**Proposition 1A Securitization Program**

*Recommended Motion:* By motion, approve Resolution 2009-__ 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 Grass Valley’s Proposition 1A receivable from the State; and directing and authorizing certain other actions in connection therewith.

*Background Information:* 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 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 budget package 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.

The legislature is currently reviewing a clean-up bill, SB67 which would provide for a few critical changes to the enacted legislation, including but not limited to providing for: financing to occur in November; county auditor certification of amount of Prop 1A receivable; tax-exempt structure; California Communities as the only issuer; more flexibility on bond structure (interest payments, state payment date and redemption features); sales among local agencies; and revision to the hardship mechanism. While SB 67 has not yet been passed and signed into law, California Communities expects that to occur prior to funding the Program. If for any reason SB 67 is not enacted and the bonds cannot be sold by December 31, 2009, all approved documents placed in escrow with Transaction counsel will be of no force and effect and will be destroyed.

*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. Currently, SB67 is being considered to clarify specific aspects of ABX4 14 and ABX4 15. 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. Participating local agencies will have no obligation on the bonds and no credit exposure to the State.

If the City of Grass Valley sells its Proposition 1A Receivable under the Proposition 1A Securitization Program, California Communities will pledge the City’s Proposition 1A Receivable to secure the repayment of a corresponding amount of the Prop 1A Bonds. The City’s sale of its Proposition 1A Receivable will be irrevocable. Bondholders will have no recourse to the City if the State does not make the Proposition 1A Repayment.

Proposition 1A Program Sponsor: California Statewide Communities Development Authority (“California Communities”) is a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. The member agencies of California Communities include approximately 230 cities and 54 counties throughout California.

Benefits of Participation in the Proposition 1A Securitization Program:

The benefits to the City of participation in the Proposition 1A Securitization Program include:

- **Immediate cash relief** – the sale of the City's Proposition 1A Receivable will provide the City with 100% of its Proposition 1A Receivable in two equal installments, on January 15, 2010 and May 3, 2010.

- **Mitigates impact of 8% property tax withholding in January and May** – Per ABX4 14 and ABX4 15 and the proposed clean-up legislation SB 67, the State will withhold 8% of property tax receivables due to Cities, Counties, and Special Districts under Proposition 1A. The financing outlines bond proceeds to be distributed to coincide with the dates that the State will be shifting property tax from local agencies.

- **All costs of financing borne by the State of California.** The City will not have to pay any interest cost or costs of issuance in connection with its participation.

- **No obligation on Bonds.** The City 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 [City/County/Special District]'s Proposition 1A Receivable:

Upon delivery of the Proposition 1A Bonds, California Communities will make available to the City 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 City and are not restricted by the program.
Proposed Proposition 1A Receivables Sale Resolution:

The proposed Proposition 1A Receivables Sale Resolution:

(1) Authorizes the sale of the City'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 City 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

The proposed Purchase and Sale Agreement:

(1) Provides for the sale of the Proposition 1A Receivable to California Communities;

(2) Contains representations and warranties of the [City/county/District] 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.

Funds Available: n/a

Account #: 

Reviewed by:

_____ City Administrator

Action: For your reference on the action taken by Council

_____ Approved

_____ Approved with Modifications

Agenda Item #___