

Date of Hearing: May 12, 2020

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 2107 (Rodriguez and Gray) – As Introduced February 6, 2020

SUBJECT: Local government: securitized limited obligation notes.

SUMMARY: Extends the sunset date for special districts' authority to issue securitized limited obligation notes (SLONs) until December 31, 2024.

EXISTING LAW:

- 1) Authorizes, until December 31, 2019, a special district to issue SLONs for the acquisition or improvement of land, facilities, or equipment.
- 2) Requires a special district to adopt a resolution, containing specified information, with a four-fifths vote of the governing body prior to issuing SLONs.
- 3) Specifies that SLONs shall bear interest at a rate not exceeding the rate permitted by law.
- 4) Provides that SLONs may not mature later than 10 years after the date of the issuance of the notes.
- 5) Limits the total amount of SLONs outstanding at any one time within a special district to \$2,000,000.
- 6) Requires every agreement to recite in substance that the principal of, and interest on, the SLONs are payable solely from the revenue pledged to the payment of the principal and interest and that the special district is not obligated to pay the principal or interest except from the pledged revenue.

FISCAL EFFECT: None

COMMENTS:

- 1) **Bill Summary and Author's Statement.** This bill extends the sunset date for special districts' authority to issue SLONs until December 31, 2024. The California Special Districts Association is the sponsor of this bill.

According to the author, "SLONs permit a public agency to issue a note to finance lower-cost acquisitions or improvements of land, facilities, or equipment. SLONs are secured by a pledge of any available revenue and approved by a four-fifths vote of the governing body. Unfortunately, on December 31, 2019, the authorization for special districts to use this financing tool expired. AB 2107 simply restores this authority for another five years."

- 2) **SLONs.** SLONs are like promissory notes in that they don't require voter approval. Unlike riskier promissory notes, SLONs are more secure because the special district pledges a dedicated stream of revenues. SLONs are often more practical than long-term bonds that require 20 to 30 years of interest payments.

- 3) **Previous Legislation.** SB 1561 (Soto), Chapter 288, Statutes of 2002, authorized the San Bernardino County Flood Control District to use SLONs.

AB 878 (Pavley), Chapter 389, Statutes of 2003, authorized the Humboldt Bay Harbor, Recreation and Conservation District to issue SLONs as well.

SB 1770 (Committee on Local Government), Chapter 114, Statutes of 2004, allowed all special districts, until December 31, 2009, to issue SLONs.

SB 1124 (Committee on Local Government), Chapter 709, Statutes of 2008, extended the authority for special districts to issue SLONs from December 31, 2009, to December 31, 2014.

SB 1462 (Committee on Local Government), Chapter 201, Statutes of 2014, extended the authority for special districts to issue SLONs from December 31, 2014, to December 31, 2019.

- 4) **Policy Consideration.** AB 2107 will be the third sunset date extension for special district authority to issue SLONs. Barring negative reports regarding SLONs, the Committee may wish to consider if the sunset date should simply be removed in order to avoid the need for future legislation.
- 5) **Arguments in Support.** The California Special Districts Association argues that, “For many special districts, especially for smaller districts with limited resources, SLONs may be the only pragmatic and cost-effective medium-term financing method available to fund a variety of modest projects (less than \$2 million), with a four-fifths vote of the district board.”
- 6) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

California Special Districts Association [SPONSOR]
Alpine Village-Sequoia Crest Community Services District
California Municipal Utilities Association
Costa Mesa Sanitary District
Cucamonga Valley Water District
Elsinore Valley Municipal Water District
Frazier Park Public Utility District
Hilmar County Water District
Keyes Community Services District
Orange County Cemetery District
Southgate Recreation and Park District
Three Valleys Municipal Water District
Tulare Mosquito Abatement District
Volta Community Services District
Walnut Valley Water District

Opposition

None on file

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