"Bridging the Gap"
The VLF Gap Loan Financing Program

CALIFORNIA
COMMUNITIES

A New Funding Alternative for Cities and Counties

CALIFORNIA COMMUNITIES

Summary

The Opportunity

- California Communities ("CSCDA") plans to issue bonds to purchase Vehicle License Fee (VLF) receivables from cities and counties ("Local Agencies"). Local Agencies can elect to sell their VLF Gap Loan receivables to California Communities for an upfront fixed price currently estimated at 90%-96% of their VLF Gap Loan amount.

Benefits for Local Agencies

- Immediate cash relief
- Level out cash flows from State over next three fiscal years
- Finance capital or other needs on a tax-exempt basis
- Mitigate impact of "property tax in-lieu of VLF swap" over the next two years
- Create financial flexibility

Program Overview

Program Overview

- The FY 03-04 California budget "borrowed" a portion of the Vehicle License Fee (VLF) backfill owed to Local Agencies. This VLF gap loan is to be repaid by the State in FY 06-07
  - ✓ Each Local Agency is owed a specific amount of money (its "VLF gap loan receivable")
  - ✓ State law requires that the State repay the VLF gap loan by August 15, 2006

- CSAC and the League of Cities successfully sponsored recent legislation which permits Local Agencies to sell their VLF gap loan receivables to a third party and get the money today, rather than waiting until FY 06-07

SB-1096
AB-2115

Program Overview

- CSCDA plans to issue fixed-rate bonds on either a taxable or tax-exempt basis (depending on participants' use of funds) and use the proceeds to purchase the VLF receivables and pay financing costs

- For Local Agencies participating in the program, CSCDA bondholders will look only to the State for repayment, not to the city or county

- Two bond sales currently planned:
  - ✓ First sale targeted for February 2005
  - ✓ Second sale expected in mid-2005

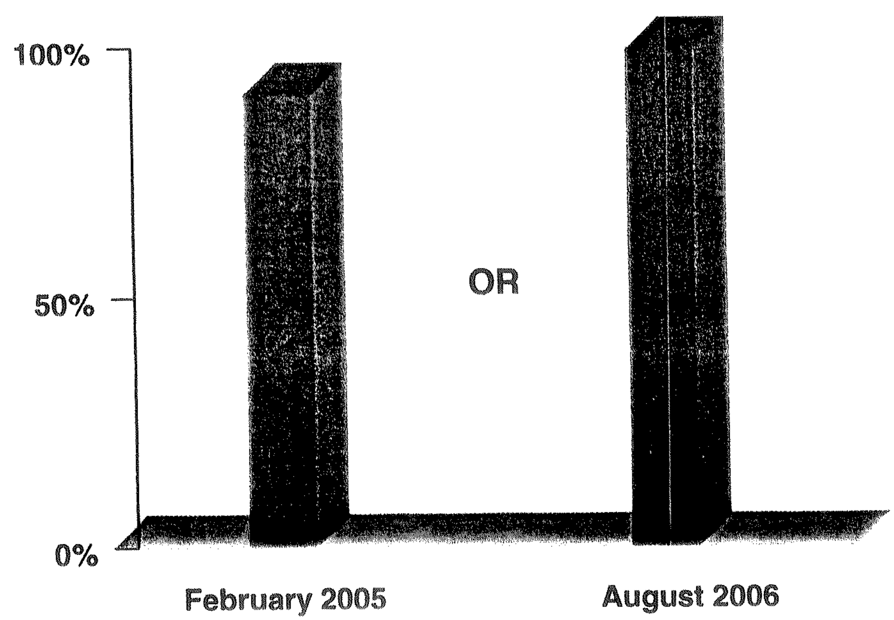
Insulating your risk.

Program Benefits

Description of Potential Program Benefits

Immediate Cash Relief

- Local Agencies who sell their VLF receivable can receive 90%-96% of their VLF gap loan receivable today which can be used to pay for immediate funding needs.



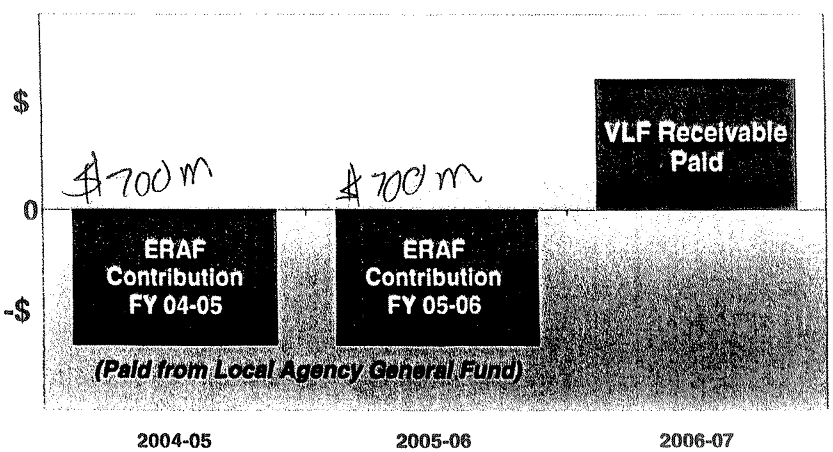
Description of Potential Program Benefits

Level Out Cash Flow From State Over Next Three Years

- Without any action, cities and counties will contribute $700 mm in ERAF payments to the State in each of FY '05 and '06, then receive $1.1 billion from State when VLF Gap Loan is repaid in FY '07. (Left Graph)

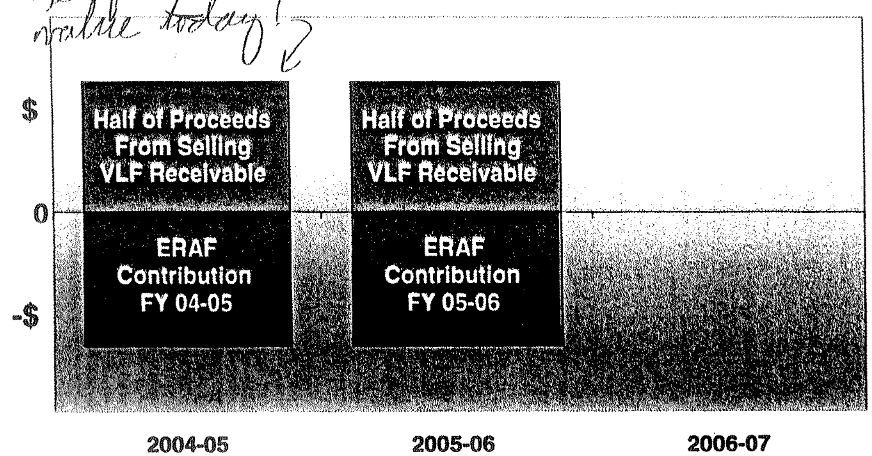
- Local Agencies that participate in the VLF Financing Program can "level out" receipts and payments from the State through FY '07, thus contributing to budget stability. (Right Graph)

Cash From the State If No Action Taken



Cash From the State After Selling VLF Gap Receivable

Get full value today!



Description of Potential Program Benefits

Mitigate Impact of Property Tax In-Lieu of VLF Swap Over the Next Two Years

- Beginning in FY 04-05, the State replaced the VLF backfill with an equal amount of property tax.
- By utilizing the VLF Program, Local Agencies can temporarily solve the potential cash flow problems caused by the change from monthly VLF backfill payments to semi-annual property tax payments.

Create Financial Flexibility

- By participating in the VLF Program, Local Agencies can apply their proceeds to solve their budget challenges in this and the next fiscal years' budgets.

Example →

Description of Potential Program Benefits

Finance Capital or Other Needs on a Tax-Exempt Basis → only benefit if you have $1M or more gap deficit

- Local Agencies may elect to have their receivable purchased on a tax-exempt basis, enabling CSCDA to potentially pay a higher price

- The tax-exempt option is open to entities that can demonstrate to bond counsel that the sale proceeds will be spent on tax-exempt uses

  - ✓ Capital Improvement Costs (Hard and Soft costs)
  - ✓ Court-Mandated Judgment Obligations
  - ✓ Working Capital
  - ✓ Refund Outstanding Bonds or Other Debt

- Because of the extra legal work involved, Local Agencies choosing the tax-exempt option will pay higher issuance costs. The tax-exempt option is thus likely to make sense only for those with larger VLF receivables.

example → normally get 92%
could get 93% if qualify for Tax-Exempt basis
- a fee will be assessed

Does Passage of Prop. 1A Guarantee Payment of the Gap Loan?

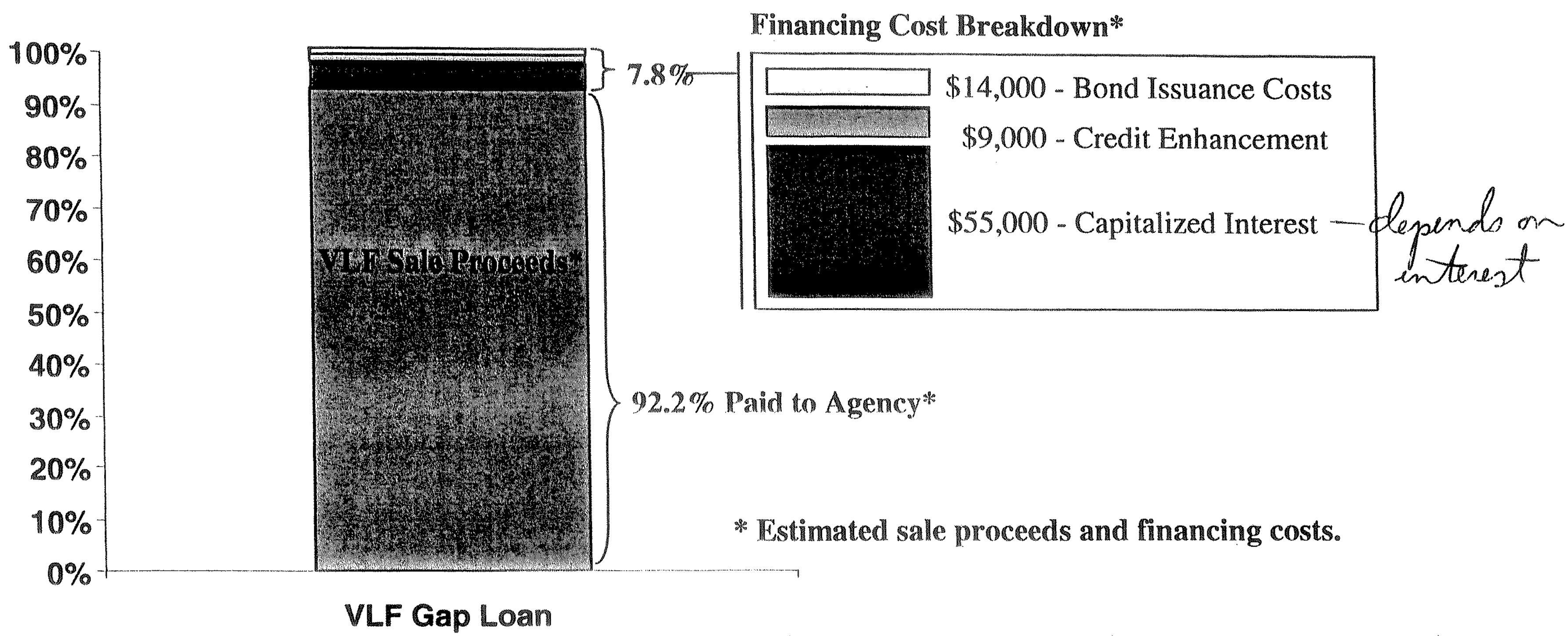
- Under Prop. 1A, the State cannot "borrow" future property taxes from Local Agencies unless the VLF gap loans are repaid to Local Agencies
- However, Prop. 1A precludes the State from "borrowing" money from Local Agencies <u>until FY 08-09</u>
- The State could repay the VLF gap loan amounts as late as June 30, 2008 and still "borrow" money from Local Agencies under Prop. 1A

Therefore, the passage of Proposition 1A <u>does not</u> ensure <u>timely repayment</u> of the VLF Gap Loan to local agencies.

Payments to Local Agencies

How Much Will Your Agency Receive?

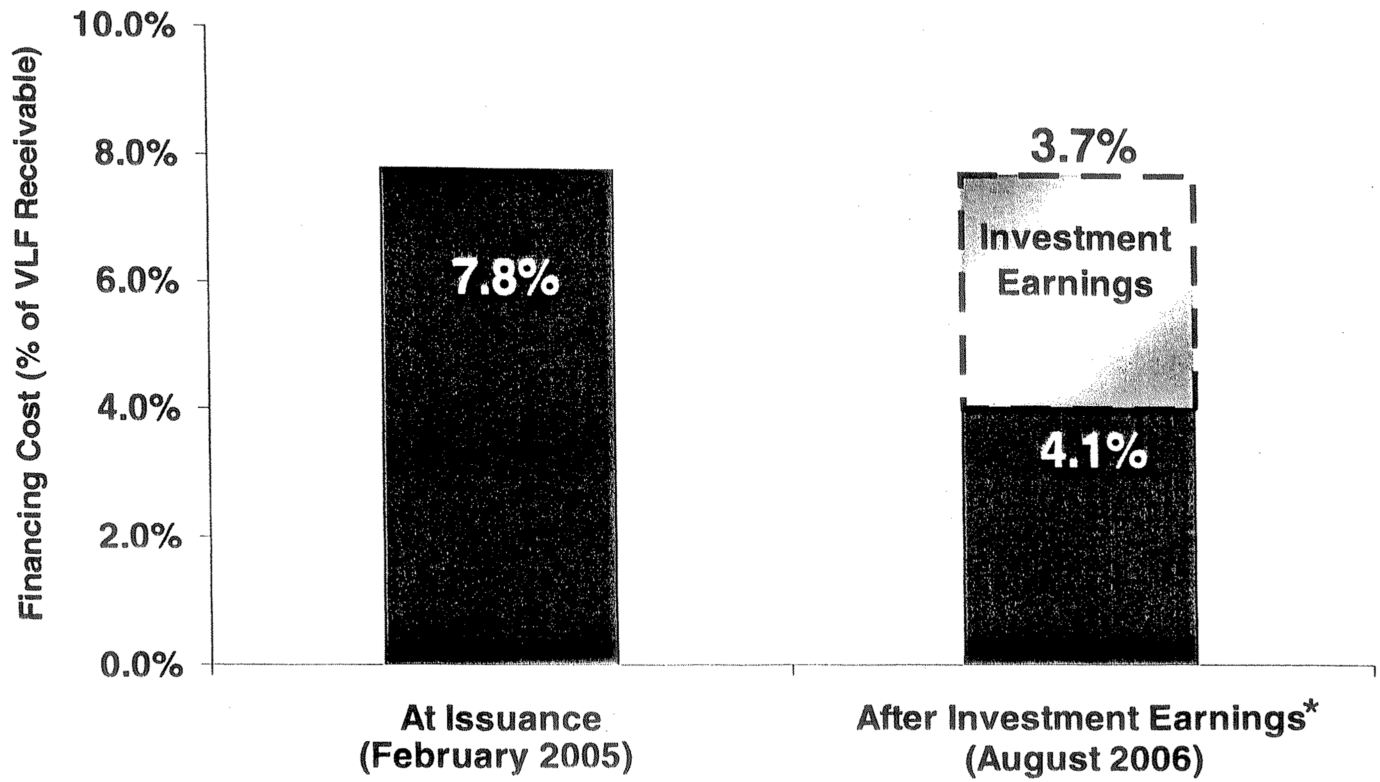
California Communities will make available to each Local Agency a fixed dollar payment. The chart below shows the expected breakdown for a taxable sale of a hypothetical $1 million VLF gap loan.



Agency's Net VLF Payment = Agency's VLF GAP Loan Amount - Interest Payable on the Bonds - Credit Enhancement Fee - Bond Issuance Costs

Financing Costs Will Be Offset by Investment Earnings

Investing the upfront payment from California Communities will offset the upfront financing costs borne by the Local Agency.



If proceeds are invested until August 15, 2006, the Local Agency would have 96% of what the State owes on that date.

if state delays payment -> they do not pay interest

* Assumes 18-month U.S. Government Agency yield of 2.70% as of the week of Nov. 8.

How Much Will Your Agency Receive?

Interest Costs

Gap Loan

- By selling its gap loan receivable, an Agency will receive its payment earlier than if it waits until the State pays in 2006. An Agency receives this money early because California Communities will borrow the purchase price from investors who must be paid interest.

- California Communities will retain a portion of bond proceeds to pay interest to investors until those bonds mature in 2006. This funding of interest from the bonds (known as capitalized interest) reduces the amount payable to an Agency.

About 70%* of the reduction in an Agency's payment below its gap loan amount is the interest it pays to receive its money early.

* *Preliminary, Subject to Change*

How Much Will Your Agency Receive?

Credit Enhancement Fees

- To broaden the appeal of the bonds to investors and secure the lowest possible interest rate, California Communities expects to purchase credit enhancement from a highly rated financial institution that will guarantee the repayment of bond principal in 2006.

Using credit enhancement increases the net proceeds received by Local Agencies.

How Much Will Your Agency Receive?

Bond Issuance Costs

- These include the fees and expenses of such participants as legal counsel, the underwriters, the rating agencies and California Communities. For a hypothetical $1 million taxable sale, issuance costs are estimated to reduce the payment by about 1.4%*.

- On a percentage basis, a Local Agency's share of issuance costs will be larger if its receivable amount is less, and smaller if its receivable amount is more.

- In addition, because of higher documentation costs, a Local Agency that sells its gap loan receivable on a tax-exempt basis will pay more issuance costs than an Agency with a receivable of the same size that sells it on a taxable basis.

Agency's Bond Issuance Costs will depend upon the size of its Gap Loan and whether it finances on a taxable or tax-exempt basis.

** Preliminary, Subject to Change*

Program Participation

Application and Issuance Requirements

- Confirm Local Agency is member of CSCDA (or Adopt Resolution to Join CSCDA)

  Have to be a member

- Complete VLF Enrollment Form and Survey – CSCDA Website
  - ✓ htpps://secure.cacommunities.com/cacomm/apps/vlf/
- Choose Taxable/Tax-Exempt Option in Consultation with Program Manager / Financing Team – NO !
- Review Documentation Provided by CSCDA
  - ✓ Receivable Sales Agreement
  - ✓ Board/Council Resolution
  - ✓ Tax-Exempt Documents
- Seek City Council/Board of Supervisors Approval of Transaction

No Bond indenture

Timetable for Interested Participants

- The initial CSCDA VLF financing is targeted to close in February 2005

Action	**Timing**
Interested Local Agencies complete on-line VLF Preliminary Participation Form	*November 2004*
Documentation and determination of taxable vs. tax-exempt participants	*November/December 2004*
Local Agency governing body approves required documentation	*December/January, 2005*
CSCDA sells bonds	*First week of February, 2005*
Local Agencies receive proceeds	*Third week of February, 2005*

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