



**OFFICE OF THE
CITY TREASURER**

THOMAS P. FRIERY
TREASURER

MICHAEL L. MEDEMA
ASSISTANT TREASURER

DONALD E. SPERLING
DEPUTY TREASURER/OPERATIONS

DAVID M. AFFLECK
DEPUTY TREASURER/FINANCING

**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

**February 26, 1991
f00234tf.da***

**Budget and Finance Committee
Sacramento, California**

Honorable Members in Session:

**SUBJECT: Preliminary Approval of Financing Plan to Refinance the 1985
Certificates of Participation (Light Rail Project) and the 1987
Certificates of Participation (Public Facilities Project)**

SUMMARY

Tax exempt municipal bond rates have declined to levels which now make it economically attractive for the City to proceed with a refunding of the Certificates of Participation financings referenced above. At interest rate levels today, refunding of the 1985 COPs would save approximately \$4.9 million in total annual debt service, and refunding the 1987 COPs would save approximately \$1.9 million over the remaining life of that issue.

The City Treasurer has engaged the City's underwriting team in the work of analyzing the economic feasibility of a refunding and in assembling a preliminary official statement. The Treasurer has also discussed the refunding concept with the City Manager, City Attorney, Director of Finance and with bond counsel. Bond counsel has begun preliminary work on legal documents. It is anticipated that documents will be ready for City Council approval before the end of March and that sale of refunding COPs can take place by the first of April, 1991.

It is recommended that the Committee approve the attached City Council report and forward it to the full Council for their approval.

Budget and Finance Committee
February 26, 1991

BACKGROUND

See attached City Council report.

FINANCIAL

See attached City Council report.

M/WBE EFFORTS

See attached City Council report.


POLICY CONSIDERATIONS

See attached City Council report.

RECOMMENDATION

It is recommended that the Committee approve the attached City Council report which authorizes staff to proceed with refunding of the 1985 and 1987 COPS, approves the refunding action plan (Exhibit A), the financing team (Exhibit B) and authorizes the City Treasurer to request approval from the Sacramento Regional Transit District to amend the lease for the Light Rail System.

Respectfully submitted,

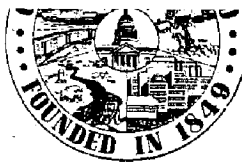

THOMAS P. FRIERY
City Treasurer

RECOMMENDATION APPROVED:


JACK R. CRIST Deputy City Manager

All Districts

Contact person: David Affleck, Deputy City Treasurer
449-5168



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**February 26, 1991
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Sacramento City Council
Sacramento, California

Honorable Members in Session:

**SUBJECT: Resolution Approving the Financing Plan to Refinance the 1985
Certificates of Participation (Light Rail Project) and the 1987
Certificates of Participation (Public Facilities Project)**

SUMMARY

Tax exempt municipal bond rates have declined to levels which now make it economically attractive for the City to proceed with a refunding of the Certificates of Participation financings referenced above. At interest rate levels today, refunding of the 1985 COPS would save approximately \$4.9 million in total annual debt service, and refunding the 1987 COPS would save approximately \$1.9 million over the remaining life of that issue.

The City Treasurer has engaged the City's underwriting team in the work of analyzing the economic feasibility of a refunding and in assembling a preliminary official statement. The Treasurer has also discussed the refunding concept with the City Manager, City Attorney, Director of Finance and with bond counsel. Bond counsel has begun preliminary work on legal documents. It is anticipated that documents will be ready for City Council approval before the end of March and that sale of refunding COPS can take place by the first of April, 1991.

It is recommended that Council adopt the attached resolution which authorizes staff to proceed with refunding of the 1985 and 1987 COPS, approves the refunding action plan (Exhibit A), the financing team (Exhibit B) and authorizes the City Treasurer to request concurrence from the Sacramento Regional Transit District to amend the lease for the Light Rail System.

BACKGROUND

In June, 1985 a \$29.365 million COPs was issued to finance a portion of the Light Rail project. The financing was structured as a lease with Sacramento Regional Transit District (SRTD) as lessor and the City as lessee. In March, 1987, the segment of the Light Rail project associated with the financing was completed and revenue service began. A refinancing of this issue was begun in March, 1987 but later abandoned when interest rates rose, making the refinancing impractical.

In January, 1988 a \$41.650 million COPs was issued to finance various City projects including the Community Center expansion, a police substation, public safety system phase II, solid waste containers and other projects. The 1987 COPs also advance refunded \$15.5 million of 1971 Community Center Authority bonds.

The principal legal documents have been prepared in draft form and are now being reviewed by City staff, the underwriting team and their legal counsel. These documents will continue to be edited and amended as appropriate. It is anticipated that these documents will be presented to Council later in March for final approval prior to releasing them to rating agencies and the investor public.

It will be necessary to seek approval from the Regional Transit District Board to amend the Transit Property Lease. It is recommended that the City Treasurer be authorized to present the financing plan to the RT Board for action on amendments to the Transit Property Lease for the 3.5 mile segment of system rail line and 15 light rail transit vehicles.

Exhibit B of the attached resolution contains the members of the proposed financing team. Council has previously approved the investment banking firms of Stone & Youngberg, Merrill Lynch Capital Markets, Donaldson, Lufkin & Jenrette Securities, Inc. and Grigsby, Brandford and Powell, Inc. It is recommended that along with the four co-senior managers, the firms of Smith, Mitchell, & Associates, Inc., WR Lazard, Laidlaw & Mead Inc., and The Knight Group be named as co-managers. It is recommended that Council approve the financing team and concur with their estimated financing costs and expenses.

It is further recommended that the law firms of Orrick, Herrington & Sutcliffe and Ochoa & Sillas be named as co-bond counsel. The City Attorney's office has reviewed these firms and concurs with their appointment as co-bond counsel. Further, for your information the underwriters have retained the firm of Nossaman, Guthner, Knox & Elliot as counsel. These firms have been working with the City to date on the refinancings.

It is recommended that Council approve the initial estimate of financing expenses associated with the refundings. However, it is pointed out that expenses relative to underwriting are conditioned upon a sale of securities. Therefore, underwriter expenses will be incurred only if a financing is completed. The estimated underwriting discount is provided below and is considered both reasonable in today's market and in compliance with the City's underwriter contract.

Estimated Underwriting discount per \$1,000 par bonds sold:

Management Fee	\$ 1.00
Average Takedown	7.50
Underwriter Risk	2.00
Expenses	<u>1.00</u>
Total	<u><u>\$11.50</u></u>

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

- 1) Management Fees - Fees paid to investment bankers for structuring the transaction.
- 2) Takedown or Sales Concessions - Fees paid to the sales group for marketing securities.
- 3) Underwriter's Risk - This fee compensates the underwriter for the risk of marketing the bonds after making their offer to purchase the securities.
- 4) Expenses - These are direct expenses of the underwriter which have been incurred as a result of the financing and typically includes travel, computer time, printing and mailing of the official statement, advertisement, registration fees and underwriter's counsel.

Bond counsel services have been estimated to range between \$70,000 and \$100,000 depending on whether one or both COPs are refinanced. These fees are considered competitive and consistent with similar financings. Unlike the underwriting discount, bond counsel must be compensated for the work accomplished if the refundings are not completed.

M/WBE EFFORTS

The firms of Smith, Mitchell, & Associates, Inc. (WBE), WR Lazard, Laidlaw & Mead Inc. (MBE), and The Knight Group (WBE) are recommended as co-managing underwriters with a combined participation of 10% in the financing. The firm of Grigsby, Brandford & Powell Inc. (MBE) will also participate as a co-senior manager. Combined, M/WBE firms will have a total underwriting participation of 32.5% in the proposed financings. Further, the firm of Ochoa & Sillas, an MBE law firm, is recommended to serve as co-bond counsel.

Sacramento City Council
February 26, 1991

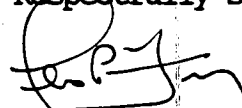
POLICY CONSIDERATIONS

The number of times bonds may be refunded is restricted by the tax laws in effect at the time of original issuance. After the proposed refinancings are completed, the 1985 COPS may be refunded once more while the 1987 COPS will not be eligible for refunding. Based on the low interest rates currently available, the state of the economy, historical interest rate trends and the amount of debt service savings available, it would be in the City's best interests to refund the COPS at current rate levels.

RECOMMENDATION

It is recommended that Council adopt the attached resolution which authorizes staff to proceed with refunding of the 1985 and 1987 COPS, approves the refunding action plan (Exhibit A), the financing team (Exhibit B) and authorizes the City Treasurer to request approval from the Sacramento Regional Transit District to amend the lease for the Light Rail System.

Respectfully submitted,



THOMAS P. FRIERY
City Treasurer

RECOMMENDATION APPROVED:

WALTER J. SLIPE, City Manager

All Districts

Contact person: David Affleck, Deputy City Treasurer
449-5168

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

A RESOLUTION APPROVING THE PROPOSED REFUNDING OF THE CITY OF SACRAMENTO 1985 CERTIFICATES OF PARTICIPATION (SACRAMENTO LIGHT RAIL TRANSIT PROJECT) AND THE CITY OF SACRAMENTO CERTIFICATES OF PARTICIPATION (1987 PUBLIC FACILITIES PROJECT)

WHEREAS, the City of Sacramento has previously participated in the execution and delivery of \$29,365,000 aggregate principal amount of its City of Sacramento Certificates of Participation (Sacramento Light Rail Transit Project), dated as of June 1, 1985 (the "1985 Certificates"), and \$41,650,000 aggregate principal amount of its City of Sacramento Certificates of Participation (1987 Public Facilities Project), dated as of December 1, 1987 (the "1987 Certificates," and together with the 1985 Certificates, the "Certificates"); and

WHEREAS, it is in the best interest of the City to analyze the benefits of refunding the Certificates;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO, AS FOLLOWS:

SECTION 1. The Treasurer of the City (the "Treasurer") is hereby authorized to proceed with the proposed refunding of the Certificates in accordance with the Action Plan in the form attached hereto as Exhibit A.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

SECTION 2. The Treasurer is hereby authorized to employ the financing team set forth in Exhibit B hereto to effect the proposed refunding of the Certificates.

SECTION 3. The Treasurer is hereby authorized to request all approvals required of the Sacramento Regional Transit District to effect the refunding of the 1985 Certificates.

SECTION 4. This resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED on this date by the following vote:

AYES:

NOES:

ABSENT:

Mayor of the City of Sacramento

ATTEST:

City Clerk of the City of Sacramento

F00233DA.MWF

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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EXHIBIT A

CITY OF SACRAMENTO
 TREASURER'S OFFICE
 1991 CERTIFICATES OF PARTICIPATION
 REFUNDING PROGRAM
ACTION PLAN (revised 2/21/91)

<u>Target Date</u>	<u>Action</u>	<u>Responsible Parties</u>	<u>Complete Date</u>
2/13	- Meeting with consultants and city staff.	All	2/13
2/25	- Complete B&F/Council report (3/5, 3/12) authorizing Refunding. Resolution approving Action Plan, authorizing Treasurer to proceed with refunding, appointing bond counsel, underwriters and other consultants.	T	
2/25	- Mail resolution to Treasurer for 3/5 B&F report. (receive 2/26)	BC	
2/26	- Distribute first draft legal documents. (receive 2/27)	BC	
2/28	- Distribute first draft of POS. (receive 3/1) - Distribute first draft purchase contract. " "	UC UC	
3/5	- All hands meeting. - Comments back: legal documents, POS, purchase contract. - B&F Committee: Approve refunding.	All All T,BC,UW	
3/8	- Distribute 2nd draft legal documents. - Distribute 2nd draft POS. - Complete B&F/Council report (3/19) approving legal documents, POS. - Mail resolutions to Treasurer for 3/19 Council report.	BC UC T BC	
3/12	- City Council: Approve refunding. Adopt resolution.	T,BC,UW	
3/13	- Final comments due on legals, POS	All	
3/14	- All hands meeting. (Due Diligence)	All	
3/15	- Distribute final legal documents. (receive 3/18) - Distribute final draft POS. (receive 3/18) - Mail legal documents and POS to rating agencies.	BC UC UW	
3/19	- B&F/Council action on legal documents and POS.	T,BC,UW	

CITY OF SACRAMENTO
 TREASURER'S OFFICE
 1991 CERTIFICATES OF PARTICIPATION
 REFUNDING PROGRAM
ACTION PLAN (revised 2/21/91)

<u>Target Date</u>	<u>Action</u>	<u>Responsible Parties</u>	<u>Complete Date</u>
3/29	- Rating received.		
4/1	- Bind & label Preliminary Official Statement	UW,UC	
4/2	- Mail Preliminary Official Statement	UW,UC	
4/2	- Complete draft B&F/Council report. (4/9)	T	
4/8	- Pricing. - Decision on use of bond insurance. - Complete final Council report. (4/9)	T, UW T, UW T	
4/9	- Sale date. Council approval of COPs refunding.	T, UW	
4/23	- Closing, deliver proceeds.	BC,UC,UW T,CA	

LEGEND

- : - Bond Counsels
- A - City Attorney
- CS - City Staff, financing team
- AP - Appraiser
- T - City Treasurer
- UW - Underwriters
- UC - Underwriter's Counsel

EXHIBIT B

CITY OF SACRAMENTO, CALIFORNIA
1991 REFINANCING PROGRAM

FINANCING TEAM

CITY OF SACRAMENTO

Office of the City Treasurer
921 - 10th Street, Suite 400
Sacramento, CA 95814-2714 Fax: (916) 448-3139
Thomas P. Friery, City Treasurer (916) 449-5168
David M. Affleck, Deputy Treasurer

Jack R. Crist, Deputy City Manager (916) 449-5704

Sharon Siedorf Cardenas, City Attorney (916) 449-5346
Bill Carnazzo, Senior Deputy City Attorney

Valerie Burrowes, City Clerk (916) 449-5426

Betty Masuoka, Finance Director (916) 449-5736
Ken Nishimoto, Budget Manager (916) 449-5845
Lydia Lara, Assistant Accounting Mgr. (916) 449-5832
Margaret Freeman, Revenue Manager (916) 449-5854

SACRAMENTO REGIONAL TRANSIT

1400 - 29th Street
P. O. Box 2110 Fax: (916) 444-2156
Sacramento, CA 95810-2110
Thomas G. Matoff, General Manager (916) 321-2989
Mark W. Gilbert, Chief Legal Counsel (916) 321-2973
Douglas L. Wentworth, Controller (916) 321-2954

CONSULTANTS

Co-Bond Counsel

Orrick, Herrington & Sutcliffe
400 Sansome Street Fax: (415) 773-5759
San Francisco, CA 94111
Carlo S. Fowler, Esq. (415) 773-5884
E. Randolph Hooks (916) 447-9200

Ochoa & Sillas
530 West Sixth Street Fax: (213) 622-0162
Los Angeles, CA 90014
Julia E. Sylva (213) 622-9170

Underwriters - Senior Managers

Merrill Lynch Capital Markets
400 South Hope Street, Suite 2020 Fax: (213) 683-4514
Los Angeles, CA 90071-2821
Anthony H. Fisher, Director (213) 683-4671
Thomas W. Austin, IV, Fin. Analyst (213) 683-4688

Stone & Youngberg
One California Street, Suite 2800 Fax: (415) 397-9592
San Francisco, CA 94111
David Hartley, Managing Partner (415) 981-1314
Edward Schilling, Associate

Donaldson, Lufkin & Jenrette Securities Corp.
2121 Avenue of the Stars, Suite 3030 Fax: (213) 282-6149
Los Angeles, CA 90067
William Reynolds, Sr. Vice President (213) 282-6151

Grigsby Brandford Powell Inc.
230 California Street, Suite 601 Fax: (415) 398-5548
San Francisco, CA 94542
Calvin B. Grigsby, President (415) 392-4800
Brian Corley

Underwriters - Co-Managers

Smith, Mitchell & Associates, Inc.
1333 N. California Blvd., Suite 330 Fax: (415) 256-7192
Walnut Creek, CA 94596
Vivian M. Van Horn, Sr. Vice President (415) 256-7550

Mary Thurber Fax: (213) 479-2022
Smith, Mitchell & Associates
1870 Veteran Avenue, Suite 215 (213) 479-2002
Los Angeles, CA 90025

The Knight Group
One Sansome Street, Suite 2000 Fax: (415) 765-1090
San Francisco, CA 94104
Charlotte Knight-Marshall, Managing Partner (415) 765-1085
Cheryl Mortimer, Sr. Vice President (415) 765-1014

WR Lazard, Laidlaw & Mead Incorporated
14 Wall Street, 18th Floor Fax: (212) 587-9838
New York, NY 10005
Thomas M. Mead, Jr., Principal (212) 406-2700

Underwriter's Counsel

Nossaman, Guthner, Knox & Elliott
50 California Street, 34th Floor
San Francisco, CA 94111
Michael Castelli, Partner

Fax: (415) 398-2438
(415) 398-3600

Trustee

Security Pacific National Bank
Corporate Trust Division
333 South Beaudry Avenue, W-24-30
Los Angeles, CA 90017
Dennis Wong, Vice President

Fax: (213) 345-2333
(213) 345-2807

Jennifer Holder, Trust Officer
Security Pacific National Bank
Corporate Services NF-145
33 New Montgomery Street, 11th Floor
San Francisco, CA 94105

Fax: (415) 445-4978
(415) 995-2108

First Interstate Bank of California
Corporate Trust Division
345 California Street, 8th Floor
San Francisco, CA 94104
Inga Keldsen

Fax: (415) 773-7817
(415) 773-7831

Title Company

Fidelity National Title Insurance Company
1515 River Park Drive, Suite 150
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(916) 925-4200

Auditors

Touche Ross
2335 American River Drive, Suite 200
Sacramento, CA 95825
Louis Paletta

(916) 646-4011