

----- Original Message -----

**Subject:**CA. GOV. CODE Sec. 56121

**Date:**Tue, 27 May 2014 17:41:04 -0400 (EDT)

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LEE - Check out subsections (f) and (g) of this section (CA. GOV. CODE Section 56121) of the California Government Code. If a loan is a general fund obligation of a predecessor agency, a subsequent consolidation and/or reorganization by LAFCO of the predecessor agency into another agency (under the Cortese-Knox Act) will result in the general fund of the new agency being fully obligated to pay the loan obligation.

LAFCO does not have the power to change the existing contractual obligations (the duty to the lender by the borrowing agency to pay the loan from the agency's general fund resources) for the benefit of the new agency, nor may LAFCO diminish the guarantee of repayment by the original predecessor agency general fund by setting up an illegal, de facto assessment area within the new agency. This section was amended to correspond to changes in the California Constitution that were implemented in the 1990's.

This section allows also board members to be personally sued to recover the full amount of the pre-existing loan (see underlined highlights).

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**Sec. 56121.** No change of organization or reorganization, or any term or condition of a change of organization or reorganization, shall impair the rights of any bondholder or other creditor of any county, city, or district. Nor shall any change of organization or reorganization, or any term or condition of a change of organization or reorganization, impair the contract rights, or contracts entered into by a public entity created by a joint exercise of powers agreement established pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code.

**Notwithstanding any provision of this division, or of any change of organization or reorganization, or any term or condition of a change of organization or reorganization, each and every bondholder or other creditor may enforce all of his or her rights in the same manner, and to the same extent, as if the change of organization, reorganization, term, or condition had not been made. Those rights may also be enforced against agencies, and their respective officers, as follows:**

(a) Annexation or detachment: against the city or district to, or from, which territory is annexed or detached.

(b) Incorporation: against the newly incorporated city.

(c) Formation: against the newly formed district.

(d) Disincorporation: against the successor county receiving distribution of the remaining assets of the disincorporated city.

(e) Dissolution: against the local agency receiving distribution of all or any part of the remaining assets of a dissolved district.

**(f) Consolidation: against the consolidated successor city or district.**

**(g) Reorganization: against the affected city or district, successor county or newly incorporated city or newly formed district, as the case may be, for any of the above enumerated changes of organization or city incorporations which may be included in the particular reorganization.**