

APPROVAL OF RESOLUTION
AUTHORIZING THE CITY TO
PARTAKE ON PROPOSITION 1A
SECURITIZATION PROGRAM
October 13, 2009
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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 percent 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 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. In any case, the City does not need to be a member of California Communities to participate.

DISCUSSION

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 percent of its Proposition 1A Receivable in two equal installments, on January 15, 2010 and May 3, 2010.
- Mitigates impact of 8 percent property tax withholding in January and May – Per ABX4 14 and ABX4 15 and the proposed clean-up legislation SB67, the State will withhold 8 percent 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.

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- 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.

Upon delivery of the Proposition 1A Bonds, California Communities will make available to the City its fixed purchase price, which will equal 100 percent 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 percent 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 the City Manager and Finance Director as Authorized Officers for purposes of executing the financing documents, and other actions necessary to effectuate the transaction; 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 to assure California Communities that the Proposition 1A Receivable has not been previously sold, is not encumbered, that no litigation or other actions are pending or

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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.
- (4) Contains other miscellaneous provisions.

Proposed Purchase and Sale Agreement Exhibits:

The proposed Proposition 1A Purchase and Sale Agreement Exhibits:

- (B1) Opinion of Counsel: This is an opinion of the counsel to the local agency (which may be an in-house counsel or an outside counsel) covering basic approval of the documents, litigation, and enforceability of the document against the Seller. It will be dated as of the Pricing Date of the bonds (currently expected to be November 10, 2009).
- (B2) Bringdown Opinion: This simply "brings down" the opinions to the closing date (currently expected to be November 19, 2009).
- (C1) Certificate of the Clerk of the Local Agency: A certificate of the Clerk confirming that the resolution was duly adopted and is in full force and effect.
- (C2) Seller Certificate: A certification of the Seller dated as of the Pricing Date confirming that the representations and warranties of the Seller are true as of the Pricing Date, confirming authority to sign, confirming due approval of the Resolution and providing payment instructions.
- (C3) Bill of Sale and Bringdown Certificate: Certificate that brings the certifications of C2 down to the Closing Date and confirms the sale of the Proposition 1A Receivable as of the Closing Date.
- (D) Irrevocable Instructions to the State Controller: Required in order to let the State Controller know that the Proposition 1A Receivable has been sold and directing the State to make payment of the receivable to the Trustee on behalf of the Purchaser.
- (E) Escrow Instruction Letter: Instructs Transaction Counsel (Orrick) to hold all documents in escrow until closing, and if closing does not occur by December 31, 2009 for any reason, to destroy all documents.

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FINANCIAL IMPACT

Participation in the Securitization Program will provide immediate cash relief to the City as it mitigates the impact of the State approved shift of 8 percent city property tax to the State in FY 2009. The sale of the City's Proposition 1A Receivable will provide the City with 100 percent of its Proposition 1A Receivable in two equal installments, on January 15, 2010 and May 3, 2010. The City will not incur any transaction costs or fees associated with the deal, as the State will bear all such transaction costs and fees.


COMMUNITY VISION IMPLEMENTATION

Participation in this program is consistent with, and serves to foster the Garden Grove community vision and goal of Garden Grove as a well-administered City that is economically sound.

RECOMMENDATION

Staff recommends that the City Council adopt the attached Resolution authorizing the sale of the City's Proposition 1A receivable to California Statewide Communities Development Authority, approving the form of the attached Purchase and Sale Agreement and related documents, and authorizing the City Manager and/or Finance Director to execute and deliver the Agreement on behalf of the City and to take other necessary actions in connection therewith.


KINGSLEY OKEREKE
Finance Director

Recommended for Approval

Matthew Ferial
City Manager

Attachments: 1. Purchasing And Sale Agreement And Related Exhibits
 2. Resolution