



7-1

OFFICE OF THE  
CITY TREASURER

THOMAS P. FRIERY  
TREASURER

DONALD E. SPERLING  
ASSISTANT TREASURER

CITY OF SACRAMENTO  
CALIFORNIA

921 TENTH STREET  
SUITE 400  
SACRAMENTO, CA  
95814-2714

916-449-5318  
OPERATIONS

916-449-5168  
INVESTMENTS &  
ADMINISTRATION

FAX 916-448-3139

November 14, 1989

Budget and Finance Committee  
Sacramento, California

SUBJECT: Resolution Authorizing the Issuance, Sale and Delivery of 1989  
City of Sacramento Certificates of Participation.

Honorable Members in Session:

SUMMARY

Provided in the City Council packet as item #24-1 is a report recommending the issuance, sale and delivery of City of Sacramento 1989 Certificates of Participation to finance various City projects including the Civic Center Plaza Parking Garage and a NFL franchise fee.

FINANCIAL DATA

See City Council report.

POLICY CONSIDERATIONS

See City Council report.

MBE/WBE EFFORTS

See City Council report.

RECOMMENDATION


It is requested that after hearing the City Council report, the Committee recommend to the full Council adoption of the resolution providing for:

- Approval and execution of the final form of the Project Lease by and between the City and the Sacramento City Financing Authority for the Executive Airport and Community Center Exhibit Hall projects, and
- The issuance, sale and delivery of City of Sacramento 1989 Certificates of Participation in the amount of \$96,540,000.

Respectfully submitted,

  
THOMAS D. FRIERY  
City Treasurer

RECOMMENDATION APPROVED:

  
JACK R. CRIST, Deputy City Manager

November 14, 1989  
All Districts



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Sacramento City Council  
Sacramento, California

SUBJECT: Resolution Authorizing the Issuance, Sale and Delivery of 1989  
City of Sacramento Certificates of Participation.

Honorable Members in Session:

SUMMARY

On November 13, 1989, the City Treasurer and PaineWebber, Inc. negotiated a true interest cost of 7.21% based on normal financing costs and expenses of \$1,051,805.80 for \$96.540 million 1989 City of Sacramento Certificates of Participation. PaineWebber Inc. negotiated on behalf of the underwriting group which also includes Stone & Youngberg and Grigsby, Brandford Powell, Inc.

Certificates are being sold with an original issue discount ("OID") of \$4,092,020. As a result of discounting, the total issue size was increased from \$92.705 million with an interest cost of 7.33% to \$96.540 million with an interest cost of 7.21 percent. Increasing the issue size was necessary in order to provide sufficient net proceeds to fund the projects being financed. The certificates were discounted as a marketing strategy and resulted in a reduction of total debt service over the life of the issue by over \$2.2 million.

The interest rates and underwriter's discount negotiated are favorable and comparable to similar transactions in the market. The Treasurer recommends Council adopt the attached resolution authorizing execution of a Project Lease and award of the certificates to the underwriting group.

BACKGROUND

On October 26, 1989, Council approved legal documents and a Project Lease for the Executive Airport and Community Center Exhibit Hall in connection with the issuance of certificates of participation. The certificates are being sold to finance the Civic Center Parking Garage, a NFL franchise fee, the Downtown Plaza Parking Garage and other public improvements. The COP has been rated "A+" by Standard & Poor's Inc., and "AA" by Moody's Investors Service. These ratings indicate a very strong capacity to pay interest and repay principal, and differ only slightly from the highest ratings.

FINANCIAL

The certificates are being sold at a 7.21% true interest cost ("TIC") and a 6.94% net interest cost ("NIC") based on normal financing costs. An original issue discount of \$4,092,020 was negotiated. The underwriters advised that by structuring the COP to have an original issue discount, the City would save about \$110,000 annually in debt service although the size of the COP increased by \$3.8 million. Issuing \$96.5 million of certificates at a discount of \$4.1 million will save the city about \$2.2 million in debt service over the life of the issue as compared to certificates sold at par of \$92.7 million at higher coupon interest rates.

TIC can be calculated based on normal costs as well as on necessary costs. Normal financing costs are generally paid directly from proceeds and include the underwriter's discount and costs such as underwriter's counsel, out of pocket expenses, bond clearance, registration fees and other expenses of the underwriters. These Normal expenses totalled \$1,051,806 and amount to \$10.90 per \$1,000 certificate issued and will be paid directly from proceeds.

Necessary financing costs and expenses have been estimated to be an additional \$371,300. These costs include rating agency fees, bond counsel fees, trustee fees, appraisals, title insurance, special counsel and other expenses. Separating Necessary costs from Normal costs allows comparability with other issuers who may have paid such costs from operating budgets rather than from bond proceeds. The \$371,300 of Necessary costs amounted to \$3.84 per \$1,000 certificate. Payment of these Necessary expenses will come from proceeds (\$350,000) and interest earnings (\$21,300) on unexpended proceeds.

Combined, Necessary and Normal costs totalled \$1,423,106 and amounted to \$14.74 per \$1,000 certificate issued. These costs compare favorably with previous City financings and comply with the terms of the underwriter's contract.

Following is a summary of the financing costs and expenses associated with the 1989 COP:

Financing Costs and Expenses

	<u>Per Bond</u>	<u>In Total</u>
Management Fee to Underwriters	\$ 1.60	\$ 154,464
Underwriting Risk	0.00	-0-
Sales Commission (average)	7.17	692,192
Other Costs and Expenses:		
Normal	2.13	205,150
Necessary	<u>3.84</u>	<u>371,300</u>
Total Costs and Expenses	<u>\$14.74</u>	<u>\$1,423,106</u>

For a comparison of how favorable these financing costs and expenses are, please refer to Attachment 1. When compared to the City's 1987 COP, the Normal costs are approximately \$6.00 per \$1,000 certificate less which amounts to a savings of about \$578,755. When compared to the County's recent Regional Sanitation financing, there is a savings of about \$1.11 per \$1,000, or \$107,640 in total.

As previously reported to Council, in the event a NFL team is not signed or fails to play in Sacramento as specified in the contract with the Sacramento Sports Association, Inc. ("SSA"), the City will be reimbursed for, among other things, the costs associated with the COP financing. These costs total \$730,449 and are summarized in the following table.

Costs of Issuance  
 Associated With NFL Franchise Fee

Underwriter's Discount:	
Management Fee	\$ 75,101
Takedown, Sales Commission	336,544
Expenses:	
Legal	41,327
Advertising	4,133
Printing	18,962
Registration & overhead	19,034
Clearance	8,509
Marketing related	7,779
City Issuance Expenses:	
Rating Agencies	14,586
Trustee	8,795
Bond Counsel	72,930
Special Counsel	75,000
Title Insurance	36,149
Appraisal	8,197
Other Expenses	<u>3,403</u>
Total Cost of Issuance	<u>\$730,449</u>

The certificates are being sold with a nine year call provision. The first call date is November 1, 1998, and term certificates may be called on that date at their par amount. The call premium for term certificates was reduced from the previous amount of 102% of par in 1998. The certificates were initially offered with an early redemption provision whereby certificates equal in amount to the NFL franchise fee being financed could be called, at the option of the City, 210 days after closing and delivery of the issue. During the pricing on November 13, it became clear that the investment community did not favor the early call provision and would impose a substantial interest rate penalty on the City if it remained.

The Treasurer discussed the early call pricing phenomena with the City Manager and determined that the City would proceed with financing certain of the alternate projects described in the Preliminary Official Statement if a NFL team were not signed and that it would be in the City's best interest to lower the borrowing costs as much as possible. It was determined advisable to remove the early redemption provision because a 0.20% interest penalty (equal to \$1.8 million over the life of the COP) would result from it. (See Attachment 2)

#### POLICY CONSIDERATIONS

As previously recommended to Council, \$13.875 million of proceeds will be used by SHRA for projects in the Merged Downtown Redevelopment project area. On average, the annual debt service obligation associated with these proceeds will be \$1,480,800. SHRA has provided the Treasurer with a debt service analysis of the Merged Downtown area and have identified sufficient incremental property tax to support the debt service obligation.

It will be necessary to execute an amendment to the existing Light Rail Repayment Agreement between SHRA and the City as part of the closing of the 1989 COP. This Repayment Agreement was entered into as part of the light rail financing accomplished through the City's 1985 COP (Light Rail Project) and was later amended in 1987 as part of SHRA's Tax Allocation bond issue to construct the Central Library. The agency has presented to the Redevelopment Commission their five year financing plan, including the use of proceeds from the City's 1989 COP, and have received approval from the Commission to amend the Repayment Agreement.

In considering approving removal of the early call provision, Council is advised that the Treasurer envisioned that the NFL franchise signing was eminent and therefore the ability to secure 7.139% money as opposed to 7.35% money on the term certificates associated with the NFL franchise fee portion was significant and would reduce risk to the City. Further, in the event the NFL team is not signed, the City will recover at least \$1.693 million from the SSA Letter of Credit and thereby reduce the borrowing cost on proceeds used for City alternate project purposes to approximately 6.84%, which is the lowest City borrowing rate in recent history. Finally, although interest rates may decline (or rise) in the future, fixed income financing always locks in rates at the time of borrowing. Therefore, the absolute level of borrowing is important and locking in the cost at money at 6.84% is advantageous.

7-1

MEE/WBE EFFORTS

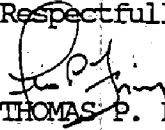
MEE/WBE efforts are not applicable as part of the approval of the attached Resolution.

RECOMMENDATION

It is recommended that the City Council adopt the attached resolution providing for:

- Approval and execution of the final form of the Project Lease by and between the City and the Sacramento City Financing Authority for the Executive Airport and Community Center Exhibit Hall projects, and
- The issuance, sale and delivery of City of Sacramento 1989 Certificates of Participation in the amount of \$96,540,000 as shown in Exhibit A of the Resolution.

Respectfully Submitted,

  
THOMAS P. FRIERY,  
City Treasurer

RECOMMENDATION APPROVED:

  
WALTER J. SLUPE, City Manager

November 14, 1989  
All Districts

Contact Person:

David Affleck, Deputy Treasurer 449-5168

CITY OF SACRAMENTO  
TREASURER'S OFFICE  
1989 CERTIFICATES OF PARTICIPATION  
COSTS AND EXPENSES

	1987 COP		REGIONAL SAN BONDS		1989 COP		NFL
	\$/1,000	\$41,650,000	\$/1,000	\$60,155,000	\$/1,000	\$96,540,000	48.620%
Management Fee	3.00	124,950.00	1.40	84,217.00	1.60	154,464.00	75,100.40
Takedown	8.24	343,325.00	7.33	440,781.25	7.17	692,191.80	336,543.65
Risk	0.50	20,825.00	0.50	30,077.50	0.00	0.00	0.00
U/W Expense	5.15	214,332.10	2.78	167,426.26	2.13	205,150.00	99,743.93
Total Underwriter Discount	16.89	703,432.10	12.01	722,502.01	10.90	1,051,805.80	511,387.98
Other Expenses	5.74	238,974.07	--	not known	3.85	371,300.00	219,061.06
Total Costs & Expenses	22.63	942,406.17	N/A	N/A	14.74	1,423,105.80	730,449.04





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Attachment 2  
Page 1 of 3 pages

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FAX 916-448-3139

TO: Mayor Anne Rudin  
City Councilmembers

FROM: Thomas P. Friery, City Treasurer

RE: Removal of Special Call Provision - 1989 COP Financing

At 6 a.m. Pacific Standard Time on Monday, November 13, 1989, the City Treasurer started preliminary price negotiations with PaineWebber Inc. and the other Wall Street firms interested in purchasing the 1989 COP financing. During this conversation it became clear that the investment community does not favor the early call provision and furthermore, they expressed interest in acquiring "discount" as opposed to "market interest" rate certificates.

As an example, Wall Street indicated:

- COPS with a maturity of 2009 without an early call 210 days would be priced with 6.5% coupons to yield 7.15% to investors, and;
- COPS with a maturity of 2009 with an early call in 210 days would be priced with 7.30% coupons to yield 7.35% to investors.

The cost difference for the early call, therefore, was .20% or, when applied to the \$45 million in COPS attributable to the NFL, a cost of approximately \$90,000 annually in debt service or \$1.8 million over the 20 year life.

In discussing this early call pricing phenomenon with the City Manager it appeared highly likely that the City would proceed with financing certain of the alternative projects described in the Preliminary Official Statement if the NFL team were not signed. If it were true that the projects would be financed even though the NFL team were not signed, it would be in the City's best interest to get the borrowing costs as low as possible. Therefore, since the 7.15% invest yield for non-early call was .20% less than the 7.35% with early call it was determined advisable to remove the early call provision.

In previous discussions and in staff reports to City Council it was always Council's expressed desire that the City recoup costs involved with the financing which had been estimated by the City Treasurer to be not more than \$1.8 million if the NFL team were not signed. The City can still recoup these costs if the early call were removed.

At 9:30 a.m. PST today the City Treasurer authorized the removal of the 210 day call for the 1989 COP financing. By so doing, debt service costs associated with the early call will be reduced by at least \$1.8 million over the life of the issue as it pertains to the NFL football franchise fee.

Furthermore, by so doing, the COP proceeds will now be used for alternative city projects in the event the NFL is not signed with 210 days from settlement of the COP or if the first NFL game is not played before September 1, 1992. For the record the costs attributable to the SSA for the \$1.8 million L/C if the team is not signed or the first game played by September 1, 1992 are as follows:

Costs to be recouped  
from SSA under no NFL team signed

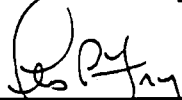
1989 COP Financing Costs & Expenses	\$730,026
(A) Present Value Cost of Early Call	<u>\$963,526</u>
Total Costs to SSA	<u>\$1,693,552</u>

(A) The cost to the SSA if no NFL team signed and the City used the proceeds at 20 bp per year or \$1.8 million more over the life. This amount reflects the discounted present value of 7% of these savings.

For your information, recouping the \$1.693 million in costs from SSA would have the effect of reducing the borrowing costs .37% more on the 1989 COP in the event an NFL team is not signed.

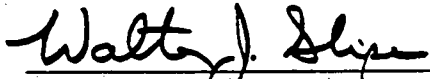
The removal of the early call provision is a marketing issue and not considered a major change in the issue structure. However, the removal of the early call is a policy matter for the City Council to consider and approve. It is recommended that Council approve this market change.

Recommended by:



Thomas P. Friery, City Treasurer

Concurred with by:



Walter J. Slupe, City Manager

# RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

November 14, 1989

ON DATE OF \_\_\_\_\_

A RESOLUTION OF THE COUNCIL OF THE CITY OF SACRAMENTO APPROVING THE FINAL FORM OF AND AUTHORIZING THE EXECUTION OF A PROJECT LEASE AND RATIFYING THE AMOUNTS OF THE BASE RENTAL PAYMENTS PAYABLE THEREUNDER AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City of Sacramento (the "City") is a charter city and municipal corporation duly organized and existing under and pursuant to the Constitution and laws of the State of California; and

WHEREAS, the Sacramento City Financing Authority (the "Authority") is a joint exercise of powers entity duly organized and existing under and pursuant to the laws of the State of California; and

WHEREAS, the Authority was formed to render financial assistance to the City by financing the acquisition, construction and improvement of public buildings and facilities for the City; and

WHEREAS, under Ordinance No. 89-078, passed and adopted on October 26, 1989, the City is authorized to enter into a lease with the Authority (the "Project Lease") for the lease of certain real property and the buildings thereon constituting portions of the Sacramento Community Center and the Sacramento Executive Airport (the "Project"); and

WHEREAS, the City intends to lease the Project from the Authority pursuant to the Project Lease and the Authority intends, pursuant to an Assignment Agreement and a Trust Agreement by and among Security Pacific

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

National Bank, as trustee, the City and the Authority (the "Trust Agreement"), to arrange for the execution and delivery of certificates of participation (the "Certificates") evidencing undivided interests in the base rental payments to be made by the City pursuant to the Project Lease, which base rental payments may be made from any funds of the City lawfully available therefor; and

WHEREAS, this City Council pursuant to a resolution adopted on October 26, 1989, approved certain documents relating to such lease financing of the project, including the Project Lease, and authorized and directed the execution of such documents and the consummation of such financing; and

WHEREAS, this City Council reserved the right to ratify the amounts of the base rental payments payable pursuant to the Project Lease prior to the execution and delivery thereof; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such financing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Sacramento, as follows:

---

FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

Section 1. The City hereby specifically finds and declares that the actions authorized hereby constitute and are with respect to public affairs of the City and that the statements, findings and determinations of the City set forth above are true and correct.

Section 2. The Project Lease, dated as of November 1, 1989, on file with the City Clerk, is hereby approved and the Mayor of the City and the City Clerk are hereby authorized and directed to execute and deliver the Project Lease in substantially said form.

Section 3. The schedule of the principal and interest components of the base rental payments contained in Exhibit A is ratified and approved and is hereby determined as the base rental to be paid by the City pursuant to the Project Lease.

Section 4. The execution and delivery, pursuant to the Trust Agreement, of \$96,540,000 aggregate principal amount of City of Sacramento Certificates of Participation (Community Center and Executive Airport Project), evidencing proportionate undivided interests in the rights to receive base rental payments payable by the City pursuant to the Project Lease, is hereby authorized and approved.

Section 5. The officers and agents of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents, including arbitrage certificates, or make any necessary or advisable modifications to those documents which are acceptable to the City Attorney's Office and Orrick, Herrington & Sutcliffe, special counsel, and which they may deem necessary or advisable in order to consummate the sale, execution and delivery of the Certificates.

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

Section 6. All actions heretofore taken by the officers and agents of the City with respect to the sale, execution and delivery of the Certificates are hereby approved, confirmed and ratified.

Section 7. This resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED this 14th day of November, 1989 by the following vote:

AYES: Councilmembers

NOES:

ABSENT:

\_\_\_\_\_  
Mayor of the City of Sacramento

[Seal]

Attest:

\_\_\_\_\_  
City Clerk of the City of Sacramento

**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

EXHIBIT A

Base Rental Payment Schedule

<u>Base Rental Payment Date</u>	<u>Interest Component</u>	<u>Principal Component</u>	<u>Total Base Rental Payment</u>
May 1, 1990	\$3,127,845.00		\$3,127,845.00
November 1, 1990	3,127,845.00	\$2,520,000.00	5,647,845.00
May 1, 1991	3,053,505.00		3,053,505.00
November 1, 1991	3,053,505.00	2,665,000.00	5,718,505.00
May 1, 1992	2,973,555.00		2,973,555.00
November 1, 1992	2,973,555.00	2,825,000.00	5,798,555.00
May 1, 1993	2,887,392.50		2,887,392.50
November 1, 1993	2,887,392.50	3,000,000.00	5,887,392.50
May 1, 1994	2,794,392.50		2,794,392.50
November 1, 1994	2,794,392.50	3,185,000.00	5,979,392.50
May 1, 1995	2,694,065.00		2,694,065.00
November 1, 1995	2,694,065.00	3,385,000.00	6,079,065.00
May 1, 1996	2,585,745.00		2,585,745.00
November 1, 1996	2,585,745.00	3,605,000.00	6,190,745.00
May 1, 1997	2,468,582.50		2,468,582.50
November 1, 1997	2,468,582.50	3,835,000.00	6,303,582.50
May 1, 1998	2,342,027.50		2,342,027.50
November 1, 1998	2,342,027.50	4,090,000.00	6,432,027.50
May 1, 1999	2,205,012.50		2,205,012.50
November 1, 1999	2,205,012.50	4,365,000.00	6,570,012.50
May 1, 2000	2,056,602.50		2,056,602.50
November 1, 2000	2,056,602.50	4,660,000.00	6,716,602.50
May 1, 2001	1,898,162.50		1,898,162.50
November 1, 2001	1,898,162.50	4,980,000.00	6,878,162.50
May 1, 2002	1,736,312.50		1,736,312.50
November 1, 2002	1,736,312.50	5,300,000.00	7,036,312.50
May 1, 2003	1,564,062.50		1,564,062.50
November 1, 2003	1,564,062.50	5,645,000.00	7,209,062.50
May 1, 2004	1,380,600.00		1,380,600.00
November 1, 2004	1,380,600.00	6,015,000.00	7,395,600.00
May 1, 2005	1,185,112.50		1,185,112.50
November 1, 2005	1,185,112.50	6,405,000.00	7,590,112.50
May 1, 2006	976,950.00		976,950.00
November 1, 2006	976,950.00	6,820,000.00	7,796,950.00
May 1, 2007	755,300.00		755,300.00
November 1, 2007	755,300.00	7,265,000.00	8,020,300.00
May 1, 2008	519,187.50		519,187.50
November 1, 2008	519,187.50	7,735,000.00	8,254,187.50
May 1, 2009	267,800.00		267,800.00
November 1, 2009	267,800.00	8,240,000.00	8,507,800.00
	<u>\$78,944,425.00</u>	<u>\$96,540,000.00</u>	<u>\$175,484,425.00</u>