# REPORT TO COUNCIL
## City of Sacramento

**915 I Street, Sacramento, CA 95814-2604**
**www.cityofsacramento.org**

**Information**
**July 24, 2007**

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

**Title:** Sale of the 1997 Lease Revenue Bonds (ARCO Arena) - Update

**Location/ Council District:** District 1

**Recommendation:** Receive and File

**Contact:** Thomas P. Friery, City Treasurer, 808-5168; Janelle Gray, Public Finance and Banking Manager, 808-8296

**Presenters:** Not applicable

**Department:** Office of the City Treasurer

**Division:** Public Finance

**Organization No:** 0900

**Description/Analysis**

**Issue:** The purpose of this report is to inform City Council that the action taken on May 8, 2007, authorizing the remarketing of the 1997 Lease Revenue Bonds (the "Bonds") has been completed. The remarketing was priced on May 22, 2007, with a delayed delivery that paid off the original investors on July 18, 2007. The new Bonds were structured for 10 years; based on the original 30 year bond structure, it is envisioned that another remarketing will be required for the final 10 years but that should not occur prior to July 2017. Debt service on the Bonds will continue to be paid from rental payments received from the owners of ARCO Arena.

The Bonds were priced on May 22, 2007 for delivery on the July 18, 2007 at an interest rate of 5.607%. The benefit of the delayed delivery of the bonds was to reduce interest cost in excess of $2.7 million.

**Policy Considerations:** None. This is an information item only.

**Environmental Considerations:** There are no environmental considerations associated with this report.

**Rationale for Recommendation:** None. The successful remarketing and close of the financing satisfies the requirements set forth in the Indenture and bond covenants of the original financing of the Bonds.

**Financial Considerations:** On May 22, 2007, the Bonds were re-priced with an effective interest rate of 5.607% based on the 10-year LIBOR index plus associated fees. Since the original structure was 30-years, in July 2017 (10 years) it will be necessary to remarket the then outstanding Bonds estimated at $51.6 million.

Debt service on the Bonds will continue to be paid from revenues derived from rental payments the City receives from the ARCO Arena owners. The Arena owners have never missed or been late in paying their debt obligations.

**Emerging Small Business Development (ESBD):** No goods or services are being purchased under this report.

Respectfully Submitted by: ______________________
Janelle Gray
Public Finance and Banking Manager

Approved by
______________________
Thomas P. Friery
City Treasurer

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**Attachments**

Sale of the 1997 Lease Revenue Bonds - Update

**Background**

In July 1997, $73.725 million in lease revenue bonds (the "Bonds") were issued in conjunction with a 30-year loan associated with ARCO Arena. At that time, the Bonds were structured based on a 30-year schedule with final maturity on July 15, 2027. However, for the initial 10-year period, the Bonds had a floating to fixed rate swap that was set at 6.845% and required payment to the original investors on July 18, 2007.

On May 8, 2007, City Council authorized the remarketing and mandatory tender of the original 1997 Bonds. The financing transaction that was approved by City Council included a delayed delivery feature; a component different than other municipal financing transactions that the City typically utilizes. This delayed delivery feature enabled the City to re-price the 1997 Bonds on May 22, 2007, nearly two months prior to the mandatory tender date of July 18, 2007. Doing so enabled the City to secure a favorable interest rate for the financing and alleviate any situations that might have potentially arisen had the City waited to re-price the 1997 Bonds closer to the July 18, 2007, mandatory tender and remarketing date.

On May 22, 2007, the 1997 Bonds were re-priced with an effective interest rate of 5.607% based on the 10-year LIBOR index plus associated fees. The delayed delivery feature that was utilized in the remarketing of the 1997 Bonds resulted in a positive outcome. Had the 1997 Bonds been re-priced at a later date, such as July 11, 2007, the effective interest rate would have been set at 6.03%, significantly higher than the 5.607% that the City was able to secure on May 22, 2007. That difference in interest rate equates to $2.709 million savings in interest cost over the next 10-year period.

Since the original structure was for 30 years, in 10 years (July 2017), a similar financing transaction (mandatory tender and remarketing of the outstanding Bonds (approximately $51.6 million) will need to occur for the final years of the1997 Bonds.