



March 13, 2009

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President Barack Obama
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

On behalf of the California State Association of Counties (CSAC), I am writing to request that a local government credit market stabilization program be included as part of any request by your administration to lessen the effects of the ongoing financial crisis. Specifically, CSAC urges that a portion of the remaining funding under the Troubled Asset Relief Program (TARP) be used to back financial institutions that agree to provide credit enhancement for California's 2009 Tax and Revenue Anticipation Notes (TRANS) program.

As you know, the current financial crisis has severely limited local government access to traditional short-term capital markets. Absent access to this market, California local governments could be forced to make program reductions and lay off government employees. Combined with the potential cuts that could result from the State of California's massive budget deficit, many counties and cities could be facing severe financial hardship in the coming year.

Enclosed are the details of a joint proposal by CSAC and the League of California Cities that would keep operating funds flowing to local governments with very little use of federal resources. Notably, the proposal would be a short term (one year) federal guarantee that is not expected to result in the actual expenditure of funds allocated to the TARP program. Given the fact that this proposal is likely to be budget neutral, we strongly believe that this course of action represents a responsible, effective use of federal TARP funding.

Thank you for your consideration of this request. We look forward to continuing to work with you to ensure that federal dollars are spent on programs that are designed to help bring an end to the economic crisis facing all levels of government.

Sincerely,

A handwritten signature in black ink that reads "Paul McIntosh".

Paul McIntosh
Executive Director
California State Association of Counties

Cc: Mr. Timothy F. Geithner, Secretary, U.S. Department of the Treasury
Ms. Cecilia Muñoz, Director, White House Office of Intergovernmental Affairs (IGA)
Mr. Michael Blake, Deputy Associate Director, IGA
Members of the California Congressional Delegation

Enclosure



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**Request for TARP Guaranty of a Portion of U.S. Bank Letter of Credit
to be delivered in connection with a
Tax and Revenue Note Program for California Communities**

The current financial crisis has severely limited local government access to the traditional short-term capital markets. The California State Association of Counties (“CSAC”) and the League of California Cities (“League”) have a proposed solution that will keep operating funds flowing to local governments with *little or no use of federal resources*. The CSAC and League proposal would be a short-term (one year) federal guarantee that is not expected to result in the actual expenditure of funds allocated to the Troubled Asset Relief Program (“TARP”).

An important goal of TARP is to encourage banks to resume lending and to provide credit at levels seen before the current financial crisis. While the focus of these efforts has been on the housing market, consumers, businesses and local governments are also suffering enormous, financial difficulties. Stabilizing local government finance through reestablishing the strong, historical credit environment for public agencies will help restore and improve investor confidence in the markets.

While each request for TARP funds must be carefully examined on merit, it has been determined that TARP funds may be used in flexible ways to assist programs deemed necessary by Treasury to avert the current financial crisis. The particular crisis faced by California local governments is the significant reduction in credit enhancement which has historically been available in the short-term capital markets. Absent access to this market, California local governments could be forced to make program reductions and lay off government employees.

The following provides a background on the California Communities cash flow financing program for local governments and suggests a proposed use of TARP funds to shore up local government credit markets.

Background

Many local governments in California experience periodic cash flow deficits due to the semiannual timing of property tax receipts in California. Their primary cash flow management tool is to issue tax and revenue anticipation notes (“TRANs”) each year to provide operating funds during these temporary periods of cash flow deficits. CSAC and the League have jointly sponsored a pooled TRANs program since 1993 known as the California Communities TRANs program. The TRANs program has provided over 150 California local governments with over \$7.8 billion in cash flow financing. In 2008, the program provided \$854 million in cash flow financing to 29 local governments.

In order to qualify all participating local governments for the highest short-term credit ratings, the program has been structured with partial credit enhancement in the form of a municipal bond surety policy provided by Financial Security Assurance (“FSA”), a municipal bond insurer. The amount of the credit enhancement policy has ranged from 10% to 20% of the par amount. The rating agencies review each participating local government’s credit and determine the required enhancement amount that would be sufficient to qualify the pooled program for the highest short-term credit ratings from Standard & Poor’s and Moody’s Investors Service of SP-1+ and MIG-1, respectively.

While credit enhancement has been required to qualify the pool for the highest short-term ratings and to provide market access for the pooled program, no local government has ever defaulted on its note; and accordingly, no credit enhancement has ever actually been used or drawn upon in the entire 16-year history of the program.

Prior to the current financial crisis, there were seven triple-A rated municipal bond insurers: AMBAC, MBIA, XL, FGIC, FSA, Assured Guaranty, and CFIG. All seven insurers have since lost their triple-A ratings. In this environment, it is very difficult to obtain credit enhancement for local governments. The program’s prior insurer, FSA has been acquired by Assured Guaranty, which has informed the California Communities TRANS program that it will not provide credit enhancement for the 2009 TRANS program.

U.S. Bank National Association has agreed to provide credit enhancement for the 2009 TRANS Program. However, in the currently tight credit environment, U.S. Bank’s credit requirements are much more restrictive than the program’s prior credit requirements. U.S. Bank is requiring each participant in the 2009 TRANS Program to have a “Year End Cash Flow Balance” coverage ratio from cash flow of 125% of debt service on its respective note and to have a 150% cash flow coverage ratio on its note from primary general fund cash flow plus certain alternative cash flow sources.

Based on U.S. Bank’s credit requirements, 52% of the 2008 pool borrowers would not qualify for the 2009 TRANS program. Attached as Exhibit A is a breakdown of the 2008 pool participants and a list of those who would not have qualified under these requirements. Several California local governments beyond those in the 2008 pool have expressed interest in the 2009 pool.

Proposed Guaranty

U.S. Bank is willing to increase the amount of its letter of credit to permit additional local government participation in the program by reducing the cash flow requirements from 125% to 110% and from 150% to 125%, respectively, in the above-described credit tests; provided the Treasury, through TARP, is willing to guarantee immediate reimbursement to U.S. Bank of amounts drawn on its letter of credit with respect to payment defaults by the local governments allowed to participate because of the reduced credit requirements. In the event of any such default, U.S. Bank would assign to the appropriate representatives of TARP the right to proceed against and collect from any defaulting

local government. The TARP guaranty would only be with respect to these additional local government participants, and is expected to be approximately \$50,000,000.

Finally, it is important to note that even these proposed reduced cash flow coverage requirements are more stringent than those previously accepted by FSA, as bond insurer for the program, further protecting against any loss of TARP funds.

Attachment A

**2008 Note
Amount**

| | | |
|---------------------------------|--------------------|------------|
| Carmel Valley FPD | 1,400,000 | |
| Chula Vista, City of | 25,000,000 | |
| Colusa, County of | 5,000,000 | |
| Glenn, County of | 5,000,000 | |
| Mendocino, County of | 26,000,000 | |
| Montebello, City of | 8,500,000 | |
| Pacific Grove, City of | 3,315,000 | |
| Redondo Beach, City of | 5,000,000 | |
| Sierra, County of | 2,175,000 | |
| Siskiyou, County of | 9,320,000 | |
| Stockton, City of | 30,000,000 | |
| Woodland, City of | 18,965,000 | |
| Total Ineligible in 2009 | 139,675,000 | 52% |

| | | |
|-------------------------------|--------------------|------------|
| Cameron Park CSD | 1,390,000 | |
| Redlands, City of | 5,000,000 | |
| Imperial, County of | 10,000,000 | |
| Butte, County of | 25,000,000 | |
| North Tahoe FPD | 2,010,000 | |
| Riverside, City of | 30,000,000 | |
| Vacaville, City of | 5,000,000 | |
| Fullerton, City of | 8,000,000 | |
| Redding, City of | 5,000,000 | |
| Belmont FPD | 1,030,000 | |
| Paradise, Town of | 1,185,000 | |
| Yolo, County of | 5,000,000 | |
| Monterey, County of | 30,575,000 | |
| Total Eligible in 2009 | 129,190,000 | 48% |

| | |
|--------------------------------|--------------------|
| 2008 Total Pool Program | 268,865,000 |
|--------------------------------|--------------------|

Stand Alone Borrowers

| | |
|---------------------------|-------------|
| Fresno, City of | 55,205,000 |
| Tulare, County of | 55,000,000 |
| Riverside, County of | 315,000,000 |
| San Bernardino, County of | 160,000,000 |

| | |
|------------------------------|--------------------|
| Combined 2008 Program | 854,070,000 |
|------------------------------|--------------------|