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OFFICE OF THE
CITY TREASURER

CITY OF SACRAMENTO
CALIFORNIA

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SUITE ONE
SACRAMENTO, CA
95814-2688

THOMAS P. FRIERY
TREASURER

April 17, 1987
87059TPF:naw:cover

916-449-5318
OPERATIONS

DONALD E. SPERLING
ASSISTANT TREASURER

916-449-5168
INVESTMENTS &
ADMINISTRATION

Budget and Finance Committee
Sacramento, California

916-448-3139
DEX TRANSCEIVER

Honorable Members in Session:

SUBJECT: Refinancing of 1985 LRT C.O.P.

SUMMARY

Transmitted herewith is a report to the full Council recommending approval to proceed with the refinancing of the 1985 LRT C.O.P.

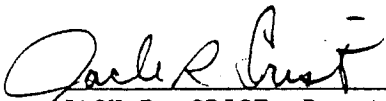
RECOMMENDATION

It is recommended that after hearing the attached report, the Budget and Finance Committee recommend approval to the full Council to proceed with the 1985 LRT C.O.P. refinancing.

Respectfully submitted,

THOMAS P. FRIERY
City Treasurer

RECOMMENDATION APPROVED



JACK R. CRIST, Deputy City Manager

April 28, 1987
All Districts



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Sacramento City Council
Sacramento, California 95814

SUBJECT: Preliminary Approval of Financing Plan to Refinance the 1985
Light Rail Certificates of Participation (LRT COP)

Honorable Members in Session:

SUMMARY

As a result of the decline in interest rates from June, 1985 when the 1985 Light Rail bonds were issued it was determined cost beneficial to refund the 1985 LRT COP issue at now lower interest rates. As of March 31, 1987 we had estimated that the annual debt service payments may be reduced as much as \$100,000 per year over the remaining life of the financing.

As of March 31, there has been an increase in interest rates and the possibility exists that the anticipated debt service savings of \$100,000 per year may not be able to be achieved. However, as a result of the suddenness in the recent increase in interest rates from March 31, the possibility exists that such increases may be only a temporary phenomena and by our projected sale date of May 18, 1987 we could find ourselves able to refinance at cost savings.

Further, if this possibility does not materialize by May 18, 1987, it will have been more advantageous to have accomplished all the preliminary work involved with the refinancing so we would be prepared to proceed if and when the window of opportunity to refinance next opened. To accomplish this task it is necessary for the City Council to preliminarily approve the refinancing plan which includes approval of:

- legal documents associated with the financing which are in preliminary form and on file with the City Clerk, and
- the Preliminary Official Statement (POS) which is on file with the City Clerk, and
- the financing action plan which is shown as Attachment A, and
- the financing team which is shown in Attachment B.

It is understood that if interest rates do not permit a cost advantageous refunding, this financing will not proceed. Further, it is understood that City Council will make the final formal approval of all legal documents, Official Statements, et al as well as sale of the COPs if and when such financing occurs.

It is recommended that City Council approve refinancing the 1985 LRT/COP issue if appropriate debt service savings can be achieved.

BACKGROUND

In June, 1985 a \$29.365 million LRT/COP financing was sold to finance a portion of the Light Rail project. Such financing contained a repayment agreement between the Sacramento Housing and Redevelopment Agency (SHRA) and the City of Sacramento in an amount equal to the annual debt service which is approximately \$2.9 million. Further, the Sacramento Regional Transit District (SRTD) acted as the lessor for this transaction. In March, 1987, the segment of the Light Rail project associated with the financing was completed and revenue service has begun on that portion of the light rail system. We believe the completion of construction was critical to consideration of a refinancing.

Subsequent to June, 1985, interest rates have declined. As of March 31 1987, the decline in interest rates was such that it would have been possible to refinance the prior LRT/COP issue with a new issue and result in debt service savings of approximately \$100,000 per year. Such savings would result in a direct reduction in the repayment agreement between the Agency and City to reflect these lower interest rates.

To accomplish a refinancing it is necessary for City Council to approve preliminarily proceeding with our financing action plan (see Attachment A). It is pointed out that if interest rates do not provide the opportunity to refinance at an interest cost savings, the financing action plan will be postponed. However, because of the time involved in accomplishing the financing, it is necessary to have Council approve the action at this time.

LEGAL DOCUMENTS

A due diligence meeting between City staff and external consultants has been scheduled for April 29, 1987. The due diligence process is a review of all the pertinent issues pertaining to the City of Sacramento, the status of the light rail project and the repayment obligations of the SHRA as they affect the financing.

As a part of the due diligence process, various legal documents have been prepared in draft form and are presently under review by appropriate City staff and will be edited and amended as appropriate. It is pointed out that the form of these preliminary documents which are on file in the

City Clerk's Office are substantially the same as those for the original April, 1985 LRT COP financing. However, these documents are being changed to reflect dates, amounts, etc., and as of this time such specific details are not known. However, prior to final City Council approval of the financing, such legal documents will be completed and presented to City Council for approval.

The Sacramento Regional Transit District acted as the lessor for the 1985 LRT COP. It will be necessary to seek approval from the RT Board to amend the lessor contract for changes that will be made to such contract as a result of the reduction in interest payments which affect the lease for the project.

It will be necessary to authorize the City Treasurer to present the financing plan to the RT Board for action on amendments to the lease between the City and RT to reflect lower lease payments to be obtained as a result of the refinancing.

PRELIMINARY OFFICIAL STATEMENT (POS)

A POS has been drafted and circulated to City staff for review. Such POS is on file with the City Clerk. The form of the POS is substantially the same as that for the 1985 LRT COP financing. However, the document is being changed to reflect current budget and financial data as well as reflecting the completion of the starter light rail project. This document will be under continual review by staff and will be at a later date forwarded to rating agencies, etc. for review should the prospects of a favorable refinancing occur.

FINANCING TEAM

Attachment B contains the members of the financing team acting on the proposed refinancing.

On January 27, 1987, Sacramento City Council approved an Investment Banking/Financial Advisors contract with the firms of Paine Webber, Inc., Stone & Youngberg and an unnamed third broker/dealer to serve as co-managers for City financings. Contained in the contract were the conditions that the Budget and Finance Committee as well as the full City Council approve the financing team and seek preliminary concurrence of the financing costs and expenses envisioned with the financing. To accomplish this the following is recommended:

- 1) The broker/dealer firm of Cranston Securities be named as the third co-manager for this refinancing only (see Attachment B), and
- 2) The law firms of Orrick, Herrington & Sutcliffe as well as Arnelle & Hastie be named as co-bond counsel for the refinancing (see Attachment B), and

- 3) The legal firms of Mudge Rose Guthrie Alexander & Ferdon as well as Harrison, Taylor & Bazille be named as co-underwriter's counsel (see Attachment B).

For Council information, these firms have been working with the City on the actions pertaining to the refinancing to date. Further, the Treasurer advises that the appointment of these firms as well as other broker/dealer firms who have been added to the selling group for the financing result in compliance with the City's DBE/WBE requirements which were requested by City Council to be implemented if possible when performing public financings.

FINANCIAL

At this time the Financial Advisor/Investment Banking contract of the City requires preliminary Council concurrence with the financing expenses associated with the financing. However, it is pointed out that expenses relative to underwriting are conditioned upon a sale of securities. Therefore, as it pertains to expenses for underwriting, such expenses will be incurred only if a financing is accompanied. However, as it pertains to bond counsel fees, such fees are customarily paid regardless of whether a financing is completed or not.

Financing costs are generally grouped into four major categories. The categories are:

- 1) Management Fees - Such fees are paid to the underwriters for structuring the transaction.
- 2) Takedown or Sales Concessions - Such fees are paid to the sales group for marketing securities.
- 3) Underwriter's Risk - Such fee is customarily paid to the underwriter to compensate for the risk of having to market the bonds to the general public after they have made their bid to the City for the securities.
- 4) Expenses - Consider those items involved with the financing such as printing of the OS, rating agency fees, California Debt Advisory Commission charges, travel expenses, etc.

As it pertains to the 1987 COP refinancing issue, the following are our estimate of fees:

FINANCING COSTS (Fees)

It is pointed out that these fees are based on a cost of \$1,000 par value of bonds issued:

	Management Fee -	\$ 3.00
(1)	Takedown	13.00
	Underwriter Risk	1.50
	Expenses	<u>6.88</u>
	Total	\$24.33
		=====

From the above table it is pointed out that the estimated financing costs associated with the refinancing are \$24.33 per \$1,000 of bonds issued. It is pointed out that these fees are in compliance with the Financial Advisors/Investment Bankers contract the City has and, further, they are reasonable in the marketplace. Finally, it is possible that there will be changes to this fee prior to the financing, but it is not envisioned such changes will be increases.

(1) Estimated for retail sales as opposed to institutional

BOND COUNSEL FEES

Bond counsel fees for this transaction are estimated to be \$60,000. These fees are competitive within the marketplace and are consistent with such expenses on the prior bond issue.

RECOMMENDATION

It is recommended that the City Council:


- 1) Preliminarily approve the financing action plan for refinancing the 1985 LRT COP issue which includes:
 - Approval of the financing action plan (see Attachment A)
 - Approval of the Financing Team (see Attachment B)
 - Preliminary approval of the legal documents and POS which are on file in the City Clerk's Office (see Attachment A).

Sacramento City Council
April 17, 1987
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RECOMMENDATION (cont'd)

- Authorization for the City Treasurer to request the RT Board to amend their agreement as Lessor should the refinancing be implemented at cost savings through a reduction in interest rates.

Respectfully submitted,


THOMAS P. FRIERY
City Treasurer

RECOMMENDATION APPROVED:

WALTER J. SLIPE, City Manager

April 28, 1987
All Districts

ATTACHMENT A

ACTION PLAN

ADVANCE REFUNDING OF THE \$29,365,000
CITY OF SACRAMENTO
1985 CERTIFICATES OF PARTICIPATION
(SACRAMENTO LIGHT RAIL TRANSIT PROJECT)

The following is a tentative Action Plan that has been designed as a time schedule of events necessary to complete the refinancing of the above listed debt issue.

NOTE: THIS ACTION PLAN SUPERSEDES THE ACTION PLAN SUBMITTED APRIL 3 BY ASH WOOD AND INCLUDES CITY COMMENTS.

- 3/27/87 - Preliminary copies of proposed refunding schedules prepared for distribution to City staff for review and comment.
- 4/10/87 - Bond Counsel to prepare and distribute first draft of documents. RE: terms of subordinated lease with SHRA and master ordinance for adoption.
- 4/16/87 - Underwriter's Counsel and Co-Counsel to provide first draft of preliminary Official Statement to City Treasurer for distribution to all parties at City and directly to financing team.
- 4/20/87 - Comments, corrections to City Treasurer by 12:00 noon.
- City Treasurer to provide consolidated changes to Underwriter's Counsel.
- 4/22/87 - Second draft of legal documents and Official Statement to be distributed (same procedure 4/16/87).
- Second copy of refunding schedules submitted to City staff for review and comment.
- 4/27/87 - Final comments on legal documents and Official Statement for distribution (same procedure as 4/16/87).
- RT Board preliminary concurrence to amend lessor contract
- 4/28/87 - Budget & Finance as well as Council action on ordinance and resolution.
- Bond Counsel to provide Appendix B and C to Official Statement (same as last time but updated).
- 4/29/87 - Due diligence meeting with all hands to review for all documents - City Hall, Council Chambers.
- 5/1/87 - Mail Preliminary Official Statement to rating agencies and bond insurance companies.
- 5/4/87 - Decision on use of municipal bond insurer.

ACTION PLAN (Cont.)

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- 5/15/87
 - Credit ratings to be received from Moody's and Standard and Poor's.
 - Agendize sale of COP for Budget and Finance Committee and City Council.
 - Complete report and provide Council and resolution authorizing legal documents, COP Purchase Contract and approval of 1987 refunding of COP.

- 5/16/87
 - Mail Preliminary Official Statement to underwriters and Wall Street (include all preliminary supporting documents).

- 5/18/87
 - City Treasurer to negotiate preliminary COP interest rate.
 - City Treasurer to prepare final report to Council describing and accepting bid.
 - RT Board approve Amendment to lessor contract

- 5/19/87
 - City Treasurer to present COP recommendation to Budget and Finance as well as Council to approve COP sale.

- 5/20/87.
 - All comments or changes to be made to Underwriter's Counsel to prepare final COP Official Statement.
 - COP rates to bond printer.

- 6/1/87
 - Pre-Closing - Friery to San Francisco, receipt for bonds to Paine Webber.
 - Auditors comfort letter

- 6/2/87
 - Closing of COP's in San Francisco, dated June 1, 1987.

CITY OF SACRAMENTO, CALIFORNIA
1987 REFUNDING CERTIFICATES OF PARTICIPATION
(SACRAMENTO LIGHT RAIL TRANSIT PROJECT)
FINANCING TEAM
(REVISED/CORRECTED AS OF 4/16/87)

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FINANCING TEAM (Cont.)

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FINANCING TEAM (Cont.)

Page 3

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