

# Backup Report for ITEM G.3

**From:** Paul J. Kaymark [mailto:paul@czfcpa.com]  
**Sent:** Thursday, August 27, 2009 11:04 AM  
**To:** Paul J. Kaymark  
**Subject:** Prop. 1A Borrowing Summary for Property Taxes  
**Importance:** High

**This was an E-mail Forwarded to Me about –How to get your Prop 1A Property Tax Take Away in FY 2009-10 Back to You This Year!!!!**

**Option No. 2 looks like a good one.**

Dear Mr. Silver:

Since the State budget was passed late last month, additional details regarding the Prop. 1A borrowing have surfaced that I believe would be useful to pass on to you at this time.

## **BACKGROUND**

On July 28, 2009, the Governor signed into law ABx4 15 which directs the State to borrow 8% of the local property tax due to cities, counties and special districts (Local Agencies) in FY 2009-10 under Proposition 1A (2004). Some important features of the legislation include:

- The State will borrow 8% of each Local Agency's FY 2009-10 property tax allocation
  - \$1.935 billion total – 50% of 8% borrowing will be taken in December, 2009 and 50% will be taken in April, 2010
  - The State will repay this Prop. 1A loan with interest by June 30, 2013
- Local Agencies may sell their Prop. 1A loan to a joint powers authority (JPA) for an expected upfront payment of 100% of the 8% borrowing.
  - The JPA will sell bonds to investors secured by the State's repayment of the Prop. 1A loans
  - Proceeds from the bond sale will be used to pay each Local Agency
  - The State will pay issuance costs and interest on the bonds up to a rate of 8%.
  - Based on an expectation that the bonds can be sold at a rate less than 8%, Local Agencies will receive 100% of their Prop. 1A loan amount.
  - These funds should be paid to each Local Agency in late November, 2009.

## **OPTIONS AVAILABLE TO YOUR AGENCY**

Local Agencies have 2 options regarding their Prop. 1A loan:

### **Option 1 – Hold the Prop. 1A Loan**

- The interest rate will be set by the California Department of Finance no later than Monday, September 28, 2009

- Interest rate range: PMIA (minimum, but currently at approx. 1.50%) - 6.00% (maximum)
- The State will repay the loan amount + interest by June 30, 2013

**Option 2 – Sell the Prop. 1A Loan**

- Sell Prop. 1A loan to JPA for upfront payment
- Upfront payment amount = 100% of face value (as long as the bond interest rate < 8%)
- Local Agencies must take official Council/Board action to sell the Prop. 1A loan **no later than November 6, 2009.**
  - After the sale, the local agency is not a party to the bonds issued by the JPA
  - The Local Agency has no responsibility to make any future payments to bondholders if the State does not repay the Prop. 1A loans
- Local Agencies will receive their sale proceeds upon sale/closing of the bonds, which is expected by the end of November, 2009.

It is expected that the Legislature will enact clean-up legislation to address some technical problems in AB4X 15. The above details and dates could change based on whether and in what way the original legislation is modified.

California Communities (JPA sponsored by the League of California Cities and California State Association of Counties) will be offering a statewide Prop. 1A securitization program. California Communities was successful in administering a similar statewide VLF sale program back in 2005. Information is available on the California Communities website at [www.cacommunities.org](http://www.cacommunities.org).

De La Rosa has been selected to be a co-managing underwriter of the California Communities' Prop. 1A loan program. If you have any questions regarding the Prop. 1A legislation, options available to your agency or the upcoming statewide Prop. 1A securitization program, please feel free to contact me.

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