

**CITY OF ALBANY  
CITY COUNCIL AGENDA  
STAFF REPORT**

Agenda Date: 2/07/05  
Date Prepared: 2/01/05  
Reviewed by\_\_\_\_\_

**SUBJECT:** Approval of Resolution #05-02, 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 Vehicle License Fee receivable from the State, and directing and authorizing certain other actions in connection therewith.

**REPORT BY:** Charlie Adams, Finance and Administrative Services Director

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**STAFF RECOMMENDATION**

That Council approve Resolution #05-2 to authorize the sale of the City's Vehicle License Fee receivable from the State, and authorized the Mayor, City Treasurer, City Administrator, Finance and Administrative Services Director to complete documents required for sale of the receivable, in accordance with the resolution referenced above.

**BACKGROUND**

Vehicle License Fees and VLF Gap Repayment: Vehicle license fees ("VLF") were historically assessed in the amount of 2% of a vehicle's depreciated market value for the privilege of operating a vehicle on California's public highways. Beginning in 1999, the VLF paid by vehicle owners was offset (or reduced) to the effective rate of 0.65%. In connection with the offset of the VLF, the Legislature authorized appropriations from the State General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient State General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be disadvantaged.

In June 2003, the Director of Finance under the Davis Administration ordered the suspension of VLF offsets due to a determination that insufficient State General Fund moneys would be available for this purpose, and, beginning in October 2003, the VLF paid by vehicle owners were restored to the 2% level. However, the offset suspension was rescinded by Governor Schwarzenegger on November 17, 2003, and State offset payments to local governments resumed. Local governments received "backfill" payments totaling \$3.80 billion in FY 2002-03. "Backfill" payments totaling \$2.65 billion were paid to local governments in FY 2003-04. However, approximately \$1.2 billion was not received by local governments during the time period between the suspension of the VLF offsets and the implementation of higher fees

and is still owed them by the State (the "VLF Gap Repayments"). The City's share of the VLF Gap Repayment is \$284,662 (the "VLF Receivable").

As part of the 2004 Budget Act negotiations, an agreement was made between the State and local government officials (the "State-local agreement") under which the VLF rate will be permanently reduced from 2% to 0.65%. The State-local agreement also provides for the repayment by August 15, 2006 of the approximately \$1.2 billion VLF Gap Repayment. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change will be replaced by an increase in the amount of property tax they receive. Under the State-local agreement, for FY 2004-05 and 2005-06 only, the replacement property taxes that cities and counties receive has been reduced by \$700 million. Commencing in FY 2006-07, local governments will receive their full share of replacement property taxes and those replacement property taxes will now enjoy constitutional protection against transfers by the State due to the approval of Proposition 1A at the November 2004 election.

VLF Program: Authorized under SB 1096, the VLF Program was instituted by the California Statewide Communities Development Authority ("CSCDA") in 2004 to enable the City and other cities and counties to sell their respective VLF Receivables to CSCDA for an upfront fixed purchase price estimated to be 9% of the VLF Gap Repayments. CSCDA is planning to issue notes ("VLF Notes") and to use the note proceeds to purchase the VLF Receivables and pay financing costs. The actual purchase price of the VLF Receivables will depend on the total amount of VLF Receivables that cities and counties sell to CSCDA and on bond market conditions at the time the VLF Notes are priced. If the City sells its VLF Receivable under the VLF Program, CSCDA will pledge the City's VLF Receivable to secure the repayment of a corresponding portion of the VLF Notes. The City's sale of its VLF Receivable will be irrevocable. Bondholders will have no recourse to the City if the State does not make the VLF Gap Repayment.

VLF Program Sponsor: CSCDA is a joint powers authority sponsored by the League of California Cities and the California State Association of Counties. The member agencies of CSCDA include approximately 230 cities and 54 counties throughout California, including this City.

Estimated Proceeds of the Sale of the [City/County]'s VLF Receivable:

Upon delivery of the VLF Notes, CSCDA will make available to the City its fixed purchase price. This payment will equal the City's VLF Receivable amount less capitalized interest costs (to pay interest on the VLF Notes until maturity), credit enhancement fees and bond issuance costs. As discussed above, the City's VLF Receivable is \$284,662. The purchase minimum price to be paid by CSCDA is estimated to be \$254,602, but cannot be determined with specificity until the total number of participants in the VLF Program is known and bond market conditions are taken into account at the time the VLF Notes are priced.

Proposed VLF Receivables Sale Resolution:

The proposed VLF Receivables Sale Resolution:

- (1) authorizes the sale of the City]'s VLF Receivable to CSCDA for a minimum sale price at least equal to \$254,602;
- (2) approves the form, and directs the execution and delivery, of the Purchase and Sale Agreement with CSCDA 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 VLF Receivable and instructing the disbursement of the VLF Receivable to the VLF Bond Trustee;
- (4) approves the use of the VLF Receivables proceeds for General Fund operating expenditures;
- (5) appoints certain City officers and officials as Authorized Officers for purposes of signing documents; and
- (6) authorizes miscellaneous related actions and makes certain ratifications, findings and determinations required by law.

### **FINANCIAL IMPACT**

Sale of the City's VLF receivable will result in the immediate receipt of a minimum of \$254,602 as compared of potential receive in August 2006 of \$284,662. The advantages to the City are the certainty of receipt of the funds and the acceleration of receipt by 18 months.