer.

Exhibit D is a FAQ sheet put out on Proposition 1A by California Communities that addresses a range of issues relative to the loan securitization process.

**Other funding options:** Another option is to do internal borrowing from capital accounts such as the funds set aside for the construction of the animal shelter (\$6.2M), the Logan building funds (\$2M) or other designated capital reserves (\$2.2M). Additionally, the amount budgeted for reserves could be reduced in conjunction with capital funds to make up the loss.

**Implications and analysis:** The Proposition 1A Property Tax loan is a one time expense therefore it is not recommended for the shortfall to be absorbed entirely with operational reductions. The Board has directed that staff view the borrowing of Proposition 1A funds as permanent, not to be paid back. From a risk perspective, securitization could be the best option, particularly if the state covers all associated costs of securitizing, to limit the loss of the funds for the County. Using existing funds to cover the "loan", if the assumption is that we will not be paid back, means we assume the loss of any funds we use to back fill the permanent loss of our property tax. We expect to have better information to share with the Board at the Final Budget Hearings in September on how to deal with the loss of the Proposition 1A property tax revenue in the current budget particularly in regards to the securitization option. Given the lack of specific information we should keep all options open at this time. Communication from the Auditor's office (Exhibit E) states that we may not know the County's proposed loan amount until around October 15, 2009. This amount could change should any local jurisdictions be approved for an extreme hardship filing.

**Next Steps:** I recommend the Treasurer-Tax Collector, Auditor-Controller, County Counsel and my office continue to review the suspension of Proposition 1A and the viability of the securitization option for the County and report back to the Board on September 17, 2009 at the opening of the Final Budget Hearing.

## EXHIBIT B

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### SUMMARY AND RECOMMENDATIONS

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**PROGRAM:** PROPOSITION 1A SECURITIZATION PROGRAM

**PURPOSE:** DISCUSS AND APPROVE THE (1) SELECTION OF THE PROPOSITION 1A UNDERWRITING TEAM, (2) PROPOSED TIMELINE, AND (3) ISSUANCE OF REQUEST FOR PROPOSALS FOR TRUSTEE SERVICES.

**DATE:** AUGUST 19, 2009

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#### Background:

At the August 5, 2009 California Communities meeting the Commission instructed staff to issue request for proposals ("RFP") for underwriting services for the potential Proposition 1A Securitization Program. Staff sent the RFP to 22 underwriting firms and posted it on the California Communities website on August 5, 2009, with responses due by August 12, 2009. Staff received 17 responses and evaluated each response along with a representative from the State Treasurer's Office (STO).

In addition to issuing the RFP the Commission requested the establishment of a timeline to provide local agencies the opportunity to plan accordingly for their agendas.

#### Discussion:

##### **Underwriting Services:**

Based upon the qualifications of the RFP responses more fully described on Attachment 1, staff is recommending the following underwriting team for the potential Proposition 1A Securitization:

Senior Managers: (1) Goldman Sachs; (2) JP Morgan; (3) Morgan Stanley

Co-Managers: (1) De La Rosa; (2) Stone & Youngberg

Staff's recommendation is, in part, based on consultation with the STO who indicated support of such a recommendation for members of the underwriting team. However, as with the appointment of any finance team, this Commission reserves the right to either add or remove certain finance team members it deems necessary.

## EXHIBIT B

### **Timeline:**

The following is a proposed timeline for the Proposition 1A Securitization Program:

August 17, 2009	State Legislature reconvenes: determine next steps on amendments to AB15.
Week of August 24, 2009	Begin planning webinars and regional workshops to educate local agencies about the program and application process.
September, 2009	Distribution of draft local agency documents including staff reports, resolutions and any other required documents to be approved by local agencies.
September/October, 2009	Host informational webinars and regional workshops.
September 28, 2009	Department of Finance to establish interest rate to pay local agencies that do not choose to securitize.
November 6, 2009	Application for local agencies to participate in Proposition 1A.
Week of November 16, 2009	Closing of Proposition 1A Securitization

This timeline is subject to any changes made to AB15.

### **Trustee:**

In order to facilitate the distribution of funds to the local agencies a trustee must be chosen. Staff is requesting authorization to issue an RFP for trustee services immediately and provide a recommendation based on the responses to the Commission at the September 2, 2009 meeting.

### **Recommendations:**

It is recommended that this Commission:

1. Approve the appointment of the recommended underwriting team;
2. Approve the proposed timeline for the Proposition 1A Program;
3. Approve the immediate issuance of a request for proposal for Trustee services with a recommendation back to the Commission on September 2, 2009.

## EXHIBIT B

### Attachment 1

#### Evaluation Criteria:

Staff used the following criteria to determine the above-referenced recommendation:

- Pooled program experience
- California State financing experience
- Experience of taxable underwriting desk
- Experience and depth of California local bankers
- Marketing capabilities
- Availability of capital
- Structuring ideas
- Pricing

**Goldman Sachs:** Goldman Sachs jointly proposed with Greencoast Capital to provide a party that could directly interact with the local agencies. Goldman has experience with the most recent taxable debt issued by the State of California for its Build America Bonds, and brings a strong availability of capital to the program. Goldman's proposed partner, Greencoast Capital, has a wealth of experience and success in structuring pooled California local agency financings, including the California Communities TRAN pool.

**JP Morgan:** JP Morgan offers the most recent experience in completing a State of California taxable Build America Bond financing. In addition, JP has strong access to capital, innovative structuring proposals, and an experienced taxable desk.

**Morgan Stanley:** Morgan Stanley has extensive experience on pooled financings by working with the California Communities Pension Obligation Bond Program. In addition, the Morgan Stanley proposal demonstrated an experienced taxable desk, extensive experience in working with the State of California, and innovative structuring ideas for the potential Prop 1A financing.

**De La Rosa & Co.:** De La Rosa & Co. brings the experience in working on the successful California Communities VLF Securitization to the team. Moreover, De La Rosa provides excellent marketing capabilities within the local government sector and vast pooled program experience.

**Stone & Youngberg:** S&Y has demonstrated pool program experience through the California Communities ERAF financing pool. In addition, S&Y brings strong local government experience and a California presence with a good marketing team in place.

**Bill Lockyer, State Treasurer**  
**Inside the State Treasurer's Office**



## PMIA Average Annual Yields

Fiscal Year	Rates
71/72	4.880
72/73	5.550
73/74	8.970
74/75	8.620
75/76	6.370
76/77	5.870
77/78	6.700
78/79	8.520
79/80	10.540
80/81	10.780
81/82	12.070
82/83	10.450
83/84	10.408
84/85	10.715
85/86	9.081
86/87	7.435
87/88	7.874
88/89	8.669
89/90	8.655

Fiscal Year	Rates
90/91	8.013
91/92	6.196
92/93	4.707
93/94	4.387
94/95	5.532
95/96	5.706
96/97	5.599
97/98	5.699
98/99	5.344
99/00	5.708
00/01	6.104
01/02	3.445
02/03	2.152
03/04	1.532
04/05	2.256
05/06	3.873
06/07	5.121
07/08	4.325
08/09	2.224

## EXHIBIT D



### **PROPOSITION 1A SECURITIZATION FREQUENTLY ASKED QUESTIONS**

#### **What is Proposition 1A Securitization?**

On July 28, 2009, the California legislature and Governor Arnold Schwarzenegger passed the state budget and approved a provision allowing the state to borrow eight percent of the amount of property tax revenue apportioned to cities, counties and special districts. Under the provision, the state will be required to repay those obligations by June 30, 2013.

The provision also created an option for California local public agencies to relieve the burden of loaning the state property tax revenues. The provision, called Proposition 1A Securitization, authorizes the California Statewide Communities Development Authority (California Communities) to purchase the receivable due to local agencies from the State.

#### **How does Proposition 1A Securitization work?**

The legislation for the Proposition 1A Securitization authorizes cities, counties and special districts to sell their state repayment obligations to California Communities. In a simultaneous transaction, California Communities will issue bonds and remit the cash proceeds to the participating local public agencies. Bondholders will receive their repayment from the state at a later date. The legislation requires that local agencies participating in the securitization program will receive 100% of their respective Prop 1A receivables.

#### **How much does it cost a public agency to participate in Proposition 1A Securitization Program?**

There is no cost to participate in Proposition 1A Securitization Program. All interest costs and costs of the securitization will be paid by the state.

#### **When can my agency expect to receive payment?**

Depending upon cleanup legislation expected in the California legislature, California Communities is targeting completion of the securitization transaction for November or early December, 2009, which would result in payment to participating local public agencies prior to transfer of the first installment of property taxes. Should the legislature not pass the anticipated legislative amendments, however, California Communities' next opportunity to securitize will likely be March, 2010.

## EXHIBIT D

### **Is participation in Proposition 1A Securitization Program voluntary?**

Yes. The Proposition 1A Securitization provision creates the option for cities, counties and special districts to receive early payment on their obligations from the state. No public agency is required to securitize.

### **What are our options if we decide not to participate in Proposition 1A Securitization Program?**

Public agencies that do not participate in Proposition 1A Securitization Program can expect to receive repayment plus interest from the state for its obligations by June 30, 2013. The interest rate to be paid by the state to local public agencies will be set by the State of California Director of Finance on or before September 28, 2009. That amount must be higher than the current Pooled Money Investment Account rate, but no higher than 6%.

### **Has California Communities conducted a program like this before?**

Yes. In 2005, California Communities conducted a similar bond securitization program for local agencies when the state borrowed Vehicle License Fee (VLF) revenues from cities and counties. California Communities securitized \$455 million in VLF payments due from the state to provide advance repayment to 146 participating cities and counties.

### **How is Prop 1A Securitization different from the VLF financing that California Communities conducted?**

Under the VLF financing program in 2005, local agencies in California were required to cover the costs of issuance and pay the interest cost. As a result, local agencies only received about 93 cents on the dollar from their loans to the state. Under the proposed Proposition 1A Securitization program, the state will pay for the borrowing interest incurred and the costs of issuance required for each agency to participate. The legislation requires that local agencies participating in the securitization program will receive 100% of their respective Prop 1A receivables.

### **Do I need to become a member of California Communities to participate in Proposition 1A Securitization?**

No, public agencies are free to participate in the program without becoming members of California Communities.

### **Does a public agency incur any liability by participating in Proposition 1A Securitization?**

No. The bonds issued by California Communities are not obligations of any of the local agency program participants. The California Communities joint powers agreement expressly provides that California Communities is an entity separate and apart from the participating public agencies, and "its debts, liabilities and obligations do not constitute debts, liabilities or obligations of any party to the joint powers agreement." Participating public agencies are not responsible for any repayment of debt, nor are they named in any of the bond documents.

### **What is California Communities?**

The California Statewide Communities Development Authority, known as CSCDA or California Communities, is a joint powers authority sponsored by the League of California Cities and the California State Association of Counties.

California Communities was created by the California State Association of Counties and the League of California Cities in 1988 to enable local government and eligible private entities access to low-cost, tax-exempt financing for



## EXHIBIT D

projects that provide a tangible public benefit, contribute to social and economic growth and improve the overall quality of life in local communities throughout California.

### **Who are the Commissioners of California Communities?**

The Commission is made up of local government representatives appointed by elected officials through the California State Association of Counties and the League of California Cities executive committees.

### **How much public benefit financing has California Communities issued on behalf of its Program Participants?**

California Communities has issued more than \$40.2 billion through 1,212 financings since 1988 and consistently ranks in the top 10 of more than 3,000 nationwide public issuers of tax-exempt debt, as measured by annual issuance amount.

Previous public benefit projects have included financing more than \$700 million in public infrastructure projects, \$122 million in lease obligations for local governments to acquire equipment, vehicles, and computer technology among other needs, and \$397 million of pension obligation bonds to provide an alternative finance mechanism for unfunded liabilities.

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EXHIBIT E  
**County of El Dorado**  
OFFICE OF AUDITOR-CONTROLLER

360 FAIR LANE  
PLACERVILLE, CALIFORNIA 95667  
Phone: (530) 621-5487 FAX: (530) 295-2535

JOE HARN, CPA  
Auditor-Controller

BOB TOSCANO  
Assistant Auditor-Controller

Date: August 18, 2009  
To: County, Cities, and Special Districts  
From: Sally Zutter, Accounting Division Manager *A*  
RE: **Your Local Agency's Mandatory Loan to the State**

On November 2, 2004, the voters of California changed the State Constitution by passing Proposition 1A. One of the goals of Prop 1A was to prevent the State from initiating new "raids" on local property taxes. In exchange for shielding local property taxes, Prop 1A had a trigger suspending Prop 1A to allow for loans of local property taxes to the State.

Prop 1A suspension has several requirements:

- The Governor must issue a proclamation of severe state fiscal hardship.
- The suspension can occur no more than twice in any 10-year period.
- The loan resulting from a suspension must be paid back before another suspension can occur.
- The loan must be repaid with interest within 3 years following the year of the loan.

As part of the State's budget, Prop 1A was suspended through ABX4-14 and ABX4-15. **Your local agency's participation in this loan to the State is mandatory.**

Please read ABX4-15 to determine the effects/options regarding your local agency. The State Senate's website at [www.sen.ca.gov](http://www.sen.ca.gov) has the text of the legislation. The California Special Districts Association website at [www.csda.net](http://www.csda.net) has a FAQ and other pertinent information (including information on the district's option to securitize the loan). The California League of Cities website at [www.cacities.org](http://www.cacities.org) also has information.

Statewide implementation guidelines are currently being drafted and your local agency's loan amount will be communicated as soon as available. In the meantime, the basic timeframes are as follows:

- **Prior to 10/15/09** – County Auditor's Property Tax Division will communicate with your local agency regarding your local agency's calculated loan amount. Please be aware that this calculated loan amount may not be "final" due to any "extreme hardship" filings with the State.
- **10/15/09** – Your local agency's deadline to file an "extreme hardship" with the State Director of Finance. Please see the requirements of the law to determine if your local agency may qualify.
- **11/15/09** – Your local agency's deadline to reallocate all or part of your loan with another local agency and to notify the County Auditor's Property Tax Division of the agreement in writing (via resolutions/ordinances).
- **11/15/09** – State Director of Finance's deadline to certify to the County Auditor's Property Tax Division any partially/fully approved "extreme hardship" filings (including the amount of reduction).
- **Prior to 1/15/10** – County Auditor's Property Tax Division will communicate with your local agency regarding the "final" calculated loan amount after reallocating any reductions approved from the "extreme hardship" filings to the remaining local agencies on a pro-rata basis.
- **By 1/15/10** – County Auditor (Property Tax Division) to transfer first ½ of the "final" calculated loan amount from your local agency.
- **By 5/1/10** – County Auditor (Property Tax Division) to transfer remaining ½ of the "final" calculated loan amount from your local agency.
- **By 6/30/2013** – Full repayment of loan by the State.