

POOLED MONEY INVESTMENT BOARD
MARCH 18, 2009
Staff Report – Agenda Item 7

BACKGROUND

At the February 18, 2009 meeting of the Pooled Money Investment Board (“Board”), the Board took the following actions relating to the AB 55 loan program:

- Approved continuing the freeze of AB 55 loan disbursements on all loans except for the remaining amount of the \$650 million that was authorized at the January 16, 2009 Board meeting, and directed that these funds continue to be disbursed in accordance with Budget Letter 09-02 issued by the Department of Finance (“DOF”) on January 23, 2009.
- Approved six loan renewals for either the amount of the current loan authorization or for a reduced loan authorization (the reduction was at the department’s request).
- Approved three loan renewals with increases authorized by DOF’s Budget Letter 09-02.
- Postponed consideration of new AB 55 loan requests from the California Air Resources Board, the California Housing Finance Agency and the California High Speed Rail Authority.
- Approved a resolution authorizing the use proceeds of privately placed General Obligation (“GO”) bonds to directly fund projects instead of being used to repay outstanding AB 55 loans.

BUDGET AND CASH UPDATE

On February 19, 2009, the Legislature passed, and on February 20, 2009, the Governor signed a package of bills which, among other things, closed a projected \$41.7 billion budget gap for the 2008-09 and 2009-10 fiscal years with a combination of expenditure reductions, revenue increases, federal funds and borrowing. About \$5.8 billion of the package depends on voter approval of several measures which will be on a special election ballot on May 19, 2009. Furthermore, economic conditions have worsened in the State since the budget estimates were made, on which the February budget actions were based. According to a March 13, 2009 report from the Legislative Analyst’s Office, further corrective budget steps totaling approximately \$8 billion dollars will have to be taken to keep the 2009-10 budget in balance.

The severe revenue shortfalls experienced by the State led to a cash shortfall in the State’s General Fund which required the State Controller to defer \$3 billion of payments (primarily tax refunds), which were scheduled to be made in February 2009. While these payments are expected to be made during March, the Controller has projected that, absent obtaining additional cash resources, a General Fund cash shortfall will occur in early April 2009. The Controller noted, however, that once the large bulk of tax payments are made in late April, there should be enough cash to pay the State’s

General Fund obligations for the remainder of the 2008-09 fiscal year. However, the State faces a significant General Fund cash flow shortfall in July and August, 2009 which will require access to public credit markets for cash flow borrowing or adoption of additional cash measures in order to avoid further interruptions in State fiscal obligations.

AB 55 loans are funded from the State's portion of the Pooled Money Investment Account ("PMIA"), which includes both the General Fund and over 1,000 special funds. The State Controller's Office ("SCO") and the State Treasurer's Office ("STO") are analyzing the needs of the special funds and the liquid assets projected to be available in the PMIA to determine the amount of AB 55 loan funds that could be made available after the proposed GO bond and Lease Revenue Bond sales are completed in March and April (see Bond Sale Update below). The results of this analysis will be presented at the next Board meeting.

AB 55 LOAN EXPENDITURES

As of March 16, 2009, the amount of outstanding AB 55 loan expenditures from the PMIA was \$6.02 billion. This amount consists of \$4.83 billion for GO bond programs, \$1.05 billion for State Public Works Board lease revenue bond projects and \$148.4 million for two revenue bond programs. The \$4.83 billion in expenditures for GO bond programs consists of approximately of \$3.83 billion of expenditures that can be repaid with tax-exempt bonds and approximately \$1.0 billion of expenditures that must be repaid with taxable bonds. The State also has \$1.3 billion of outstanding short-term, GO Commercial Paper Notes that need to be paid down from the proceeds of a long-term GO bond issue.

BOND SALE UPDATE

On February 27, 2009, the STO issued \$194 million in GO bonds through a private placement sale with the Bay Area Toll Authority ("BATA"). A condition of BATA's investment was that the proceeds from the sale be used to directly fund eleven transportation projects in Bay Area and other Northern California counties that had been impacted by the AB 55 loan freeze. Several other parties have expressed an interest in purchasing GO bonds on a private placement basis, and the STO is involved in discussions with those parties.

On March 13, 2009, the STO announced that it is planning to issue approximately \$4 billion of tax-exempt GO bonds on March 25, 2009. If the sale is successful, approximately \$3.83 billion of proceeds will be used to pay down the outstanding AB 55 loans expenditures that are eligible for tax-exempt financing. To the extent there are any proceeds above \$3.83 billion, those proceeds will be used to provide direct "upfront" financing (as opposed to funding from AB 55 loan proceeds) of GO bond projects eligible for tax-exempt financing that have been impacted by the AB 55 loan freeze.

The STO also announced that it is exploring the possibility of conducting a second large taxable GO bond sale toward the end of April. The proceeds of that sale, if completed, would be used to pay down the approximately \$1 billion of outstanding taxable AB 55 loan expenditures for GO bond programs, provide a yet-to-be determined amount of upfront direct funding for taxable GO bond projects that have been impacted by the AB 55 loan freeze, and provide a yet-to-be determined amount of upfront direct funding of GO bond projects eligible for tax-exempt financing. The projects eligible for tax-exempt financing could take advantage of a program created by the recently-enacted federal economic stimulus package. Under the “Build America Bonds” program, state and local governments can issue taxable bonds for projects that were otherwise eligible for tax-exempt financing and receive a rebate from the federal government representing 35% of the interest cost for the life of the bonds. The STO will consult with DOF on any upfront funding of projects from proceeds of the March GO bond sale or potential April GO bond sale.

In addition, the STO is actively working with the State Public Works Board on two lease revenue bond issues to be sold in April that would result in the repayment of approximately \$389 million of AB 55 loan expenditures.

While the success of the potential bond sales described above won’t be known until the sales are completed, the best case scenario for the PMIA would be the repayment of approximately \$5.2 billion of AB 55 loan expenditures by the end of April, leaving approximately \$800 million to be repaid from future bond sales. In addition, the \$1.3 billion of outstanding GO commercial paper notes would also still need to be repaid from future bond sales.

AB 55 LOAN REQUESTS ON MARCH 18, 2009 AGENDA

The March 18, 2009 Board agenda contains three requests for new AB 55 loans and twelve AB 55 renewal requests. Exhibit B contains information on each of the loan requests, including the amount requested by the applicant, the amount of the original loan, the amount paid down by bonds or commercial paper, the recommended loan amount and its impact on the Pooled Money Investment Account. The recommended amounts are for either the amount of the existing loan, a decrease requested by the department, or an increased loan amount necessary for the department to pay the administrative costs or unpaid bills under State contracts for work performed authorized for payment by DOF Budget Letter 09-02.

RECOMMENDATIONS

Disbursement Freeze. Staff recommends that the Board continue the freeze on AB 55 loan disbursements for all loans except for; (1) the remaining amount of the \$650 million that was authorized at the January 16, 2009 Board meeting, and that the remainder of the authorized \$650 million continue to be disbursed in accordance with DOF’s January 23, 2009 Budget Letter; and (2) \$500 million of funds to be released upon the successful sale of \$4 billion of GO bonds on March 25, 2009. The \$500

million should be distributed based on a determination to be made by DOF of which disbursements have the highest priority and are in the State's best interests.

Special Meeting to Consider Analysis of Additional Funds Available for AB 55 Loan Disbursements. Staff recommends that the Board hold a special meeting during the week of March 30, 2009 to consider the SCO and STO analysis of the needs of the special funds and the liquid assets projected to be available in the PMIA.

The SCO and STO are requested to provide a recommendation regarding an additional amount of funds that could be made available for AB 55 loan disbursements after the proposed GO bond and lease revenue bond sales are completed in March and April.

The Department of Finance is requested to provide a plan including its priorities for the restoration of funding for projects which have been subject to the disbursement freeze, as PMIB makes funds available for such restoration.

Loan Renewals. Staff recommends that the Board approve the AB 55 loan renewals on the March 18, 2009 agenda in the amounts shown on column g of Exhibit A.

New Loans. Staff recommends that the Board postpone consideration of the three new loan requests on the agenda (Item 7.m for the California Air Resources Board in the amount of \$515,628,282, Item 7.n for the California High Speed Rail Authority in the amount of \$29,100,000 and Item 7.o for the California Housing Finance Agency in the amount of \$100,000,000 until a future Board meeting.

EXHIBIT A

POOLED MONEY INVESTMENT BOARD
 LOAN REQUESTS (AB 55 LOANS)
 For the March 18, 2009 PMIB Meeting

Agenda Item	New or Renewal	Old Loan No.	New Loan No.	Fund No.	Type	Department/Program	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]	[j]	[k]
							New Loan Amount per Loan Application	Original Amount of Existing Loan	Impact on the Pool (a-b)	Amount of CP or Bonds Issued (since previous loan)	Current Loan Amount Outstanding (b - d)	Adjusted Loan Requested Amount (a - d)	Recommended Loan Renewal	Impact of Recommendations (g-b)	Interest Paid by	CP	Finance Committee or Board Approval Needed?
RENEWAL REQUESTS																	
GO																	
a	Renewal	0780130	0890109	6036700	GO	State Allocation Board Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	\$ 1,660,625,000.44	\$ 1,660,625,000.44	\$ -	\$ 190,455,000.00	\$ 1,470,170,000.44	\$ 1,470,170,000.44	\$ 1,660,625,000.44	\$ -	BF	YES	No
b	Renewal	0780129	0890110	0751700	GO	California Department of Corrections and Rehabilitation New Prison Construction Bond Act of 1990	\$ 1,711,276.00	\$ 1,404,376.35	\$ 306,899.65	\$ -	\$ 1,404,376.35	\$ 1,711,276.00	\$ 1,557,376.35	\$ 153,000.00	BF	YES	No
c	Renewal	0780132	0890112	6028700	GO	University of California Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	\$ 3,743,933.21	\$ 3,743,933.21	\$ -	\$ -	\$ 3,743,933.21	\$ 3,743,933.21	\$ 3,743,933.21	\$ -	BF	YES	No
d	Renewal	0780134	0890113	6047700	GO	California Institute for Regenerative Medicine California Stem Cell Research and Cures Bond Act of 2004	\$ 250,640,000.00	\$ 250,640,000.00	\$ -	\$ -	\$ 250,640,000.00	\$ 250,640,000.00	\$ 250,640,000.00	\$ -	BF	YES	No
REV																	
e	Renewal	0890043	0890111	0501501	REV	California Housing Finance Agency CalHFA Revenue Bond Program Loan Warehousing Program (Revolving)	\$ 250,000,000.00	\$ 350,000,000.00	\$ (100,000,000.00)	N/A	N/A	N/A	\$ 250,000,000.00	\$ (100,000,000.00)	BF	NO	No
f	Renewal	0780136	0890114	0660521	REV	California State University SPWB Lease Revenue Bonds SF Campus, Joint Library: J. Paul Leonard & Sutro	\$ 24,181,862.00	\$ 45,249,339.00	\$ (21,067,477.00)	N/A	N/A	N/A	\$ 24,181,862.00	\$ (21,067,477.00)	BF	NO	No
g	Renewal	0780127	0890115	0660695	REV	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Pacheco Forest Fire Station: Replace Facility	\$ 2,322,133.00	\$ 2,322,133.00	\$ -	N/A	N/A	N/A	\$ 2,322,133.00	\$ -	BF	NO	No
h	Renewal	0780128	0890116	0660567	REV	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds North Region Forest Fire Stations: Various Facilities	\$ 9,238,479.00	\$ 9,238,479.00	\$ -	N/A	N/A	N/A	\$ 9,238,479.00	\$ -	BF	NO	No
i	Renewal	0780135	0890117	0660653	REV	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Statewide: Construct Forest Fire Stations	\$ 13,014,488.00	\$ 13,014,488.00	\$ -	N/A	N/A	N/A	\$ 13,014,488.00	\$ -	BF	NO	No
j	Renewal	0780137	0890118	0660626	REV	University of California SPWB Lease Revenue Bonds UC Riverside: Genomics Building	\$ 53,052,971.00	\$ 54,936,862.00	\$ (1,883,891.00)	N/A	N/A	N/A	\$ 53,052,971.00	\$ (1,883,891.00)	BF	NO	No
k	Renewal	0890066	0890119	0660560	REV	Department of Corrections and Rehabilitation SPWB Lease Revenue Bonds California Men's Colony, San Luis Obispo: Central Kitchen Replacement	\$ 12,278.00	\$ 992,000.00	\$ (979,722.00)	N/A	N/A	N/A	\$ 12,278.00	\$ (979,722.00)	BF	NO	No
l	Renewal	0890034	0890120	0660699	REV	Department of Corrections and Rehabilitation SPWB Lease Revenue Bonds Chuckawalla Valley State Prison: Heating, Ventilation, and Air Conditioning System	\$ 41,596,200.00 \$ 40,384,315.00	\$ 38,216,735.00	\$ 2,167,580.00	N/A	N/A	N/A	\$ 41,596,200.00 \$ 40,384,315.00	\$ 2,167,580.00	BF	NO	No

EXHIBIT A

NEW LOAN REQUESTS

GO																				
m	New	0890094	GO	Air Resources Board Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	\$	515,628,282.00	\$	-	\$	515,628,282.00	\$	-	\$	-	\$	515,628,282.00	BF	YES	No	
n	New	0890095	GO	California High-Speed Rail Authority Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	\$	29,100,000.00	\$	-	\$	29,100,000.00	\$	-	\$	-	\$	29,100,000.00	BF	YES	No	
OTHER																				
o	New	0890089	GO	California Housing Finance Authority Bay Area Housing Program Bonds Chapter 831, Statutes of 2004 and Chapter 551, Statutes of 2005	\$	100,000,000.00	\$	-	\$	100,000,000.00	\$	-	\$	-	\$	100,000,000.00				
TOTAL					\$	2,953,655,017.65	\$	2,430,383,346.00	\$	523,271,671.65	\$	190,455,000.00	\$	1,725,958,310.00	\$	2,370,993,491.65	\$	2,308,772,836.00	\$	(121,610,510.00)

Total amount of outstanding PMIA loans as of March 09, 2009	<u>Requested</u>	<u>Recommended</u>
Impact on the Pool from this months actions	\$ 11,890,681,175.76	\$ 11,890,681,175.76
Outstanding PMIA loans after this months actions	<u>\$ 523,271,671.65</u>	<u>\$ (121,610,510.00)</u>
	\$ 12,413,952,847.41	\$ 11,769,070,665.76