

MINUTES

OF THE

SACRAMENTO CITY COUNCIL
REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
HOUSING AUTHORITY OF THE CITY OF SACRAMENTO
ECONOMIC DEVELOPMENT COMMISSION
PARKING AUTHORITY OF THE CITY OF SACRAMENTO
SACRAMENTO CITY FINANCING AUTHORITY

REGULAR MEETING

April 15, 1997

CALL TO ORDER

The Regular Meeting of the Sacramento City Council was called to order by Mayor Serna at 2:06 p.m. on the above date in the City Council Chamber located at 915 I Street.

ROLL CALL

Present: Councilmembers Cohn, Fargo, Kerth, Hammond, Waters, Pannell, Steinberg, Yee and Mayor Serna

Absent: None

1.0 CONSENT CALENDAR (Items 1.1 through 1.7, except item 1.6)

A motion was made by Councilmember Pannell, seconded by Councilmember Cohn, to waive the reading and adopt the Consent Calendar, Items 1.1 through 1.7, except Item 1.6, which was pulled for separate consideration. The motion carried with a 9-0 vote.

Public Review Items - Informational Only

None

Sacramento Housing and Redevelopment

None

City Council

1.1 Brighton Heights lease modification to Agreement No.94-016, between City and County, located at 7399 San Joaquin Street. (D-All)

Adopted staff recommendation.

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- 1.2 Procedural ordinances relating to Assessments, Fees and Charges: (D-All)
- A. Ordinance adopting mailed ballot procedures pursuant to Article XIID of the California Constitution for Assessments and for Property Related Fees and Charges
 - B. Ordinance adopting procedures for Administrative Appeal of Fees and Charges
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Passed for publication of title and continued to April 22, 1997 for adoption.

- 1.3 Annexation of a portion of R Street to the U.C.D. Medical Center Residential Permit Parking Area, located at R Street from 41st Street to 42nd Street. (D-3)
-

Adopted Resolution 97-174.

RESOLUTION NO. 97-174

A RESOLUTION ANNEXING A PORTION OF CERTAIN
STREETS TO THE U.C.D. MEDICAL CENTER
RESIDENTIAL PERMIT PARKING AREA

- 1.4 Approval of Parcel Map entitled "Woodlake Business Park", located South of Canterbury Road and Highway 160 (P95-121). (D-2) (continued from 4/1/97, item 1.4 [staff])
-

Adopted Resolution 97-175.

RESOLUTION NO. 97-175

APPROVING PARCEL MAP ENTITLED "WOODLAKE
BUSINESS PARK" (P95-121)

- 1.5 *Natomas Corporate Center Expansion* - entitlements to amend the schematic Plan and PUD Development Guidelines for future office development (hearing closed; motion of intent adopted; item continued from 3/25/97, 10.3)(P96-073):
- A. Negative Declaration;
 - B. Mitigation Monitoring Plan;
 - C. PUD Schematic Plan Amendment; and
 - D. PUD Guideline Amendment
-

Adopted (A) staff recommendation; (B) Resolution 97-176; and (C-D) adopted Resolution 97-177.

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RESOLUTION NO. 97-176

MITIGATION MONITORING PLAN FOR AMENDMENTS TO THE NATOMAS CORPORATE CENTER PUD SCHEMATIC PLAN AND PUD GUIDELINES TO REORIENT BUILDING HEIGHTS FROM 6 STORIES TO 10 STORIES, REDESIGNATE 2.062± ACRES FROM OFFICE/OFFICE PARK TO PUBLIC/QUASI-PUBLIC, REDESIGNATE 1.440± ACRES FROM OFFICE/OFFICE PARK TO SUPPORT COMMERCIAL, AND INCREASE THE TOTAL ALLOWABLE BUILDING SQFT FROM 337,733 SQFT TO 488,125 SQFT ON 19.0± ACRES ON THE PB-PUD ZONE, EAST OF I-5 ON NATOMAS PARK DRIVE IN THE SOUTH NATOMAS COMMUNITY PLAN AREA (P96-073) (APN:274-042-035)

RESOLUTION NO. 97-177

A RESOLUTION AMENDING THE NATOMAS CORPORATE CENTER PUD SCHEMATIC PLAN AND PUD GUIDELINES TO REORIENT BUILDING HEIGHTS FROM 6 STORIES TO 10 STORIES, REDESIGNATE 2.062± ACRES FROM OFFICE/OFFICE PARK TO PARK-OPEN SPACE/CIVIC USE-PURPOSE, REDESIGNATE 1.440± ACRES FROM OFFICE/OFFICE PARK TO SUPPORT COMMERCIAL, INCREASE THE TOTAL ALLOWABLE BUILDING SQFT FROM 337,733 SQFT TO 488,125 SQFT ON 19.0± ACRES IN THE OB-PUD ZONE, AND INCREASE TO 1,051,166 THE TOTAL ALLOWABLE SQUARE FEET IN THE PUD, EAST OF I-5 ON NATOMAS PARK DRIVE IN THE SOUTH NATOMAS COMMUNITY PLAN AREA (P96-073) (APN:274-042-035)

***** Mayor Serna requested a continuance motion here for Item 5.1, out of sequence.

***** A motion was made by Councilmember Pannell, seconded by Councilmember Cohn, to continue Item 5.1 to April 29, 1997, 2:00 p.m. [staff]. The motion carried with a 9-0 vote.

- 1.6 Master Plan for Park Facilities and Recreation Services - Amend Capital Improvement Program budget (LN66) in the amount of \$70,000 and award consultant services agreement to RJM Design Group in the amount not to exceed \$100,000. (D-All)

Vic Edmisten, Parks and Recreation Manager, presented the report.

Steven Kahn, representing Land Park Community Association, requested that Council not approve this expenditure; he expressed concern that, per a 1988 Resolution, \$15,000 was to be used to pay for mitigation measures for Operation and Maintenance of William Land Park, particularly tree trimming in the Park, as well as an August 15, 1995 Resolution forming the William Land Park Planning Committee, addressing traffic and public safety concerns. Mr. Kahn commented that an earlier discussion had resulted in the services of a consultant. Mr. Kahn expressed disapproval of a Master Plan; he desired to return to the stipulations of the 1988 Resolution; he was

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of the opinion that it was not a proper use of these funds to have a Master Plan; he urged that the funds be used for O&M in the Park.

Mr. Edmisten explained that the Master Plan is a planning tool which aids in applying for grants; he desired to include recreation programming within the General Master Plan. Mr. Edmisten conceded that the fund can be separated from the Master Plan, but believed the scope would address overall deficit problems, and identify a way to address O & M equity throughout the whole City.

Councilmember Yee remarked that the question was whether the \$15,000 could be separated; after discussion with Gary Little, Mr. Yee agreed that the best course of action would be to leave the \$15,000 in the Master Plan.

Councilmember Pannell spoke in support of Mr. Yee.

Councilmember Steinberg, regarding the Quinby Fund, asked if it was divided among all planning areas in terms of the source of the \$70,000? Mr. Edmisten replied that it was not divided equally, that the hope was to pay for it out of the interest generated from the Quinby. There would be no impact on proposed projects funded by Quinby. The interest applied to planning areas is a disproportionate amount, due to the fact that there are no Quinby fees collected in the Central City - there is no development there, only infill.

Mr. Steinberg expressed approval that the Master Plan as explained, and use of funds, appeared to be a good use.

Councilmember Fargo pressed for an equitable way to pay for the study; she spoke in support of the Master Plan, and received assurance from Mr. Edmisten that needed information would be available.

A motion was made by Councilmember Yee, seconded by Councilmember Fargo, to adopt Resolution 97-178 approving Agreement 97-041. The motion carried with a 9-0 roll call vote.

RESOLUTION NO. 97-178

AMEND CAPITAL IMPROVEMENT PROGRAM BUDGET
(LN66) IN THE AMOUNT OF \$70,000 AND AWARD
CONSULTANT SERVICES AGREEMENT TO RJM DESIGN
GROUP, INC. NOT TO EXCEED \$100,000.

- 1.7 Conveyance of City Surplus Parcel (APN 104-0231-040), located near the corner of 12th Avenue and Martin Luther King Boulevard, to Sacramento City Unified School District. (D-5)

Adopted Resolution 97-179.

RESOLUTION NO. 97-179

RESOLUTION AUTHORIZING CONVEYANCE OF
SURPLUS CITY PARCEL TO SACRAMENTO CITY
UNIFIED SCHOOL DISTRICT (SCUSD)

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2.0 SPECIAL PRESENTATIONS/GENERAL COMMUNICATIONS

**** Items 2.1 through 2.5 were read simultaneously at the request of Mayor Serna.

2.1 Recognition of McKinley Park Pond Rehabilitation participants (D-3)

Councilmember Cohn said honors were in order for Bob Fleming, Ted Fitzpatrick, Dave Spies, Paul Kay, Janet Baker, Bob Spies, Willie Thibodeaux, Ernest Owens, Tim Curran, and Dave Mohlenbrook. The project was originally estimated to be over \$100,000 to rehabilitate the duck pond; using Sheriff's Deputy crews, the actual cost was under \$30,000.

Bob Spies commented that the Sheriff's Department provided an officer free of charge every day during the renovation, amounting to 30,000 volunteer hours. The project was very successful; it works well and is attractive.

Mr. Cohn recognized Anne Valenti for her assistance also, saying it was a good example of inter-agency cooperation.

Mr. Spies commented that the original cobblestones were salvaged and reused, hand-cleaned by the inmates.

Mayor Serna expressed his approval of the project, noting that it had saved taxpayer dollars and was good for community morale.

2.2 Presentation of checks for gas franchise fee (\$553,030.22) and SB 278 gas surcharge (\$29,807.80) from PG&E

Emma Suarez, representing PG&E, presented the checks, commenting that PG&E pays over \$72 million per year to cities and counties for use of utility equipment in the public right-of-way. Ms. Suarez presented PG&E's annual payment of \$553,000 for 1996, based on revenues collected from area customers.

2.3 Resolution declaring the week of April 14-18, 1997 as "National Dispatchers Week"

Mayor Serna presented the Resolutions for Items 2.3 and 2.4 simultaneously, commending the City's Dispatchers for their professionalism and commitment to the Citizens of Sacramento and to Sacramento Police Officers in the field.

Dee Gibson, Public Safety Communications Officer, and Craig Watrous, Fire Division Chief, were present to accept.

Chief Watrous commented that an important part of the award is the recognition of the annual top dispatcher, deferring to Ms. Gibson, who said the top Dispatcher for the Police Department would be announced at ceremonies to be held later in the week. Ms. Gibson recognized a group of dispatchers who had accompanied her.

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Chief Watrous recognized Mike Grace, who was named as Sacramento Regional Fire Dispatcher of the Year.

- 2.4 Resolution declaring the week of April 13-19, 1997 as "National Telecommunications Week"
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This Item was heard together with Item 2.3, above.

- 2.5 Celebration of Fair Housing Month

Jaime Reyes, District Administrator for Fair Housing/Human Rights Program, State of California, commented that the department's efforts in the area of human rights would not be possible without the efforts of the City.

Mr. Reyes presented a Proclamation signed by Governor Wilson and the Secretary of State to the Mayor and City Council, proclaiming April, 1997 "Fair Housing Month". Mr. Reyes noted that this was the 33rd anniversary of the Fair Housing Law, which was designed to protect citizens against housing discrimination, regardless of race, sex, marital status, etc. Even today, reinforcement of anti-discrimination is still needed.

Mayor Serna called forth Dorothy Yamamoto, Chair of the Sacramento Human Rights and Fair Housing Committee, to accept the Proclamation. Ms. Yamamoto expressed her thanks for the support of Council, and to Barbara Lehman, Executive Officer of the Committee.

3.0 PUBLIC HEARINGS

- 3.1 None

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4.0 STAFF REPORTS

- 4.1 Transportation revenue and street maintenance needs. (D-All)
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Mike Kashiwagi, Director, Public Works, presented the report.

A recently completed evaluation of the pavement condition for the City's street system, and a review of the current street maintenance funding, revealed:

- * the annual street maintenance budget should be increased by \$1 million in order to preserve the City's investment in the existing street system; and
- * a multi-year street reconstruction program needs to be established and funded now.

On October 22, 1996, staff presented to Council the results of an extensive inventory of the City street system. The purpose for the inventory was to evaluate the surface and structural condition of the streets. The street review was accomplished by using the Super Pavement Management System (PMS) as a diagnostic tool. The PMS identified an annual need of \$6,000,000 in overlays and seals to keep

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additional streets from needing reconstruction prematurely. The PMS also showed a current street reconstruction backlog in excess of \$20 million.

Mr. Kashiwagi said the City street network, 2600 street miles, is valued at \$600 million; with the inclusion of 550 intersections controlled by traffic signals, 27,000 street lights, and 65,000 controlling signs, the total value of the street network is more than \$750 million.

Using the Paving Quality Index (PQI) as a rating methodology to identify streets needing maintenance, and establish priorities, the emphasis is on preventive maintenance through the use of slurry seals and overlays.

At this time, an additional \$1 million per year is needed for slurry seals and overlays. The City receives transportation funding from the following sources: Gasoline tax, Major Street Construction tax, and Measure A Sales tax (separated for construction and maintenance)

FY 1997/98 anticipated revenues from these sources total \$21,609,218.

Mr. Kashiwagi proposed a different distribution this year for Public Works Transportation Funds.

Street reconstruction has not been historically funded in the CIP, but few street reconstruction projects were funded as part of the Gas tax bond program. To provide funding for street reconstruction, the City must allocate some of its Measure A construction funds.

Various options include:

- * Devote all available construction funds to complete the needed street reconstruction as soon as possible
- * Devote a portion of construction funds and accomplish the reconstruction over the next few years
- * Staff recommends that approximately \$3 million be committed to street reconstruction annually
- * There is a one-time opportunity in FY 1997/98 to reallocate funds from completed and lower priority future projects; these reallocated funds could be programmed for street reconstruction, in addition to the \$3 million mentioned above.

The proposed annual increase of \$1 million for overlays and seals will provide the City the resources to preserve the existing street infrastructure investment. The longer the delay in maintenance, the more costly.

Councilmember Fargo commented that she understood the need to add maintenance funding, but questioned that approach vs. new construction.

Kirsten Garrard, Transportation Analyst, said the recommendation is to redirect some funds currently allocated to two large projects which are not yet ready to go: Elder Creek (\$1 million), and Evergreen Extension (\$2.7 million). More progress could be realized if those funds were redirected at this time.

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Ms. Fargo asked if redirection of funds would adversely affect bikeway, pedestrian, or landscaping projects? Ms. Garrard replied that at this time, \$100,000 each is set aside for Bikeways and Handicap projects.

Mr. Kashiwagi interjected that it is important to understand that there is no new funding; this will delay some new projects. The recommendation is to better maintain existing streets vs. new construction.

Ms. Fargo commented that she wished to identify which projects would be affected prior to voting on this item. Her concerns were for long-term impact to other projects, since this additional \$1 million was to be a permanent allotment.

Mr. Kashiwagi remarked that the department would probably return every year for the \$1 million for maintenance through the Pavement Management System.

Mayor Serna stressed the need to focus on the citywide impact vs. individual districts.

Ms. Fargo questioned the impact to landscaping projects? Ms. Garrard replied that there was to be \$55,000 in new landscaping next year for Districts 1 and 2, that no landscaping funds would be taken out now.

Councilmember Yee remarked that after 20 years, streets meet the reconstruction requirement, that 3% of our streets have reached that status now. Mr. Yee was in agreement with the need to practice preventive maintenance, which would save money in the long run.

City Manager Edgar interjected that the collected data indicates that there is really no choice; priorities must be changed, the streets must be maintained. Mr. Yee spoke in support of Mr. Edgar's comments.

Councilmember Cohn agreed with staff recommendation, saying the conditions would worsen; there is no money for new construction; if delayed, those funds could be used for reconstruction.

An intent motion to tentatively adopt staff recommendations, contingent on staff's return on April 22, 1997, was made by Councilmember Cohn, seconded by Councilmember Kerth.

Councilmember Kerth commented that Transportation and Street Maintenance were closely interrelated; he requested a delay of one week, pending staff presentation of the entire Transportation budget.

Councilmember Hammond inquired as to whether, in the regular program, flooded streets are given higher priority? Mr. Kashiwagi replied that was not considered during the TQI study. Ms. Hammond cited the poor condition of Freeport Boulevard due to the rains. Mr. Kashiwagi replied that condition indicates an underlying structural failure; priorities will be established according to use, type of traffic, and whether the street is an arterial. Ms. Hammond noted that a portion of Freeport was done, but not in her district. Mr. Kashiwagi replied that he would return with information as to when that would be done.

Councilmember Pannell indicated that he did not wish to vote until next week, when the entire list of projects would be presented.

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Councilmember Steinberg expressed concerns regarding his area, saying he wished to see a 5-year projection of maintenance funding, to see how the CIP is affected. Violet Jakab, Senior Engineer, said there is an existing 5-year plan for maintenance. Mr. Steinberg responded that is only half; he wanted to know what other projects would be defunded or reduced as a result of this re-prioritizing.

Mr. Kashiwagi remarked that this becomes more speculative the longer the projection; he stressed the need for \$1 million for maintenance, which will save much more money in the long run, and can cap the number of streets which would fall into the reconstruction zone.

Mr. Pannell expressed concerns regarding uncertainties in the CIP; he wanted something viable, what impact there would be on rehabilitating streets now.

Mr. Steinberg asked for clarification regarding the trade-offs.

Mr. Kerth said the CIP list would return next week; he questioned whether Council would not see it again for the next 5 years?

Mr. Edgar said the goal was to provide a 5-year operating budget to Council, a 15-year CIP, which provides a target; this would be returned annually for reconsideration and adjusting.

Lex Taylor, Taylor Properties, spoke in support of staff's efforts to maintain the streets, but did not support the diverting of funds from Measure A. Funds allocated for CIP would be shifted under this proposal. Mr. Taylor suggested there may be other alternatives.

Mr. Kashiwagi replied that funds would be shifted from the CIP; the staff is aggressively seeking other funds, such as Federal Transportation and other Transportation funds.

Mayor Serna asked whether this affects current Measure A projects identified? Mr. Kashiwagi replied that it could; he did not know which ones at this time.

The intent motion, tenth paragraph, page 8, to adopt staff recommendations, to return on April 22, 1997, carried with a 9-0 roll call vote.

4.2 ARCO Arena loan financing: (D-All)

City Treasurer Friery presented the report.

Mayor Serna inquired of Assistant City Attorney Carnazzo as to whether the City of Sacramento has a contractual relationship with the Sacramento Kings, given its prior action on this issue? Mr. Carnazzo replied affirmatively, saying that the City has a contractual relationship with the owners to refinance the private loan which the owners now have. Mr. Carnazzo said the City Council approved, the arrangement has been duly executed by all parties, constituting a contractual agreement. The loan documents must now be approved in order to proceed.

Mayor Serna asked whether the City would incur liability in case of a sudden vote shift? Mr. Carnazzo replied affirmatively.

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Mayor Serna commented that it was his understanding that somewhere in the chain of finance Sumitomo Bank was involved. The Mayor noted that in December, 1996, he removed himself from the CRA Advisory Board of Sumitomo Bank; the CRA concerns itself with the MBE/WBE policies of the bank. The Mayor inquired as to whether he had a conflict?

City Attorney Jackson questioned whether the Mayor was involved with any negotiations with the Kings and Sumitomo? The Mayor replied that he had not, that he had served with a Community Advisory Board that dealt with the Federally mandated Community Reinvestment Act (CRA). Mr. Jackson replied that in that case, there was no conflict.

Mayor Serna inquired as to when bonds for other projects were last issued? City Treasurer Friery replied one was issued on October 2, 1996 for the Lighting and Landscaping District; another was issued on May 15, 1995 for the Gas Tax. In all cases, the process is the same as far as the stages of development, approval, and implementation are concerned.

Mayor Serna inquired as to which bank was being used in this instance? Mr. Friery replied that there would be a public financing, a taxable bond, Merrill Lynch is the Underwriter, and to this point it is unknown who the purchasers will be, in that the bonds have not been sold yet.

On February 5, 1997, City Council approved the Refinancing Agreement. On February 18, 1997, Arco Arena Limited Partnership accepted the City's offers and terms; since that time, staff has been working on the completion of the mechanism and structure to provide the funding for that commitment. Mr. Friery commented that nothing new was being added today, that this action was to put in place the financing vehicles, structure, legal documents, and financing documents necessary to complete previous Council actions.

Mr. Friery continued by citing the reasons for today's Council item:

1. To comply with the City's contractual commitment to complete financing.
2. To be prepared to proceed with the financing ASAP following the litigation (interest rates are rising).
3. To identify the financing documents and structure for Council and the public.
4. To comply with City Council's previous actions which authorized the financing and directed staff to proceed in a timely fashion, i.e. to complete the financing and close by April 18, 1997.
5. To obtain an extension from the Arena Owner to June 20, 1997 in order to settle the transaction.

Mr. Friery said the specific request before Council today was that City Council, acting as the Sacramento City Financing Authority, authorize the issuance, sale, and delivery of up to \$75 million of Sacramento City Financing Authority Lease Revenue Bonds. Furthermore, staff is requesting that Sacramento City Financing Authority approve the execution and delivery of a site lease, a facility lease, a preliminary official statement, bond contracts, standby bond contract,

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an interest rate hedging agreement such as those filed with the City Clerk.

Next, staff is requesting authorization for the City Treasurer to award the sale of the 1997 Lease Revenue Bonds only if and after the litigation is resolved favorably. Finally, acting as the Sacramento City Financing Authority, to authorize the City Treasurer, acting with the concurrence of the City Manager, to execute all necessary documents for the financing, including issuance of up to \$8.5 million of Capital Subordinated notes as described in Section 12 of the Resolution as previously approved by Council in the Refinancing Agreement.

Furthermore, regarding the Resolution for the City Council, with Council acting as City Council now instead of the Sacramento City Financing Authority, staff needs authorization for execution and delivery of all the documents as previously described for the City Financing Authority; further, to authorize the City Manager to make necessary budget adjustments consistent with this financing structure, which contemplates a variable rate financing which may be necessary to alter the interest payments from year to year. Finally, request is to authorize the City Treasurer, with the concurrence of the City Manager, to execute all documents which may be required therewith, including making a loan or investment by the City at 7.5% in Senior Subordinated notes as described in Exhibit 7 of the Arena Refinancing Agreement which was dated February 5, 1997 and Council approved at that time.

These are the items covered by the Resolutions, Mr. Friery said, and he responded to the Mayor's earlier question in that these are the types of action normally taken at this time with the financing as we proceed.

Mr. Friery, using Attachment A of the staff report, said that a basic review of what Council has already approved indicates that the financing will result in \$70 million being placed in an escrow account to pay off the Arena debt and partial team debt. Simultaneous with that action, upon sale of the bonds, there would be a grant deed of the Arena property to the City; then a site lease of the Arena property from the City to the Financing Authority; then a facility lease from the Authority to the City; then a sublease of the Arena from the City to the Arena Owner, and finally a use agreement in which the team has agreed to play in the Arena for 30 years.

Mr. Friery commented about two other agreements: 1) the Arena Owner's Relocation Assurance Agreement which permits the City to put the Arena back under the Arena Owner for the conditions previously described, and 2) the pledge of \$20 million for Team Owner Relocation Assurance pledged to the Trustee.

Mr. Friery referenced Attachment B, page 14 of the staff report, which describes 21 total legal documents and who had the responsibility for preparing them. The documents have undergone multi-level reviews and reflect the Refinancing Agreement which the Council has previously approved.

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To continue, Mr. Friery addressed Financing Structure options:

Credit Enhancement:

- * Bond Insurance
- * Letter of Credit - 7 years
- * RFP - 25 contacted
- * 7 responses
- * MBIA - 30 years AAA/Aaa

10 year variable-rate bond

- * LIBOR quarterly or semi-annually

Interest rate Hedge Contract

- * 10 year fixed
- * Scaled fixed
- * CAP/Collar (range)

Liquidity Facility

- * Credit Suisse - 10 year liquidity

The Estimated Financing Amount as of April 16, 1997:

Kings Financing	\$70,000,000
MBIA Credit Enhancement (Attach. E)	\$ 1,188,978
MBIA Surety (Attach. E)	\$ 326,205
Management Fee - Underwriter, (Attach. E)	\$ 108,615
Underwriter's Expenses	\$ 171,422
Sales Credit	\$ 398,255
Cost of Issuance	\$ 293,657
Rounding	\$ 2,868
 Estimated amount as of 4/16/97	 \$72,490,000

Mr. Friery next discussed Attachment F - Breakdown of Cost of Funds, which defines by year the exact transaction. The year one summary, Columns A, B, and C. In summation, the amount of \$5,249,000.

Mayor Serna inquired as to where Sumitomo Bank was involved in the arrangements? Jim Thomas, owner of the Kings, replied that he had a financing agreement with Fuji Bank, and through that, indirectly with Sumitomo participants; he stressed that there was no direct involvement with Sumitomo on this transaction.

Councilmember Waters asked Mr. Friery to identify which of the several financing scenarios was the one with fixed interest at 7.3%? Mr. Friery replied that interest would be fixed for 5 years; the City would borrow money from investors by way of a 10-year bond with variable interest which would be reviewed quarterly or semi-annually. To offset the variable interest, there would be an Interest Rate Hedge Contract.

Mr. Waters said it was his understanding that Mr. Friery was here today to finalize the transaction; he inquired as to which option he wanted Council and the Arena Owner to choose, and when? Mr. Friery explained that usually financial decisions must be made rapidly,

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depending on bringing in the best possible option at the time; in this case, the decision will be made simultaneously when the options are offered.

Mr. Waters requested an explanation of the difference in amount between \$70-\$75 million, asking why the City was requesting approval to borrow \$3 million more than needed? Would the \$2,490,000 be repaid to the City as well? Mr. Friery replied affirmatively.

Mr. Friery stated that Council was being asked to authorize an amount up to \$75 million; litigation is in progress, and it is not known when sale will be complete.

Mr. Waters asked when the property was last assessed by the County, expressing concerns regarding a document in his possession signed by Mr. Thomas' attorney, requesting a reduction in property taxes which included personal property, improvements, fixtures, etc., in the amount of \$15 million, which is a long way from \$50 million.

Mr. Waters reiterated his position that there was insufficient collateral, noting that earlier he had suggested that Mr. Thomas provide additional collateral by way of a part of the high rise he owns in Los Angeles. Mr. Waters was told by Mr. Thomas that that would not be a good business investment.

Mr. Waters inquired as to whether the ARCO Arena property had been appraised recently? Mr. Friery stressed that the assessed value of property may differ from the appraised value, that there was not necessarily a connection of one to the other; he understood that the property was last appraised in March, 1994. At that time, it showed three different measures of value, including a replacement depreciation cost of \$87 million. The net income from the Arena in 1994 was less than \$6 million per year; the current figure is \$9 million, less than \$10 million.

Mr. Waters inquired, regarding the \$87 million, as to whether that figure applied only to the ARCO Arena structure, the property, and not the stadium site? Mr. Friery replied that the figure represented the property and structure; he stressed that the most valuable part of the deal was the 30-year lease with the Kings and the \$20 million secured interest in the basketball team. Mr. Friery said if the valuation was Mr. Waters concern, it was there.

Mr. Friery stressed the need to examine the documents as a whole, noting that regarding the best value of \$87 million, he was presented with a hypothetical situation. The City usually finances 100%, even when the property value was less. It is important to look at the income stream, Mr. Friery reiterated.

Mr. Waters inquired as to whether the documents contain a clause protecting the City from liability related to Mr. Thomas' other projects? Mr. Jackson responded that there was no problem there.

A motion was made by Councilmember Pannell, seconded by Councilmember Yee, to adopt staff recommendations.

Mr. Pannell commented that he was distressed about the accusations leveled at the Mayor/Council's character, saying that this was not an underhanded deal.

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Councilmember Cohn stated that there was a need to focus on the loan documents; he inquired, regarding "due diligence", as to whether there was individual liability in the case of lack of understanding of Mr. Friery's financial explanations? Mr. Jackson replied negatively.

Mr. Cohn inquired as to the City's position regarding other creditors, particularly as to how security would be affected by default in relation to them? Mr. Carnazzo replied that Arena ownership would be transferred to the City, then sublet to the Authority; he said the title is clear, that it would be searched all the way to the end.

Mr. Cohn asked whether this would apply to a subsequent tax lien? Mr. Carnazzo replied that under some certain limited circumstances, a tax lien might take first priority. Mr. Friery interjected that the City would step in and exercise its option to put back the Arena to the team and pay off the loan.

Mr. Cohn asked what would occur if revenues can't be generated to pay off the bond: is the City's only interest the \$20 million from the team? Mr. Friery replied that there was a \$30 million lease-use agreement by the team; they can't go elsewhere. There is no condition wherein the City cannot put the Arena back to them and get the loan paid off.

Mr. Cohn questioned the possibility of default, asking what the City's recourse would be other than the \$20 million against the team itself? Mr. Carnazzo responded that the City has the \$20 million interest in the team, and that there is a security web in place created by the documents which allow the City to return the Arena to the team and repay the loan. Should that fail, the City would have the Arena and the \$20 million.

Mr. Cohn raised the issue of the NBA's being in agreement that other creditors can't have a piece of the team. Mr. Friery responded that the City has a \$20 million commitment from the NBA.

Mr. Thomas noted that the NBA could change policy; regarding a lien, anything added would be subject to the prior lien of the City. Mr. Thomas commented that the \$20 million is subject to \$30 million lien ahead of it.

Mr. Cohn inquired regarding the existence of a licensing agreement; Mr. Thomas replied that he did not have a licensing agreement with the team.

Connie LeLouis, Orrick, Herrington & Sutcliffe Bond Counsel, said there are three different documents which address the bankruptcy risk:

1. Team Owner Relocation Assurance, which is a separate document between the City and the team (\$20 million NBA backing)
2. Arena Owner Relocation Agreement - allows the City to return the facility to the Arena Owner
3. Use Agreement between the Owner and the Team

Ms. LeLouis stated that these separate security documents were not tied to the lease, which is useful in case of bankruptcy.

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Councilmember Hammond inquired as to whether the City would be liable if it backed out of the deal; if so, how much and to whom? Mr. Jackson said the City would be liable to the Kings Partnership with whom the City entered into the agreement. Mr. Jackson said this is basic, if the time frame were not met. Mr. Thomas said it was inconceivable that the City would not honor its agreement.

Ms. Hammond inquired as to whom Mr. Thomas would be liable if he backed out of the deal? Mr. Friery replied that Mr. Thomas would cover City financing costs incurred out of pocket to this point, \$175,000 so far.

Councilmember Steinberg commented that he had voted "yes" two months ago, 1) contingent on collateral; 2) the team doesn't leave; 3) so long as the deal did not affect the City's credit rating. Mr. Steinberg asked whether there had been any changes since the time of his original vote? Mr. Friery replied negatively. Mr. Steinberg remarked that the team could not leave without paying the City; the City could enjoin the move to another City until the loan has been repaid.

Mr. Jackson said it would be a legal option to enjoin the team.

Ms. LeLouis said she was uncertain as to whether the NBA constitution would not preclude the team from leaving, but they would be pursued and the claims would permit collection and repayment of the loan.

Mr. Steinberg was concerned that the documents be written in such a way as to allow a Superior Court Judge in Sacramento to have the ability to enjoin the team, should it move before the loan is repaid.

Joe Coombs, representing McDonough, Holland, and Allen, said there was a provision in the agreement that spells out the City's right to injunctive relief should the team attempt to leave without paying off the City debt, that the agreement is as strong as it can be.

Mr. Pannell was of the opinion that the team would leave if it chose to; he noted that all efforts were being made to provide the community with legal safeguards. Mr. Pannell spoke in support of keeping the Kings in Sacramento.

Mr. Waters inquired of Mr. Coombs as to what the term "injunctive relief" meant? Mr. Coombs replied that it is a provision usually included now in all sports team arena or stadium agreements; it means that the City can go to court to get a court order to prevent the team from leaving before it complies with the terms of that commitment. In this instance, the team would be liable to repay the City loan.

Mr. Waters asked if the Kings left without repaying, would the City have to pay any legal fees incurred; should a court find the team in violation? Mr. Coombs replied that the team would be liable in damages to repay the loan. Mr. Waters questioned whether the team would be considered in contempt of court or incur a civil fine which the City would have to pay and/or involve lengthy litigation? Mr. Coombs replied that there are provisions in the agreement for the recovery of court costs as to either party.

Mayor Serna said he had asked staff to include the full cost reimbursement to the City for all processing costs associated with this loan and financing; he asked Mr. Coombs to confirm that those provisions had been included. Mr. Coombs replied affirmatively.

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Dennis Neufeld, Treasurer of Sacramento City Taxpayers Rights League, said the collateral issue needs examining regarding the value of ARCO Arena. Mr. Neufeld said an assessment of the Arena property valued at \$15 million was signed by an agent under penalty of perjury; \$7 million for ARCO Arena itself; title documents state that Citybank required \$20 million in fire insurance. Mr. Neufeld urged a full appraisal of ARCO Arena.

Mark Whisler, a litigant, urged a new appraisal, stressing due diligence responsibility. Mr. Whisler stressed the need for City Council to have the entire package before moving forward.

Mr. Whisler expressed discontent with the operating policies of the City Clerk, the City Attorney, and the length of time allotted for discussion.

Mr. Cohn inquired as to how long it would take to do an appraisal?

Mr. Friery stressed the need to look at the income approach, in excess of \$9 million annually; the loan does not exceed the value of the facility. Mayor Serna inquired as to whether this was a real estate transaction? Mr. Friery replied that it was not, that it was a loan with secured interest.

Mr. Jackson referred to Mr. Cohn's question, to have an MAI appraiser, saying that this is a time issue; MAI appraisals usually take no less than 60 days. Mr. Jackson said that Mr. Cohn's question was appropriate regarding the assessed, appraised value. The official assessment stands at \$50 million. Regarding Mr. Whisler's equal protection violation, Mr. Jackson stated that in his observation, Mr. Whisler had had either equal or better time.

Mr. Waters remarked to Mr. Friery that the Bond Counsel would have to know the appraised value of the collateral; he asked how the value would be established?

Carlo Fowler, Orrick, Herrington & Sutcliffe Bond Counsel, said regarding the real estate aspect, there has to be a requirement in California for fair rental value, net of any reserve fund. In this agreement, we have an appraisal substantially in excess of the amount of the borrowing as well as \$20 million surety reserve.

Mr. Waters questioned how old the appraisal was, establishing that it was done in 1994, and remarking that Sacramento County had been lowering appraisals over the past 3 years.

Mr. Friery explained that the methods of appraisal are complex; the income stream determines the value.

Mr. Waters expressed misgivings as to whether the \$5-\$9 million would remain, should a surcharge be added to the tickets. Mr. Waters put forth a formal request for a formal appraisal on the Arena without the Kings.

Mr. Coombs clarified that there are different aspects to assessing vs. appraising, depending upon whether a lender or a seller is looking at the situation, that the comparison was unequal. An assessor looks at Fair market value; a lender looks at income stream.

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Mr. Whisler interjected that the question deals with risk; he commented that in year 11, if a bankruptcy is filed, there would be risk.

Mr. Waters again requested a current appraisal.

Leonard Padilla stressed the need for an Arena appraisal, saying that it appeared the City was buying a \$15 million Arena for \$55 million, with a \$30 million lien on top of that, bringing the figure now to \$75 million. Mr. Padilla urged that the deal be slowed down, allowing time for a new appraisal.

Eric Anderson read the resolution that Council originally approved, quoting a section which states "without any substantial change". Mr. Anderson cited changes 1) provides for sanctions if either party does not go through with the deal, and 2) various tax assessments, etc., which he believed were not part of the original agreement. Mr. Anderson urged delay.

Mr. Thomas pointed out the purpose of today's meeting is to 1) implement existing agreements entered into; 2) regarding the \$15 million issue which was raised several times during this day, Mr. Thomas said the Assessor's Office had informed him that there would be no property tax reduction. The original attorney who filed on behalf of Mr. Thomas did not complete this matter; he was replaced. The Assessor assessed the property at \$50 million. 3) Mr. Thomas was of the opinion that comments today were negative; he questioned whether the City wants an NBA team or not. If so, in comparison with other public/private enterprises, this is a great deal.

Mr. Cohn expressed disapproval of the deal, saying it was risky, in his opinion; he said he wanted Sacramento to have basketball, but without the City's being involved. Mr. Cohn suggested the possibility that other investors could be interested.

Mayor Serna spoke in support of the deal.

The motion to adopt Resolution 97-180 and Financing Authority Resolution 97-001 passed with a 5-4 roll call vote, with Councilmembers Kerth, Pannell, Steinberg, Yee, and Mayor Serna voting aye and Councilmembers Cohn, Fargo, Hammond, and Waters voting no, *and approving Agreements 97-135, 97-136, 97-137, 97-138, 97-139 and 97-140.*

FINANCING AUTHORITY RESOLUTION NO. 97-001

A RESOLUTION OF THE SACRAMENTO CITY FINANCING AUTHORITY AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF NOT TO EXCEED \$75 MILLION SACRAMENTO CITY FINANCING AUTHORITY 1997 LEASE REVENUE BONDS (ARCO ARENA ACQUISITION) AND THE EXECUTION AND DELIVERY OF A SITE LEASE, A FACILITY LEASE, AN INDENTURE, AN OFFICIAL STATEMENT, A BOND PURCHASE CONTRACT, A STANDBY BOND PURCHASE CONTRACT, AN INTEREST RATE HEDGING AGREEMENT AND CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH, AND AUTHORIZING RELATED ACTIONS

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RESOLUTION NO. 97-180

A RESOLUTION OF THE COUNCIL OF THE CITY OF SACRAMENTO AUTHORIZING THE EXECUTION AND DELIVERY OF A SITE LEASE, A FACILITY LEASE AND AN ARENA FACILITY SUBLEASE, AN OFFICIAL STATEMENT, A PURCHASE CONTRACT, AN INTEREST RATE HEDGING AGREEMENT, A STANDBY BOND PURCHASE CONTRACT AND A CONTINUING DISCLOSURE CERTIFICATE IN CONNECTION WITH THE FINANCING OF THE ACQUISITION OF A SPORTS ARENA WITH THE PROCEEDS OF THE SACRAMENTO CITY FINANCING AUTHORITY 1997 LEASE REVENUE BONDS (ARCO ARENA ACQUISITION) AND OTHER ACTIONS IN CONNECTION THEREWITH, AND AUTHORIZING THE CITY MANAGER TO IMPLEMENT NECESSARY BUDGET ADJUSTMENTS CONSISTENT WITH THIS LOAN FINANCING TRANSACTION

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5.0 SHRA, Public Hearing

- 5.1 Performance reports and proposed amendments to the CDBG Programs. (D-All)

A motion was made by Councilmember Pannell, seconded by Councilmember Cohn, to continue this Item to April 29, 1997, 2:00 p.m. [staff]. The motion carried with a 9-0 vote.

* * * * *

6.0 CITIZENS ADDRESSING COUNCIL (MATTERS NOT ON AGENDA)

- 6.1 John Dangberg, SHRA Director of Community Development, reported to Council that SHRA had just received a HUD Grant in the amount of \$10,000,000 for the Del Paso-Nuevo Development. The Grant funds will provide infrastructure, housing, support retail activity, and provide hundreds of construction jobs.

Councilmember Kerth extended his appreciation to the City Council for its support, and to staff, commenting that this was the first large HUD Grant.

- 6.2 Dave Jenest welcomed new Councilmember Lauren Hammond, District 5.

Mr. Jenest expressed his appreciation for City staffers' "can do" attitude relevant to the first serial graffiti prosecution, filed against one individual "tag" leader responsible for multiple graffiti damages.

Councilmember Cohn expressed his appreciation to Mr. Jenest for his efforts in organizing to counteract graffiti, aiding the law enforcement end as well.

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7.0 COUNCIL IDEAS AND QUESTIONS

7.1 Council consideration of designating agents for service of process [Kerth] (D-All)

COUNCIL ACTION: FOR COUNCIL INFORMATION

City Attorney Jackson suggested that City Council designate an agent to receive service of process on behalf of individual Councilmembers as needed. Mr. Jackson noted that the appointment of an agent should be documented in written form, and would be in effect until revoked. Mr. Jackson recommended that the agent be the Office of the City Clerk.

For Council information:

8.0 Recessed into CLOSED SESSION at 5:19 p.m.

8.1 Pursuant to Government Code Section 54956.9(a) for matters of pending litigation: City of Sacramento vs. Loaves and Fishes, et al., Sacramento Superior and Municipal Court No. 97AS00287

8.2 Pursuant to Government Code Section 54956.9(a) for matters of pending litigation: Workers' Compensation - Warner J. Herndon vs. City of Sacramento; WCAB Numbers: SAC 140840, 197658/59, 197660, 249060/61/62 and 228820

8.3 Pursuant to Government Code Section 54956.8 to provide instructions to City's Real Estate negotiator for property known as APN 225-0230-070, owner Natomas School District

ADJOURNMENT

There being no further business to come before the City Council, the meeting was adjourned at 5:40 p.m.

Submitted

Valerie Burrowes
Valerie A. Burrowes, City Clerk

Approved

Joe Serna, Jr.
Joe Serna, Jr., Mayor

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