



CALIFORNIA SPECIAL DISTRICTS ASSOCIATION

Proposition 1A Suspension FAQ

Prop 1A Suspension

Q: When was the Prop 1A suspension approved by the governor?

A: Governor Arnold Schwarzenegger signed AB x4 14 and AB x4 15 on July 28, 2009.

Q: Where can I find the bill language that authorizes the suspension of Prop 1A?

A: AB x4 14 is the bill that suspends Prop 1A. AB x4 15 is the bill that lays out the repayment language and loan securitization mechanism. Click on the bills to see the full language.

Q: Which special districts are affected by the Prop 1A suspension?

A: Any special district that receives property tax money.

Q: How much property tax revenue can I expect to be diverted?

A: It will be an 8 percent shift of your total 2008-09 property tax revenues.

Q: Does this affect any special taxes or assessments that we receive?

A: No, this shift only affects your property tax revenues.

Q: Is the 8 percent borrowing calculated before or after the current ERAF shifts?

A: The 8 percent shift of your property tax is calculated *after* your ERAF shifts.

Q: When is the state required to repay special district, city and county property tax money?

A: The State Constitution requires the state to repay the borrowed property tax money within three years with interest.

Q: Will next year's property taxes be affected by this year's Prop 1A suspension?

A: No, this is a one-time borrow that will only affect property taxes in the 2009-10 fiscal year.

Q: When can the state borrow property tax revenue again?

A: According to Prop 1A, the state can borrow again as soon as the first loan is repaid, but no more than twice in a ten year period.

Q: When will we see the reduction in our property tax revenues?

A: You will see a reduction in your property tax revenues when you receive your property taxes as dispersed by the county auditor. The county auditor is required to shift the 8 percent property tax revenue in two installments, once before January 15, 2010, and again after the first transfer but no later than May 1, 2010.

Q: Will the revenues be automatically reduced or will our district need to write a check to the state?

A: The county auditor will automatically reduce your share of property tax revenues this year.

Q: Where are the funds being transferred?

A: The funds will be transferred to the Supplemental Revenue Augmentation Fund (SRAF). Funds in SRAF can be used to reimburse the state for the costs of providing health care, trial court, correctional, or other state-funded services and costs.

Q: What guarantees are there that the state will repay us within three years?

A: There are a few provisions that compel the state to repay local entities in time. First, the state constitution explicitly says that the state must repay local entities within three years and with interest. Second, the Prop 1A repayment has been granted priority payment after education obligations and debt service on general obligation bonds. Third, AB x4 15 allows for an expedited court process if the state has not fully repaid local governments by June 30, 2013.

Q: Are there any exemptions to the Prop 1A suspension?

A: There is a hardship exemption provision that allows any local entity facing extreme hardship because of the Prop 1A shift to apply to the Department of Finance for a hardship exemption. The Director of Finance may consider granting a full or partial decrease in the property tax amount shifted based on certain factors, including, but not limited to, (1) whether the local agency is the subject of a current bankruptcy proceeding or whether the property tax shift would likely cause the local agency to seek bankruptcy protection; and (2) whether the local agency has any financial reserves and whether the full property tax shift would impair the ability of the local agency to provide a basic level of core public services.

Q: How does my district apply for a hardship exemption?

A: A written request must be received by the Director of Finance by October 15, 2009. The Director of Finance must approve or reject the requests for a hardship exemption by November 15, 2009. The Director of Finance may not grant decreases in the suspension amount that totals more than 10 percent of the combined total shift of property tax per county.

Q: Does a hardship exemption affect other agencies in the county?

A: Yes. If a local agency in a county is granted a hardship exemption, then the property tax amount exempted from the shift must be proportionately distributed to all the other local agencies in the county. In this circumstance, the local entities in that county would have more than 8 percent of their property tax shifted to the state.

Q: So should our district expect more than an 8 percent shift of our property tax revenues?

A: Not exactly. The hardship exemption will only be granted at the discretion of the Director of Finance and currently he would like to see if the loan securitization

mechanism is successful in replacing the diverted property tax revenues. If the loan securitization mechanism sells 100 percent of the bonds from the participating local agencies then no hardship exemptions would be necessary.

Loan Securitization Mechanism

Q: Who is the entity administering the loan securitization program?

A: The California Statewide Communities Development Authority (CA Communities) is a joint powers authority that has been designated by the state to administer the Prop 1A securitization program. CA Communities is sponsored by the California State Association of Counties and the League of California Cities and has joined with CSDA to make the Prop 1A securitization program available to special districts, cities and counties across the state.

Q: How does the program work?

A: The state will issue Prop 1A receivables to any special district, city or county that they shift property tax from. Those local entities can join the CA Communities' loan securitization program and exchange their Prop 1A receivables for cash. CA Communities will sell bonds to finance the purchase price of the receivables and all the proceeds from the sale will be evenly distributed to the local agencies participating in the program. The bonds would be repaid from the state's repayment to local agencies in 2013.

Q: Does my district have to participate?

A: No. It is an option for those local entities that wish to replace their property tax loss.

Q: Does CA Communities have any experience with this type of program?

A: Yes. CA Communities conducted a similar securitization program for cities and counties when the state borrowed Vehicle License Fee revenues in 2005.

Q: How does my district join?

A: Applications and a final timeline are being developed. For now, you can sign up to receive additional information at www.cacommunities.org. In addition, CSDA will keep our members up-to-speed with any new developments.

Q: Are there any restrictions to joining?

A: No. CA Communities is required to accept any local entity affected by the suspension, regardless of the amount of property tax revenue lost.

Q: Is there a cost to join CA Communities for the Prop 1A loan securitization program?

A: Most likely there will be no cost to join but details are in the works.

Q: Are there any downsides to participating in the Prop 1A loan securitization program?

A: From what we can see, no. The state will pay for the borrowing interest incurred and the costs of issuance required for each agency to participate. It is intended that local

agencies participating will receive 100 percent of their respective Prop 1A receivable, although the final results will depend on bond market conditions.

Other Options

Q: What are my district's options other than participating in the Prop 1A loan securitization program?

A: A district can opt to not join CA Communities if they feel that they can absorb the loss in property tax revenue this year.

Q: What can I expect to happen if my district does not join CA Communities?

A: If your district can sustain an 8 percent property tax shift this year, and your district chooses not to participate in CA Communities' loan securitization program, then the district can expect to be repaid directly from the state by June 30, 2013, with interest.

Q: What is the interest rate for those entities that choose not to participate in the Prop 1A loan securitization program?

A: The interest rate will be determined by the Director of Finance by September 28, 2009 and must be higher than the Pooled Money Investment Board interest rate but no greater than 6 percent. If your district can sustain the property tax shift, this can be viewed as an investment opportunity.

Note: CSDA is working with the League of California Cities, the California State Association of Counties, CA Communities and the Department of Finance on amendments to AB x4 15. Our proposed amendments tighten the repayment language and increase the flexibility for local entities to secure a loan through the loan securitization program and also contain other technical clean-up language. If these amendments are approved by the legislature and the governor, some provisions may change slightly. CSDA will alert members of any changes or new developments.