COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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September 26, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Acting Auditor-Controller

William T Fujioka
Chief Executive Officer

COUNTY GENERAL FUND CASH FLOW ADVANCE FOR ALHAMBRA UNIFIED SCHOOL DISTRICT DEBT SERVICE FUND — INFORMATION FOR SUPPLEMENTAL BUDGET (AGENDA OF OCTOBER 7, 2008)

On October 7, 2008, your Board is scheduled to review and approve the Supplemental Budget Resolution. One of the recommended actions in the Supplemental Budget Resolution provides for a County General Fund cash flow advance of $2.4 million to the Alhambra Unified School District Debt Service Fund (2004 Series A). The commitment to make the cash flow advance also requires a $2.4 million General Fund reserve, which is reflected as a Fiscal Year (FY) 2008-2009 budget adjustment.

Background

The Auditor-Controller is responsible for computing and levying property tax rates each fiscal year to ensure that sufficient funds are available to meet debt service payment requirements for School District general obligation bonds.

The Garvey Elementary School District (Garvey ESD) is located within the Alhambra Unified School District (Alhambra USD). For high school education purposes, Alhambra USD serves all residents within its entire boundary, including the Garvey ESD area. The presence of a separate school district (Garvey ESD) within the boundary of a larger school district (Alhambra USD) is unique to this one pair of districts in Los Angeles

County. The unique configuration of these districts contributed to the mistaken understanding that the Garvey ESD area was not subject to taxation for bonds issued by Alhambra USD. In 2005, Alhambra USD issued $50 million of general obligation bonds, with debt service payments beginning in 2005 and ending in 2029. For the three fiscal years ended June 30, 2008, taxpayers within the Garvey ESD area were not taxed for their share ($2.4 million) of debt service payments for bonds issued by the Alhambra USD. Taxpayers in the remaining boundary area of Alhambra USD were excessively charged by the same amount ($2.4 million). The tax levy for FY 2008-2009 has been applied uniformly to Alhambra USD in its entirety and all property owners (including those within Garvey ESD) will be taxed, as approved by your Board on September 9, 2008.

Corrective Action Plan

The Auditor-Controller has worked with the 1st and 5th Districts, the Chief Executive Office, and County Counsel to develop a recommended corrective action plan as follows:

1) The County General Fund will make a "cash flow advance" of $2.4 million to the Alhambra USD 2004-Series A Debt Service Fund. As described below, the cash flow advance is intended to bridge the gap between current tax refunds and the timing of the recovery of unbilled taxes from the Garvey ESD area taxpayers. This proposed action is also intended to ensure that the property tax charges for the bond repayment are levied equitably to all taxpayers for the full term of the outstanding bonds.

2) The Auditor-Controller will mail refund checks to Alhambra residents for the full amount of the three years' overpayment. This will be arranged as soon as the Auditor-Controller finishes with all the work needed to generate the upcoming property tax bills. Refund checks will be issued between late October and mid-November. This will provide the money to the property owners prior to the first property tax installment date of December 10, 2008.

3) To minimize the future burden on Garvey ESD taxpayers, the recovery of unbilled taxes will be amortized over the remaining debt service period of the outstanding bonds. The recovery will be undertaken by adjusting future property tax rates, beginning with FY 2009-2010 and concluding in FY 2028-2029.

Fiscal Impact

The recommended cash flow advance from the County General Fund is recoverable from future years' property tax levies. However, since this amount is not available for current spending, it is considered a long-term receivable and a corresponding budgetary reserve is required. As amounts are collected for this receivable in each future year, the

corresponding reserve amount will be reduced and made available for General Fund spending purposes.

If you have any questions, please contact either of us or your staff may contact John Naimo with the Auditor-Controller at (213) 974-8484.

WLW:WTF:JN:mv
Exec/Naimo/Alhambra garvey board memo

c: County Counsel
Treasurer and Tax Collector