City of Culver City, California
Agenda Item Report

Meeting Date: 10/26/2009	Item Number: C-4
CITY COUNCIL AGENDA ITEM: Adoption of a Resolution 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 Culver City's Proposition 1A Receivable from the State of California and Directing and Authorizing Certain Other Actions in Connection Therewith.	
Contact Person/Dept.: Jeff Muir, CFO	Phone Number: 310-253-6016
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: []	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (Email) Meetings and Agendas – City Council (10/21/09); (Email) Fiscal and Budget Issues (10/21/09)	
Department Approval: Jeff Muir (10/01/09)	City Attorney Approval: Carol Schwab (by H. Baker) (10/21/09)
Chief Financial Officer Approval: Jeff Muir (10/21/09)	City Manager Approval: Mark Scott (10/21/09)

RECOMMENDATION:

Staff recommends that the City Council adopt a resolution authorizing the execution and delivery of a purchase and sale agreement and related documents with respect to the sale of the City's Proposition 1A receivable from the State to California Statewide Communities Development Authority ("California Communities").

BACKGROUND:

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 many local programs, including: public safety, health, libraries, and parks. Provisions can only be suspended if the Governor declares a fiscal necessity and two-thirds of the Legislature concurs.

The emergency suspension of Proposition 1A was passed by the Legislature and signed by the Governor on July 28, 2009 as ABX4 14 and ABX4 15 as part of the 2009-10 budget package. Under the provision thereof, the State will borrow 8% of the amount of property tax revenue apportioned to cities, counties and special districts. The state is required to repay those obligations plus interest by June 30, 2013.

On October 14, 2009 the Legislature passed clean-up legislation, SB 67, which provides for a few critical changes to the enacted legislation, most notable of which would:

- Allow financing to occur in November (as opposed to later in the year);

- Require county auditor certification of the amount of Prop. 1A receivable prior to November;
- Allow a tax-exempt structure;
- Identify California Communities as the only authorized issuer of the Prop. 1A Securitized Bond;
- Allow the sale of Prop. 1A receivables between local agencies; and,
- Make revisions to the hardship mechanism.

Passage of this clean-up legislation was critical to the Securitization program. Without SB 67, the Securitization program would not be available and agencies would have been forced to carry the full receivable until June 2013.

DISCUSSION:

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 Prop. 1A receivables from participating agencies, issue bonds securitized by those Prop. 1A receivables, and provide each local agency with the cash proceeds from the bond sale in two equal installments: the first on January 15, 2010 and the second on 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, including issuance and interest costs, will be paid by the State of California. Participating local agencies will have no obligation for repayment of either the principal or interest on the bonds and no credit exposure to the State. The City's sale of its Prop. 1A Receivable will be irrevocable and bondholders will have no recourse to the City if the State does not make the Prop. 1A repayment.

Proposition 1A Program Sponsor:

California Statewide Communities Development Authority, or California Communities, is a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. While non-member agencies may participate in this bond issuance, the member agencies of California Communities include approximately 230 cities and 54 counties throughout California (including Culver City).

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 Prop. 1A Receivable will provide the City with 100% of its Prop. 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 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 the bonds.

- No obligation on Bonds – The City has no obligation with respect to the payment of either the principal or interest of the bonds, nor any reporting, disclosure or other compliance obligations associated with the bonds.

Upon delivery of the Prop. 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 (which will be certified by the County Auditor prior to issuance of the bond). These funds may be used for any lawful purpose of the City and are not restricted by the program.

To participate in the Program, the City Council must adopt a resolution that:

1) Authorizes the sale of the City's Proposition 1A Receivable to California Communities for 100% of the amount of the 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.

The City Council must also approve a Purchase and Sale Agreement that:

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

2. Contains representations and warranties of the City 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 that this is an arm's length "true sale" of the Proposition 1A Receivable;

3. Provides mechanics for payment of the Purchase Price; and

4. Contains other miscellaneous provisions.

As of the writing of this report, 1,306 agencies have enrolled in the California Communities Prop. 1A Securitization Program, of which there are approximately 57 counties, 389 cities, and 860 special districts.

FISCAL ANALYSIS:

Staff estimates that the State will “borrow” somewhere between $850,000 and $875,000 (the exact amount will be known when the County Auditor Controller certifies the amount for each agency). If the City does not participate in the Securitization Program, the General Fund reserve will have to be used to cover the shortfall. The reserve will be replenished by June 30, 2013 when the State is required to repay the loan, with interest. The State has set the interest rate it will pay on the receivable at 2.00%, which equates to approximately $35,000 in total interest for the City.

If the City participates in the Securitization Program, no revenue will be lost; therefore, no reserves will need to be used to cover the “loan” to the State. The City will forgo the 2.00% interest that will be earned over the loan period, but will have the funds immediately available to cover current year operational costs. Participation in the program also mitigates the financial risk that the State may not be able to repay the “loan” by June 2013. Through participation in the Securitization Program, all financial risk is shifted from the City to the State.

ATTACHMENTS:

1. Proposed Resolution

MOTION:

That the City Council:

1. Adopt a resolution authorizing the execution and delivery of a purchase and sale agreement and related documents with respect to the sale of the City's Proposition 1A receivable from the State to California Statewide Communities Development Authority; and,

2. Authorize the City Attorney to review/prepare the necessary documents; and,

3. Authorize the City Manager to execute such documents on behalf of the City.