

**POOLED MONEY INVESTMENT BOARD**  
**FEBRUARY 18, 2009**  
**Staff Report – Agenda Item 8**

**BACKGROUND**

As a means to alleviate or prevent the adverse consequences of the cessation of funding from AB 55 loans, various entities with interest in bond-financed projects have proposed to purchase State General Obligation (“GO”) bonds in private placements on the condition that proceeds from the sale of such bonds directly finance certain projects authorized by the related bond acts. The funds received from the sale of these bonds would be placed in accounts to directly fund projects instead of paying of down outstanding AB 55 loans from the Pooled Money Investment Account.

Section 8.02 of the resolutions authorizing the issuance of the State’s GO bonds (the “Resolutions”) requires that bond proceeds be used to repay AB 55 loans made in reliance on the Resolutions prior to financing projects authorized by the bond acts. In order to proceed with the private placement of GO bonds to interested entities and allow the proceeds of such sales to be used for authorized projects, the Pooled Money Investment Board must consent to waive its right to the use of proceeds of such bond sales to repay AB 55 Loans prior to financing projects authorized by the Bond Acts.

**RECOMMENDATION**

Staff recommends of approval of the attached resolution.

STATE OF CALIFORNIA  
POOLED MONEY INVESTMENT BOARD

RESOLUTION AUTHORIZING AMENDMENTS OF GENERAL OBLIGATION  
BOND FINANCE COMMITTEE RESOLUTIONS  
REGARDING PROCEEDS FROM PRIVATE PLACEMENTS

WHEREAS, the Federal Tax Reform Act of 1986 imposed rebate requirements that severely limited the issuance of tax-exempt bonds; and

WHEREAS, the Legislature of the State of California (the "State") enacted Assembly Bill 55, Chapter 6, Statutes of 1987 to provide for a loan program (the "AB 55 Loan Program" and any loans issued thereunder, the "AB 55 Loans") to simplify rebate compliance and allow the orderly continuation of the State's bond programs; and

WHEREAS, the AB 55 Loan Program gave departments quick access to funds by eliminating the wait for bond sales, which increased flexibility in project planning and delivery and provided the State Treasurer's Office greater flexibility in scheduling bond sales; and

WHEREAS, the State has historically issued general obligation bonds about six times per year, general obligation commercial paper notes three to four times per month, and lease revenue bonds about five times per year; and

WHEREAS, due to the delayed enactment of the 2008-09 State Budget, the State's current fiscal crisis and the volatility in the financial markets, the State has been unable to issue any general obligation bonds or lease revenue bonds since June 2008 and has been unable to issue any new general obligation commercial notes since September 10, 2008, which has lead to unreimbursed AB 55 Loan disbursements of approximately \$5.1 billion as of December 8, 2008; and

WHEREAS, due to the inability of the State to issue bonds, the projected shortfall in the 2008-09 State Budget, the State's current fiscal crisis, and the build-up of unreimbursed AB 55 Loan disbursements, this Board took action regarding outstanding AB 55 Loans on December 17, 2008 and January 16, 2009, which resulted in the Department of Finance issuing (1) a Budget Letter dated December 18, 2008, to all State agencies and departments with AB 55 Loans instructing such agencies and departments to (i) immediately cease authorizing any new grants or obligations for bond projects, including new phases for existing projects; (ii) suspend all projects, excluding those for which the Department of Finance authorizes an exemption, unless the contracting entity can continue with non-state funding sources; and (iii) notify all grant or loan recipients not to enter into any new construction or other agreements that would be funded from AB 55 Loans and (2) a Budget Letter dated January 23, 2009, allocating \$650 million as authorized by this Board for payment of administrative costs of bond programs through June 30, 2009 and of invoices for costs incurred on certain AB 55 Loan financed projects all as set forth on an attachment to such letter; and

WHEREAS, compliance with the Budget Letters has resulted in the suspension of over 5,000 construction and acquisition projects throughout the State, with potentially serious impacts on costs, employment, and upon the achievement of the public benefits of bond-funded projects approved by the voters through the various bond acts affected; and

WHEREAS, as a means to alleviate or prevent the adverse consequences of the cessation of funding from AB 55 Loans, various entities with interest in bond-financed projects have proposed to purchase State general obligation bonds in private placements for their own account and not with a view toward resale (“Private Placement”) on the condition that proceeds from the sale of such bonds directly finance certain projects authorized by the related bond acts (the “Bond Acts”); and

WHEREAS, Section 8.02 of the resolutions authorizing the issuance of the State’s general obligation bonds (the “Resolutions”) requires that bond proceeds be used to repay AB 55 Loans made in reliance on the Resolutions prior to financing projects authorized by the Bond Acts; and

WHEREAS, the financing of projects authorized under the Bond Acts through Private Placements will promote significant and growing opportunities for the creation and retention of employment to the State economy and the enhancement of the quality of life to residents of the State; and

WHEREAS, the financing of projects authorized under the Bond Acts through Private Placements will promote residential, commercial and industrial development within the State and thereby stimulate economic activity and increase the tax base; and

WHEREAS, the financing of projects authorized under the Bond Acts through Private Placements will prevent costly penalties that may result from the cancellation of projects already underway or from failure to pay for work already performed, including the costs of legal liability or fines; and

WHEREAS, in order to be able to achieve these benefits through Private Placement of State general obligation bonds to interested entities and allow the proceeds of such sales to be used for authorized projects, the Board must consent to waive its right to the use of proceeds of such bond sales to repay AB 55 Loans prior to financing projects authorized by the Bond Acts.

NOW, THEREFORE, BE IT RESOLVED by the Pooled Money Investment Board, as follows:

Section 1. Approval of Use of Bond Proceeds. Notwithstanding Section 8.02 of the Resolutions, the Pooled Money Investment Board hereby consents to the use of the proceeds from the sale of the Private Placement of Bonds issued pursuant to the Bond Acts and the Resolutions for any purposes authorized under the related Bond Acts, and waives the obligation of the State to use the proceeds of such bond sales to repay outstanding AB 55 Loans under the related Bond Acts prior to financing projects authorized by such Bond Acts. The State’s obligation to repay all outstanding AB 55 loans is otherwise unchanged, and the right of the Pooled Money Investment Board to proceeds of any other general obligation bond sale as set forth in the Resolutions, except as waived herein, remains in effect.

Section 2. Effective Date of Resolution; Expiration. This resolution shall take effect upon its adoption and shall expire on March 1, 2010.

EXECUTIVE SECRETARY'S CERTIFICATE

The undersigned Executive Secretary of the Pooled Money Investment Board hereby certifies as follows:

The Pooled Money Investment Board duly adopted the foregoing resolution at a meeting of the Pooled Money Investment Board duly and legally held on February 18, 2009, of which meeting all of the members of the Pooled Money Investment Board had due notice and at which a majority thereof was present.

The vote was as follows:

MEMBER	AYE	NO
Treasurer of the State of California	_____	_____
Controller of the State of California	_____	_____
Director of Finance of the State of California	_____	_____

Conditions: (if applicable):

Dated: February 18, 2009.

By \_\_\_\_\_  
Executive Secretary of the Pooled  
Money Investment Board