

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

Subject: Finance - Proposition 1A Securitization of Property Taxes

RECOMMENDATION

Recommendation of the Finance Director that Council approve 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 the seller's Proposition 1A receivable from the State; and directing and authorizing certain other actions in connection therewith.

FUNDING

Not applicable.

BACKGROUND/ANALYSIS

As part of the of the State's budget balancing package for 2009-10, the Governor signed legislation allowing the State to borrow 8% of the amount of property taxes allocated to cities, counties and special districts. Proposition 1A allows the State to borrow 8% of total property tax revenues (approximately \$2 billion) if the Governor issues a proclamation of severe fiscal hardship and the Legislature enacts an urgency statute suspending Proposition 1A property tax protection with 2/3 vote of each house. The State is required to repay these obligations with interest (currently 2%) within three years (June 30, 2013 in this case). The Legislature may not borrow funds more than twice in any 10 year period and may only do so if previous borrowing has been repaid.

During the 2009-11 budget workshops, staff indicated that the City would need to tap into one-time funds should the State borrow 8% of our City's property tax revenue (approximately \$3.9 million). The Proposition 1A Securitization Program offered by California Communities, a Statewide Communities Development Authority sponsored by the California State Association of Counties and the League of California Cities, allows the city to receive 100% of our property tax allocation when we are scheduled to receive it (two equal payments on January 15, 2010, and May 3, 2010) through the use of a bond issue. The City does not have to pay any of the costs associated with bond issuance and has no obligation with respect to payment of bonds. In exchange for full property tax payment on schedule, the City would sell the property tax accounts receivable due from the State to California Communities. As of October 2, 2009, 770 agencies have enrolled in the California Communities Proposition 1A Securitization program.

On October 14, 2009, the Senate passed SB67 (Committee on Budget and Fiscal Review), a critical clean-up bill needed to enable California Communities to have the ability to make the Proposition 1A Securitization Program work. SB67 was also signed by the Governor on October 19, 2009 to become law. With the passage of SB67, California Communities is authorized to sell the bond issue.

To participate in the Proposition 1A Securitization Program, Council must approve and execute the Proposition 1A Resolution and the Purchase and Sale Agreement documents (Attachment). All documents need to be completed and received by Transaction Counsel (Orrick, Herrington & Sutcliffe LLP) by November 6, 2009.

Recommended Action:

After Council discussion and questions, if the Council wishes to participate in the Proposition 1A Securitization Program, it should adopt the proposed Proposition 1A Sale Resolution and Purchase and Sale Agreement, which requires only a simple majority vote.

Respectfully submitted,

ERIC E. TSAO
Finance Director

By: Taylor Dulaney
Taylor Dulaney
Budget Manager

CONCUR:

Eric E. Tsao

Eric E. Tsao
Finance Director

LeRoy J. Jackson

LeRoy J. Jackson
City Manager

Attachments:

- A. Resolution
- B. Proposition 1A Resolution and the Purchase and Sale Agreement

MATERIAL AVAILABLE MONDAY/TUESDAY

MATERIAL AVAILABLE MONDAY/TUESDAY