

CEO Presentation

October 13, 2009

State Budget Impacts and Proposition 1A Securitization

State Budget – Known Impacts to County

- **Proposition 1A Suspension - \$16 million reduction to Adopted Budget**
 - \$13 million to General Fund
 - \$2 million to Fire District
 - \$1 million to various dependent special districts
- **Health and Human Service reductions**
 - \$4 million plus in funding reductions to DSS, ADMHS, and PH
- **RDA reduction**
 - \$1.5 million reduction in funding
- **HUTA deferral of payments**
 - \$6.3 million in payment delays

Financial Alternative – Proposition 1A Securitization Program Overview

- **Proposed “clean up” legislation currently stalled in Senate**
- **County will receive 100% of its Proposition 1A Receivable in two equal installments**
 - January 15, 2010 and May 3, 2010
- **All costs of financing borne by the State**
 - The County will not have to pay any interest cost or costs of issuance in connection with its participation.
- **No obligation on bonds**
 - County has no obligation with respect to the payment of the bonds, nor any reporting, disclosure or other compliance obligations associated with the bonds.
 - The issuance has no reflection or impact on the County’s credit worthiness.

Financial Alternative – Proposition 1A Securitization Program Current Status

- **SB 67 was introduced as “cleanup” legislation so that financing could occur in November 2009**
- **Legislature failed to enact SB 67 before Senate adjourned on September 11**
 - Legislature expected to reconvene on October 13 to address this legislation and other outstanding items
 - If SB 67 is not enacted and the bonds cannot be sold by December 31, 2009, all approved documents placed in escrow with transaction counsel will be of no force and effect and will be destroyed
- **Enrollment process still underway with CA Communities**
- **County enrolled 20 entities in Prop 1A Securitization Program**
- **Board approval of attached Resolutions is required for final commitment**
- **Paperwork must be received by November 6, 2009**

State Budget – Future Outlook

■ Chronic structural deficit

- Since Proposition 13 was passed in 1978, 19 out of the 32 State budgets have spent more than the State took in from tax revenues.

■ Looming financial liabilities

- \$35 billion in deferrals and borrowing
- \$69 billion in bond debt
- \$130 billion in debt related to unfunded retirement liabilities of State entities

Financial Alternatives – Establish Efficiencies, Enhance Revenues, Enact Service Level Reductions

- **Fragile State Budget this fiscal year and beyond**
- **Uncertainty of passage of SB 67**
- **Local budget challenges**
- **Recommend targeted budget reduction**

Financial Alternative – Borrowing from Internal Service Funds

- State must fully reimburse the County, no later than June 30, 2013, with interest
- Interest rate of 2% for the three-year period
- Borrowing from a County ISF is a possibility should the Legislature not pass SB 67
- ISFs must earn the same rate of return on this investment as they would otherwise
- If the pool rate is higher than 2%, the County could experience arbitrage earnings