



# CITY COUNCIL AGENDA REPORT

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MEETING DATE: October 20, 2009

ITEM NUMBER:

**SUBJECT: PROPOSITION 1A SECURITIZATION PROGRAM**

**DATE: OCTOBER 14, 2009**

**FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING**

**PRESENTATION BY: BOBBY YOUNG, BUDGET & RESEARCH OFFICER**

**FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, BUDGET & RESEARCH OFFICER  
(714) 754-5241**

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## **RECOMMENDED ACTION:**

1. Adopt Resolution Number 09 - \_\_\_ approving the form of and authorizing the execution and delivery of a purchase and sale agreement and related documents with respect to the sale of the City of Costa Mesa's Proposition 1A receivable from the State of California, and directing and authorizing certain other actions in connection therewith.
2. Approve the Purchase and Sale agreement and authorize the Mayor and City Clerk to sign, and authorize the City Manager and his designee(s) to sign and execute necessary documents.

## **BACKGROUND:**

In November 2004, the voters of California approved Proposition 1A (2004), an amendment to the California state constitution intended to restore predictability and stability to local government budgets. Proposition 1A (2004) protects local property tax, sales tax and VLF revenues by prohibiting the Legislature from taking any action that would:

1. Reduce the local Bradley Burns Uniform Sales & Use Tax rate or alter its method of allocation.
2. Decrease VLF revenue from the 0.65% rate without providing replacement funding to cities and counties.
3. Shift property taxes from cities, counties or special districts to the schools or any other non-local government function except under certain circumstances.

As it relates to property taxes, Proposition 1A prohibits the Legislature from reducing the share of property tax revenues going to the cities, county and special districts in any county, and shifting those shares to the schools or any other non-local government function. However, the Legislature may alter the allocation of property taxes among cities, counties and special districts within a county with 2/3 approval in each house. Under specific conditions, the Legislature may suspend the property tax revenue protection provisions of Proposition 1A. Beginning in FY2008-09, the Legislature may "borrow" not more than 8% of total property tax revenues if:

1. The Governor issues a proclamation of “severe fiscal hardship;”
2. The Legislature enacts an urgency statute suspending Proposition 1A property tax protection with 2/3 vote of each house; and
3. The Legislature enacts a law providing for full repayment of the “borrowed funds” plus interest within three years.

The Legislature may not enact such a suspension more than twice in any ten year period and may only do so if:

1. The \$1.22 billion FY 2003-04 VLF Backfill Gap Loan (Revenue and Taxation Code Sec. 10754.11) has been repaid (which it was in FY 2005-2006);
2. Any previous borrowing under this provision has been repaid.

### **ANALYSIS:**

As part of the 2009-10 budget package, passed by the Legislature and signed by the Governor as ABX4 14 and ABX4 15, the State of California has suspended Proposition 1A, with the clearly stated objective of borrowing property tax revenue. For the City of Costa Mesa, this means the State will borrow 8% of the City’s Property Tax allocation currently calculated to be \$3.3 million. The borrowing will occur in equal amounts in December and April, at such time, the City will be in possession of a receivable from the State of California. This receivable will be equal to the amounts borrowed plus interest at a rate of 2%, payable by June 2013. Current estimated value of interest is \$200,000.

Also as part of the State’s suspension of Proposition 1A, local governments have the opportunity to receive the monies being borrowed by the State upfront through a securitization financing (Proposition 1A Securitization Program) offered by California Communities, a joint powers authority sponsored by the League of California Cities and California State Association of Counties. At such time, participating agencies will assign the receivable to California Communities who will issue bonds securitizing the future payments by the State and remit the proceeds of the bonds to those participating agencies. The State will then repay the bondholders, to pay off the outstanding bonds including interest costs. A detailed chart is included as an attachment. The City will not be responsible for the repayment of the bonds issued by California Communities. To date, 24 of 34 Orange County cities have applied for the application to participate, including City of Costa Mesa.

On October 14, 2009 the Legislature approved Senate Bill (SB) 67, which was “clean-up” legislation necessary for outlining the details of the financing option for local governments. This bill is being expedited to the Governor to be signed then become law. After such time, Cal Communities will officially proceed with the Prop 1A Securitization Program and the issuance of the bonds. The City can expect to receive the same amounts borrowed by the State on January 15, 2010 and May 3, 2010, thereby keeping the City whole as it relates to anticipated revenues.

## **SUMMARY**

As part of the 2009-10 State Budget package, Proposition 1A (2004) was suspended with stated objective of borrowing 8% of local governments Property Tax allocation. The estimated impact to the City of Costa Mesa will be a reduction of \$3.3 million of Property Tax revenue in the 2009-10 fiscal year. Should the City choose to participate, the City will received the entire amount borrowed from the bond proceeds and have no financial commitment towards repayment of the bonds.

## **ALTERNATIVES CONSIDERED:**

The City could choose not to participate in the Proposition 1A Securitization program. When the State officially borrows the City's Property Tax revenue in December and April, the City will be possession of a receivable from the State of California equal to the amount borrowed plus interest at a rate of 2%, payable by June 2013. Current estimated value of interest is \$200,000.

## **FISCAL REVIEW:**

Should the City choose to participate in the Proposition 1A Securitization Program, it will received the entire amount of Property Tax revenues borrowed by the State of California, approximately \$3.3 million.

Should the City choose not to participate in the Proposition 1A Securitization Program, the City will be possession of a receivable from the State of California equal to the amount borrowed (approximately \$3.3 million) plus interest at a rate of 2%, payable by June 2013. Current estimated value of interest is \$200,000.

## **LEGAL REVIEW:**

The City Attorney has reviewed and approved the Resolution and other agreements.

## **CONCLUSION:**

The City should choose to either participate in the Proposition 1A Securitization Program offered by California Communities or hold a receivable from the State of California payable with interest by June 2013.

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BOBBY YOUNG  
Budget & Research Officer

ATTACHMENTS: [Exhibit A – Overview of Proposition 1A Securitization Structure as presented by California Communities](#)  
[Exhibit B – Resolution No. 09 -](#)  
[Exhibit C – Purchase and Sale Agreement with California Statewide Communities Development Authority](#)

DISTRIBUTION: City Manager  
All Department Directors