

# Item No. 15

## **“To Be Delivered” Material**

For

### **City of Sacramento**

City Council

Financing Authority

Housing Authority

Redevelopment Agency

### **Agenda Packet**

**Submitted:** November 13, 2009

**For the Meeting of:** November 17, 2009

The attached materials were not available at the time the Agenda Packet was prepared.

**Title:** City of Sacramento Direct Purchase (Private Placement) of State of California General Obligation Bonds

Contact Information: Russell Fehr, 808-5832

Please include this “To Be Delivered” material in your agenda packet. This material will also be published to the City’s Internet. For additional information, contact the City Clerk Department at Historic City Hall, 915 I Street, First Floor, Sacramento, CA 95814-2604, (916) 808-7200.



# REPORT TO COUNCIL

## City of Sacramento

915 I Street, Sacramento, CA 95814-2604  
[www.CityofSacramento.org](http://www.CityofSacramento.org)

STAFF  
November 17, 2009

**Honorable Mayor and  
Members of the City Council**

**Title:** City of Sacramento Direct Purchase (Private Placement) of State of California  
General Obligation Bonds

**Location/Council District:** All

**Recommendation:** Approve a Resolution authorizing the City Treasurer to execute a  
direct purchase (private placement) of State of California General Obligation Bonds with  
the State Treasurer

**Contact:** Russell T. Fehr, City Treasurer (916) 808-5168

**Presenters:** Russell T. Fehr, City Treasurer (916) 808-5168

**Departments:** City Treasurer

**Division:** City Treasurer

**Organization No:** 05001011

### **Description/Analysis**

**Issue:** The City has successfully competed for State General Obligation (G.O.) Bond  
infrastructure project funding established by Propositions 1B and 1C; however, the  
State is not able to sell all the voter approved bond issues on a timely basis. The State  
can only issue a finite amount of debt in a year. Budget and cash flow problems further  
reduce capacity to issue debt and fund the many projects and programs approved by  
the voters.

The State has created the State General Obligation Bond Private Placement Program  
to provide funding for high priority and ready projects. The program consists of a City  
direct purchase of State G.O. Bonds from the State Treasurer. The funds would then  
be available for City projects with approved allocations from State bond issues.

Until the last several days it appeared that executing a direct purchase of State G.O.  
Bonds was the only way to obtain funding for important and time-sensitive projects. At  
issue was approximately \$32 million in State funding for Railyards and \$20 million in

federal stimulus funds allocated to the Railyards. The bond funding for the Railyards also serves as a match for the federal stimulus funding, and that federal funding will expire on December 1, 2009, unless the match is available. It appeared that the State funding would not be available and that the \$20 million in federal funding was in jeopardy. However, the State Treasurer's Office has informed the City Treasurer that \$32 million in funding for the Railyards is being set aside from the last State G.O. Bond sale.

Though it appears the urgency to complete the private placement transaction with the State Treasurer has been resolved, having the private placement option available in the future is very desirable. The City Treasurer recommends that the Mayor and City Council adopt the resolution authorizing the City Treasurer to execute a State G.O. Bond Private Placement transaction to obtain funding for City projects.

**Policy Considerations:** The purpose of the State G.O. Bond Private Placement Program is to provide funding for local projects on a timely basis and to provide an investment opportunity. All projects go through the normal evaluation and approval process. This program is simply an alternate funding method.

The Proposition IB and IC State G.O. Bond funds, along with the federal stimulus allocation, will fund the public infrastructure preparing Railyards and Township 9 for private development, actions consistent with economic development policy. The purchase of State debt obligations is consistent with the City's investment policy.

**Environmental Considerations:** The actions being recommended are financial transactions and, in themselves, have no environmental impacts. The projects ultimately being funded are subject to full environmental review.

**California Environmental Quality Act (CEQA):** The financial transaction being recommended will not require a CEQA review.

**Sustainability Considerations:** City projects are consistent with the General Plan and the City Council's sustainability policies.

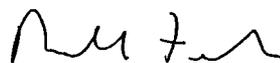
**Commission/Committee Action:** None

**Rationale for Recommendation:** The State G.O. Bond Private Placement Program provides a potential funding tool in this time of budget and cash flow pressures and limits.

**Financial Considerations:** State G.O. Bond Private Placement Program involves the City Treasury Pool making an investment in State debt. The State would then have cash for approved grants back to the City. The State G.O. Bonds would carry a nominal 35 year maturity but will be paid in full in three years. Due to the private

placement arrangement, the bonds would not be rated or registered resulting in the City being required to hold the bonds for three years. In return for this illiquidity, the State will pay additional interest on the bonds. This makes these bonds an attractive investment, carrying an interest rate higher than federal securities with a similar maturity. Any bonds would be on an equal status of other voter-approved general obligations of the State. The City's cash flows allow for a three year buy and hold investment.

**Emerging Small Business Development (ESBD):** The proposed financial transactions are between the State of California and the City of Sacramento.

Respectfully Submitted by:   
\_\_\_\_\_  
Russell T. Fehr,  
City Treasurer

Recommendation Approved:

  
\_\_\_\_\_  
Russell T. Fehr  
City Treasurer

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## BACKGROUND

The City of Sacramento has successfully applied for and been awarded grants from the State of California voter-approved Proposition IB and IC General Obligation (G.O.) Bonds. Projects include the track relocation and related road improvements at the Railyards and public facilities at Township 9. In addition, the federal government has awarded a \$20 million allocation of federal stimulus funds to the City for the Railyards, and the City has planned to use the State G.O. Bond funding as the required match. The federal allocation will expire on December 1, 2009, if the match is not available.

The voters of the State have approved G.O. Bond ballot measures amounting to many tens of billions of dollars in the past decade. The voter-approved G.O. Bond measures have now far outstripped the State's ability to actually sell the bonds on an immediate basis. There is a current inventory of over \$40 billion in unsold State G.O. Bonds. Due to budget and cash flow challenges it is not certain when the bonds which would fund the City's projects will be sold. Over the next three years there will be four elections where additional bond measures may be placed on the ballot; the proposed \$11 billion water bond serves as an example. It will take years for all the approved G.O. Bonds to be sold and the various projects and programs funded.

The State of California has created an innovative program to resolve the problem of ready projects and uncertain funding. To provide funding for high priority projects, the State's Pooled Money Investment Board, consisting of the State Treasurer, State Controller, and State Director of Finance, developed a creative and innovative Private Placement Program to sell State General Obligation (G.O.) Bonds. Investors, including the City, may purchase State G.O. Bonds directly without going through the traditional bond sale process. This will make bond project funding available sooner.

The prime benefit of the Private Placement Program for the City would be that the funds made available from a City Private Placement G.O. Bond purchase would be made available to the City for City projects approved for State G.O. Bond funding.

Both the City Treasurer's Office and the City Department of Transportation have been informed in the past several days that \$32 million from a recent State G.O. Bond sale has been set aside for the Railyards. This also secures the \$20 million federal stimulus allocation.

### **The G.O. Bond Purchase**

The State G.O. Bond Private Placement involves a different mode of selling State G.O. Bonds. Rather than purchasing bonds from an investment bank or broker, the City would purchase the bonds directly from the State Treasurer. The State Treasurer

would avoid significant costs of issuing the bonds including obtaining a credit rating. The bonds would have a nominal 35 maturity, but State would pay off the bonds (put) within three years. It would be difficult to sell these bonds on the secondary market so the Treasury Pool would have to hold the bonds for the full three year term. The State will provide a higher interest rate to compensate for the requirement to hold the bonds for the full three year term.

Having the authority to execute a private placement program with the State Treasurer may provide future funding opportunities for City projects.

**RESOLUTION NO.**

Adopted by the Sacramento City Council

**City of Sacramento Direct Purchase (Private Placement)  
of State of California General Obligation Bonds**

**BACKGROUND**

- A. The City has successfully applied for and been awarded grants for public infrastructure projects from the voter approved Proposition 1B and 1C State of California General Obligation Bond measures.
- B. Due to the large volume of State General Obligation Bond debt approved by the voters in recent years and due to budgetary and cash flow challenges, the State cannot sell all the General Obligation Bonds funding projects and programs on a timely basis.
- C. State of California General Obligation Bond Private Placement Program allows the City to directly purchase State General Obligation Bonds from the State Treasurer.
- D. The funds received by the State under the General Obligation Bond Private Placement Program would be available to reimburse the City for expenditures on approved Proposition 1B and 1C projects.
- E. The City Charter and the City Investment Policy authorize the City Treasurer to invest City Funds.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL  
RESOLVES AS FOLLOWS:**

- Section 1. The City Treasurer is authorized to execute a State of California General Obligation Bond Private Placement with the State Treasurer.