



**Sacramento
Housing &
Redevelopment
Agency**

**REPORT TO COUNCIL AND
REDEVELOPMENT AGENCY
City of Sacramento**

**915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org**

**Consent
May 27, 2008**

**Honorable Mayor and Members of the City Council
Chair and Members of the Redevelopment Agency Board**

**Title: Credit Agreements: North Sacramento and Stockton Boulevard
Redevelopment Project Areas and Related Actions**

Location/Council District: Districts 2, 3, 5 & 6

Recommendation: Adopt 1) a **Redevelopment Agency Resolution** authorizing the Interim Executive Director to execute the following agreements on behalf of the Redevelopment Agency: a) \$14 million Credit Agreement with Bank of America for the North Sacramento Redevelopment Area; b) \$14 million Credit Agreement with Bank of America for the Stockton Boulevard Redevelopment Area; c) amendments to the North Sacramento and Stockton Boulevard Advance Repayment Agreements to meet the terms of the Credit Agreements; and 4) amend the Agency budget to reduce the debt service account by \$780,000 for North Sacramento and \$1,260,000 for Stockton Boulevard and increase the project budgets by the same amounts; and 2) a **City Council Resolution** authorizing City Treasurer to execute on behalf of the City the Amendments to the North Sacramento and Stockton Boulevard Advance Repayment Agreements.

Contact: Satoshi Matsuda, Director of Financial Strategies, 440-1370, Chris Pahule, Assistant Director of HCD, 440-1350

Presenters: Satoshi Matsuda

Department: Sacramento Housing and Redevelopment Agency

Description/Analysis

Issue: On December 4, 2007, the City Council and Redevelopment Agency approved the issuance of tax allocation revenue bonds for the North Sacramento and Stockton Boulevard Redevelopment Areas. At that time, staff had estimated that \$10.5 million in redevelopment funds and \$4.5 million in housing funds could be raised for North Sacramento and that \$13.9 million in redevelopment funds and \$5.0 million in housing funds could be raised for Stockton Boulevard. A week following the approval, the municipal bond market changed dramatically as

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the two AAA municipal bond insurers that proposed on this bond issuance came under intense credit review themselves, with one being downgraded and the other placed under credit watch. The end result has been that the interest rates that the Agency would have to pay rose so dramatically that net project funds would have been reduced to half of previous estimates. Consequently, staff reviewed financing options and is now recommending entering into credit agreements with Bank of America.

Staff is recommending that each redevelopment area enter into individual \$14 million Credit Agreements with Bank of America for a four year period. Of the \$14 million, \$10 million would be for redevelopment projects and \$4 million would be for housing projects. The Credit Agreement will require a pledge of tax increment revenues from the redevelopment area. Each redevelopment area will make interest payments on the funds borrowed until the principal amount borrowed is repaid in full with the next tax allocation revenue bond issue or other funds. The Credit Agreement terms are for a four year period; the interest rate, based on the London Inter-Bank Offer Rate (LIBOR), would depend on the time the funds are drawn down. A fee of 90 basis points is charged by the bank on funds borrowed and any unused portion of the agreement would incur a fee of 40 basis points. Loan origination fees are not to exceed \$25,500 each. As a condition of the Credit Agreements, the Bank requires that the repayment of the North Sacramento Advance Repayment Agreement and the Stockton Boulevard Advance Repayment Agreement between the Agency and the City be subordinate to the Credit Agreements, therefore the Advance Repayment Agreements must be amended to permit the subordination. The Advance Repayment Agreements enabled 1) North Sacramento to borrow bond funds from the City in 1999 and 2006 and 2) Stockton Boulevard to borrow bond funds from the City in 2002 and detail the terms of the repayment.

Policy Considerations: No new policy issue is proposed. A similar credit agreement and subordination of the Advance Repayment Agreement payment to the Credit Agreement was approved for the Merged Downtown Redevelopment Area in 2007. The report does not approve funding for any projects. Allocation of funds for a project must be approved separately.

The Advance Repayment Agreement Amendments have been prepared by Orrick, Herrington & Sutcliffe, bond counsel for the City Revenue Bonds, and have been reviewed by the City Attorney's office. The documents are on file with the Agency Clerk.

Actions regarding the Stockton Boulevard Redevelopment Area must also obtain the approval of the Redevelopment Agency of the County of Sacramento.

Environmental Considerations: The redevelopment plans for these project areas were subject to environmental review at the time of their adoption and amendment. Projects undertaken within the project area that may be funded with the proceeds are subject to environmental review individually prior to their approval. Therefore, the proposed action is exempt from California

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Environmental Quality Act (CEQA) review pursuant to CEQA Guidelines Section 15378, which exempts fiscal activities that do not involve any commitment to any specific project. The National Environmental Policy Act (NEPA) does not apply.

Committee/Commission Action: The recommendations in this staff report have been reviewed with the relevant community advisory groups.

At its meeting of May 7, 2008, the Sacramento Housing and Redevelopment Commission considered the staff recommendation for this item. The votes were as follows:

AYES: Burruss, Chan, Dean, Fowler, Gore, Morgan, Otto, Stivers.

NOES: None.

ABSENT: Coriano, Shah.

Rationale for Recommendation: The municipal bond market has been in a period of volatility and uncertainty during the last six months. The typical method by which a redevelopment agency obtains project funds is currently very costly for redevelopment areas with less than an "A" credit rating. North Sacramento and Stockton Boulevard were rated "BBB" by Standard & Poor's in December 2007 for tax allocation revenue bonds. The Bank of America Credit Agreement provides a very attractive short-term solution. The credit agreement is for a four-year period, which enables the various projects to proceed until the municipal bond market stabilizes. Since much of the funding is anticipated to be used for property acquisitions, the four year timeframe gives staff time to determine if the long-term need of the project is for tax-exempt or taxable funds. At this time the potential cost for this borrowing is very low. The interest rates to be charged are based on LIBOR, an international bank borrowing rate. Currently, the one year interest rate is about 3.1 percent; therefore resulting in cost to the Agency of only 4.0 percent which is 3.5 to 4.0 percent less than the rate for the taxable tax allocation revenue bonds.

Financial Considerations: The Credit Agreement terms are for a four year period. Interest rate based on LIBOR would depend on the time the funds are drawn down. A fee of 90 basis points is charged by the bank and any unused portion of the agreement would incur a fee of 40 basis points. Loan origination fees are not to exceed \$25,500 each. As a condition of the Credit Agreement, the Bank requires that the repayment of the Advance Repayment Agreements between the Agency and the City be subordinate to the Credit Agreement, therefore the Advance Repayment Agreements must be amended to permit this subordination. The maximum period for a LIBOR rate- lock is one year; therefore, the potential for interest rate swings exists during the four year period. Staff will be monitoring the municipal bond market and the LIBOR rates during the term of the Agreement. As the municipal bond market stabilizes and staff determines that interest rates are reasonable, staff will proceed quickly to obtain approvals necessary for the permanent financing and the issuance of the tax allocation revenue bonds. There is no penalty for early termination of the Agreement.

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The Agency budget anticipated debt payments based on tax allocation revenue bonds being issued in December. With this alternative, only interest payments will be needed for six months. As a result, the North Sacramento redevelopment debt service account can be reduced by \$570,000 and the housing debt service account can be reduced by \$210,000. Similarly, the Stockton Boulevard redevelopment debt service account can be reduced by \$980,000 and the housing debt service account can be reduced by \$280,000. Staff recommends that the savings from these accounts be used to increase the respective development assistance and housing development assistance project accounts.

M/WBE Considerations: The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully Submitted by:



LA SHELLE DOZIER
Interim Executive Director

Recommendation Approved:



RAY KERRIDGE
City Manager

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RESOLUTION NO. 2008 - _____

Adopted by the Redevelopment Agency of the City of Sacramento

on date of

APPROVAL OF CREDIT AGREEMENTS FOR NORTH SACRAMENTO AND STOCKTON BOULEVARD REDEVELOPMENT AREAS AND RELATED ACTIONS

BACKGROUND

- A. The issuance of tax allocation revenue bonds was approved for the North Sacramento and Stockton Boulevard Redevelopment Areas on December 4, 2007; and
- B. Due to the volatility of the municipal bond market for the last six months, an alternative method of providing funds for critical redevelopment and housing projects is needed.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

- Section 1. The Interim Executive Director is authorized to enter into a \$14 million Credit Agreement with the Bank of America for the North Sacramento Redevelopment Area and a \$14 million Credit Agreement with the Bank of America for the Stockton Boulevard Redevelopment Area and take related actions.
- Section 2. The Interim Executive Director is authorized to enter into amendments to the North Sacramento and Stockton Boulevard Advance Repayment Agreements necessary to meet the terms of the Credit Agreements.
- Section 3. The Interim Executive Director is authorized to amend the Agency budget 1) to reduce the redevelopment debt service account for North Sacramento by \$570,000 and Stockton Boulevard by \$980,000 and to increase the development assistance account by \$570,000 and \$980,000 respectively and 2) to reduce the housing debt service account for North Sacramento by \$210,000 and Stockton Boulevard by \$280,000 and to allocated the funds to the appropriate housing development assistance accounts.

RESOLUTION NO. 2008 - _____

Adopted by the Sacramento City Council

on date of

APPROVAL OF AMENDMENTS TO THE ADVANCE REPAYMENT AGREEMENTS FOR NORTH SACRAMENTO AND STOCKTON BOULEVARD REDEVELOPMENT AREAS

BACKGROUND

- A. The City provided project funds to the North Sacramento Redevelopment Area by entering into the North Sacramento Advance Repayment Agreement dated December 1, 1999, the First Amendment dated June 1, 2005 and the Second Amendment dated June 1, 2006 in exchange for a subordinate pledge of tax increment revenues from the redevelopment area.
- B. The City provided project funds to the Stockton Boulevard Redevelopment Area by entering into the Stockton Boulevard Advance Repayment Agreement dated July 1, 2002 and the First Amendment dated December 5, 2007 in exchange for a subordinate pledge of tax increment revenues from the redevelopment area.
- C. The City authorized the issuance of tax allocation revenues bonds for North Sacramento and Stockton Boulevard Redevelopment Areas on December 4, 2007 which would have been a senior pledge of the tax allocation revenues bonds.
- D. Due to the volatility of the municipal bond market for the last six months, tax allocation revenue bonds could not be economically issued. An alternative method of providing funds for critical redevelopment and housing projects can be provided by credit agreements with Bank of America.

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

- Section 1. The City Treasurer is authorized to enter into the Third Amendment to the North Sacramento Advance Repayment Agreement and Second Amendment to the Stockton Boulevard Advance Repayment Agreement to meet the terms of the Agency Credit Agreements with Bank of America.