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**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

October 20, 1989

Sacramento City Council  
Sacramento, California

**SUBJECT:** Resolution Approving Legal Documents and an Official Statement  
in Connection with 1989 City of Sacramento Certificates of  
Participation.

Honorable Members in Session:

SUMMARY

This report requests City Council's approval of the legal documents and preliminary Official Statement ("POS") of the 1989 Certificates of Participation. These documents have been completed and are on file in the City Clerk's Office. City Council approval of these documents is necessary to proceed with the financing. After approval, the legal documents and POS will be released to rating agencies for the purpose of obtaining a credit rating on the COP. The POS will also be released publicly as part of the marketing of the COP.

BACKGROUND

On August 22, 1989 City Council approved the legal documents in their preliminary form, the action plan and financing team for the 1989 COP. Since that time bond counsel, the underwriters, underwriter's counsel and city staff, including the City Treasurer and City Attorney, have produced the legal documents and POS in connection with the 1989 COP. These documents are on file with the City Clerk and include: an Acquisition Agreement, a Project Lease, a Trust Agreement, a Purchase Contract and a preliminary Official Statement.

The release of legal documents and the POS to rating agencies is required in order to obtain a credit rating on the COP. Credit ratings indicate the creditworthiness of the financing and ultimately become a critical factor in determining the interest rate of the COP. A brief synopsis of the legal documents and the preliminary Official Statement Council are being asked to approve are presented below:

- The Acquisition Agreement permits the sale of the Executive Airport and the Community Center by the City to the Sacramento City Financing Authority for an amount equal to the value of certificates sold.
- The Project Lease is an extensive financial document outlining in detail the terms of the lease between the City and the Sacramento City Financing Authority for the Executive Airport and Community Center.
- The Trust Agreement specifies the manner in which registration and payment of the COP will occur and instructs the trustee regarding distribution and investment of bond proceeds. It is an agreement between the City, the Sacramento City Financing Authority and the trustee. The trustee selected for this financing is Security Pacific National Bank. The Treasurer will act for the trustee by holding the construction/acquisition funds within the City's pooled funds.
- The Purchase Contract relates the terms and conditions under which sale of the certificates will take place.
- The Official Statement is the primary marketing document of the City and discloses information that an investor in the certificates would require. The Official Statement is currently in preliminary form. Upon sale of the certificates, a final Official Statement will be issued.

Our current Action Plan anticipates selling the certificates on November 14, 1989, subject to final City Council approval on that date. Thereafter, the COP will close and proceeds will be delivered on or about November 21, 1989.

FINANCIAL DATA

On August 22, 1989 the Treasurer reported to Council that a COP of approximately \$41.15 in size would be required to fund \$33.10 million of projects. Projects may be either fully funded or discounted for expected interest earnings, but in either case may not exceed the value of the assets used in the financing. The decision to include financing of \$40 million for a NFL Franchise Fee with the projects previously identified raises the total project requirement to \$75.35 million, including a \$364 thousand funded contingency. This amount is recommended as the project funding requirement so as to maximize the value of assets pledged in the COP financing. Therefore, interest earned on unexpended proceeds could be used: 1) as a contingency for the projects, 2) to fund additional alternate projects, and/or 3) to offset interest expense. Interest earned on unexpended proceeds associated with the NFL Franchise Fee would be

With the inclusion of a NFL Franchise Fee, the total project funding requirement increases to \$75.35 million consisting of the following projects:

Civic Center Plaza Parking Garage	\$21,100,000
Downtown Plaza Parking Garage	10,000,000
George Sim Community Center Expansion	1,250,000
Central Library Construction Additions	835,725
So. Natomas Park Land Acquisition	1,600,000
Meadowview Community Center, Phase I	200,000
NFL Franchise Fee	40,000,000
Contingency	<u>364,275</u>
Total Project Funding	<u><u>\$75,350,000</u></u>

In addition to these projects, the following is a list of alternate projects which have been identified in the PCS which could be partially or totally funded from proceeds in the event one of the former projects were delayed.

Memorial Auditorium Remodel	\$ 40,000,000
Community Center Expansion	75,000,000
Animal Control Facility	2,916,000
Belle Coolege Library	3,140,000
Meadowview Community Center	4,497,000
Clunie Community Center	2,055,000
So. Natomas Park Land - Phase II	3,400,000
SHRA Projects	20,000,000
Capitalized Interest	<u>6,400,000</u>
Total	<u><u>\$157,408,000</u></u>

It is estimated at this time that use of certificate proceeds would be as follows:

Construction/Acquisition Fund	\$75,350,000
Capitalized Interest	1,257,163
Reserve Fund	8,347,702
Issuance Costs & Underwriter Discount	<u>1,650,135</u>
Total Issue Size	<u><u>\$86,605,000</u></u>

Support of the estimated annual debt service payments is proposed to come from the following sources:

<u>Repayment Source</u>	<u>Percent</u>	<u>Annual Debt Service</u>
General Fund:)		
Franchise Fee	52.22%	\$4,357,707
Other Projects	6.02%	502,363
Parking Fund	28.70%	2,394,986
SHRA Tax Increment	<u>13.06%</u>	<u>1,089,844</u>
Total	<u>100.00%</u>	<u><u>\$8,344,900</u></u>

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Also reported to Council on 8/22/89 was that \$10 million of the 1989 COP proceeds were proposed for a SHRA project(s) in the Merged Downtown Redevelopment Project area. The Agency has identified the public purpose portion of the Downtown Plaza Garage (located on the corner of 4th Street and J Street and adjacent to the Downtown Plaza Mall) as the project that would be funded with the \$10 million. However, in the event construction of the garage were delayed, SHRA has identified other public purpose projects previously approved by Council which could be funded from COP proceeds as alternate projects.

Funding SHRA with \$10 million from 1989 COP proceeds will require SHRA to enter into a repayment agreement with the City for the annual debt service associated with the \$10 million. This will be accomplished by amending the existing Repayment Agreement between the City and SHRA for the 1985 Light Rail COP. This agreement (as amended in 1987) requires SHRA to pay the City a portion of the debt service payments on the 1985 LRT COP from its incremental property tax revenue generated within the Merged Downtown Redevelopment area. An amendment to the Repayment Agreement will be executed as part of the closing legal documents of the 1989 COP.

POLICY CONSIDERATIONS

Council previously approved the concept of using the Community Center's Exhibit Hall and Activities Building as collateral for a sale leaseback financing. An appraisal of those buildings revealed a replacement value of \$35.35 million. Because of inclusion of a NFL Franchise Fee to the projects financed, it is proposed that the Executive Airport also be used. An appraisal of the land comprising the Airport is underway, and preliminary estimates reveal that it may have a value exceeding \$65 million. The COP requires a value of at least \$75.35 million. In the event that the value of the Airport equals or exceeds that amount, it would not be necessary to include the Community Center as collateral. However, should the Airport be valued at less than \$75.35 million, it will be necessary to include all or part of the Community Center as collateral for the financing.

The Community Center and Executive Airport are proposed to be sold to the Sacramento City Financing Authority and leased back through a 20 year lease. Investors in the COP have a proportionate interest in the annual lease payments, which also constitute the debt service. At the conclusion of the lease, the assets revert back to the City. However, in the event of default, normally the trustee would, on behalf of the certificate holders, sue for annual payments. If these could not be obtained, then the trustee could, in theory, relet the asset and collect the annual rent for the benefit of the certificate holders. In the case of the Executive Airport, it would not be possible for the trustee to relet the facility because of the lease with the County to run the Airport. However, the trustee could sue for annual lease payments in the unlikely event of default by the City.

Funding SHRA with \$10 million from 1989 COP proceeds will also require SHRA to transfer an asset to the City. The asset must be at least equal in value to the \$10 million of Community Center collateral pledged toward the 1989 COP. The Agency has identified the Lot G Parking Garage located at the corner of 3rd Street and L Street as the asset they intend to transfer. Its transfer to the City will permit a future sale and lease back of Lot G Garage by the City, if desired, in the same manner as the Community Center and the Executive Airport. However, at the conclusion of the lease payments of either the 1989 COP or a financing using the Lot G Garage as collateral (which ever occurs last) the Lot G Garage would be transferred back to SHRA. The revenue flow and operation of the garage would not change as a result of the asset transfer. As part of the closing documents of the 1989 COP it will be necessary to execute an agreement regarding this arrangement.

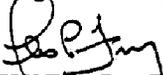
MBE/WBE EFFORTS

City Council approved and named on August 22, 1989 the MBE firms of Arnelle & Hastie as co-bond counsel and Grigsby Brandford Powell Inc. as the third co-manager and underwriter of the 1989 COP financing.

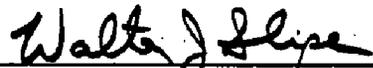
RECOMMENDATION

It is recommended that City Council adopt the attached Resolution authorizing the execution and delivery of the Acquisition Agreement, Project Lease, Trust Agreement, Purchase Contract and Official Statement.

Respectfully submitted,

  
THOMAS P. FRIERY  
City Treasurer

RECOMMENDATION APPROVED:

  
WALTER J. STUPE, City Manager

October 26, 1989  
All Districts

Contact Person: David Affleck, Treasury Operations Officer II  
449-5168

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# RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

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

A RESOLUTION OF THE COUNCIL OF THE CITY OF SACRAMENTO AUTHORIZING THE EXECUTION AND DELIVERY OF AN ACQUISITION AGREEMENT, A PROJECT LEASE, A TRUST AGREEMENT, A CERTIFICATES OF PARTICIPATION PURCHASE CONTRACT AND AN OFFICIAL STATEMENT IN CONNECTION WITH THE CITY OF SACRAMENTO CERTIFICATES OF PARTICIPATION (COMMUNITY CENTER AND EXECUTIVE AIRPORT PROJECTS) AND CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City of Sacramento, a charter city and municipal corporation duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "City"), is authorized under provisions of the Constitution and laws of the State of California to sell and lease real property and personal property as the City may determine is necessary or proper for municipal purposes; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California and the Charter of the City to exist, to have happened and to have been performed precedent to and in connection with the consummation of the 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;

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

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

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

Section 1. All of the above recitals are true and correct, and this Council so finds and determines.

Section 2. The City hereby specifically finds and declares that the actions authorized hereby constitute and are with respect to municipal affairs of the City and that the statements, findings and determinations of the City set forth in the preambles of the documents approved herein are true and correct.

Section 3. The form of Acquisition Agreement, dated as of November 1, 1989, between the City and the Sacramento City Financing Authority (the "Authority"), presented to this meeting and on file with the City Clerk is hereby approved. The Mayor of the City is hereby authorized and directed, for and in the name and on behalf of the City, to execute, acknowledge and deliver to the Authority said Acquisition Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. Pursuant to Section 12.109 of the Sacramento City Code, the City hereby specifically finds and declares that the sale of the property which is the subject of the Acquisition Agreement to the Authority for the acquisition price of at least \$75,350,000 without first calling for bids is in the best interest of the City and serves a public purpose by permitting the sale lease-back financing authorized herein.

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Section 4. The form of Project Lease, dated as of November 1, 1989, between the City and the Authority, presented to this meeting and on file with the City Clerk, is hereby approved. The Mayor of the City is hereby authorized and directed, for and in the name and on behalf of the City, to execute, acknowledge and deliver to the Authority said Project Lease in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. The form of Trust Agreement, dated as November 1, 1989, among the City, the Authority and Security Pacific National Bank, as trustee (the "Trustee"), presented to this meeting and on file with the City Clerk, is hereby approved. The Mayor of the City is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Authority and the Trustee said Trust Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The form of Certificates of Participation Purchase Contract between the City, the Authority and PaineWebber Incorporated (the "Underwriter"), presented to this meeting and on file with the City Clerk, is hereby approved. The Mayor of the City is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Authority and to the Underwriter said Certificates of Participation Purchase Contract in substantially said form, with such changes therein as such officer may require or approve, such approval to

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be conclusively evidenced by the execution and delivery thereof.

Section 7. The form of Official Statement relating to certificates of participation (the "Certificates") in the base rental payments to be made by the City pursuant to said Project Lease, presented to this meeting and on file with the City Clerk, is hereby approved. The Mayor of the City is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Underwriter said Official Statement in substantially said form, with such changes as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Underwriter is hereby authorized to distribute copies of said Official Statement in preliminary form to persons who may be interested in the purchase of the Certificates and is hereby directed to deliver copies of said Official Statement in final form to all actual purchasers of the Certificates.

Section 8. The City Clerk is hereby authorized and directed to attest the signature of the Mayor, and to affix and attest the seal of the City, as may be required or appropriate in connection with the execution and delivery of said Acquisition Agreement, said Project Lease, said Trust Agreement, said Certificates of Participation Purchase Contract and said Official Statement.

Section 9. The officers 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 which they may deem necessary or advisable in order to consummate the sale, execution and delivery of the Certificates by the Trustee and otherwise to carry out, give effect to and

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comply with the terms and intent of this resolution, the Certificates, said Acquisition Agreement, said Project Lease, said Trust Agreement, said Certificates of Participation Purchase Contract and said Official Statement. Such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 10. This resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED this 26th day of October, 1989, by the following vote:

AYES: Councilmembers

NOES:

ABSENT:

Mayor of the City of Sacramento

[Seal]

Attest:

City Clerk of the City of Sacramento

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