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APPROVED
BY THE CITY COUNCIL

JAN 1 1 1994

OFFICE OF THE
CITY CLERK

AG 94-009

OFFICE OF THE
CITY TREASURER

CITY OF SACRAMENTO
CALIFORNIA

THOMAS P. FRIERY
TREASURER

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January 5, 1994

A01350TF.NWR

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: City Line of Credit

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION: It is recommended that the City Council adopt the attached Resolution authorizing the City Treasurer to execute an agreement with Bank of America (the "Bank") to provide the City of Sacramento with a \$10,000,000 Line of Credit.

CONTACT PERSON: Thomas P. Friery, City Treasurer
(916) 264-5168

FOR COUNCIL MEETING OF: January 11, 1994

SUMMARY

The \$10,000,000 Line of Credit will provide the City with an alternative low-cost vehicle to temporarily finance cash flow shortages, equipment purchases, reimbursable grant expenditures and or other authorized municipal public purposes.

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BACKGROUND

The City occasionally has a need to temporarily finance cash flow shortages, equipment purchases, reimbursable grant expenditures and/or other authorized municipal public purposes pending permanent financing solutions. The means currently used for temporary financing is inter-fund borrowing, although historically from time-to-time Tax and Revenue Anticipation Notes or a small Line of Credit have been used. Among other duties and responsibilities, the City Treasurer is charged with arranging the financing needs of the City. The City Treasurer believes a \$10 million municipal Line of Credit would be a beneficial alternative and could be a useful tool in certain circumstances.

If the City Council approves the proposed Line of Credit ("LOC") Agreement (Attachment 1), the maximum charge for the temporary financing would be the Bank prime rate ("reference rate") less the following number of percentage points:

- (1) 1.76% if the interest on the advance is tax exempt to the Bank and the advance is "Bank-qualified" under Internal Revenue Code 265;
- (2) .86% if the interest on the advance is tax exempt to the Bank, but the advance is not "Bank-qualified";
- (3) 0% if interest on the advance is not tax exempt.

No other city in California has been able to secure such a sizeable and flexible Line of Credit to be used for any municipal public purpose(s). The outstanding credit rating of the City and the prudent fiscal policies of the City Council enabled the City Treasurer to successfully negotiate the favorable terms and conditions of the Line of Credit with the Bank of America. Further, the Bank of America has invested considerable staff time in developing this concept and believes the plan might have applications in other communities. As a result the Bank would like to provide this service without charge to the City until the end of the fiscal year at which time we will have been able to evaluate the actual need for this financing.

FINANCIAL

City Council approval of the Line of Credit does not obligate the City to use the Line of Credit. The City would retain the right to secure the most favorable financing for projects. The Line of Credit would provide an immediate financing alternative for critical projects and cash flow needs. The Bank has agreed to provide the Line of Credit through June 30, 1994 on a standby basis at no cost to the City.

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Typically, the Bank would require a standby fee on the unused balance of $\frac{1}{8}$ of 1%. The terms require that the City be out of debt on the Line of Credit for at least 30 consecutive days during the LOC line year. This limits the use of the Line of Credit to temporary borrowings that have a certain source of repayment. Applications could include Economic Development projects which require short-term borrowing capability.


POLICY CONSIDERATIONS

It is the City's policy to secure the lowest cost borrowing rate for all financings. The \$10,000,000 Line of Credit would provide the City with access to a temporary financing vehicle at a favorable rate with a significant reduction in both the lead time and issuance costs compared to other alternatives. All draws on the Line of Credit would require the written approval of the City Manager and City Treasurer, and would be limited to City Council- approved expenditures.

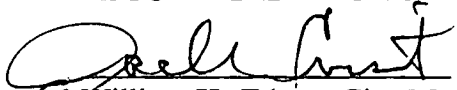
MBE/WBE

The City Treasurer's policy is to include MBE/WBE firms in City financing efforts. The Treasurer is unaware of any MBE/WBE firms with the ability or means to provide the City with a \$10,000,000 Line of Credit. The Bank of America currently is the provider of the City's banking services; the Line of Credit is an extension of services provided under that arrangement.

Respectfully submitted,


Thomas P. Friery
City Treasurer

RECOMMENDATION APPROVED:


William H. Edgar, City Manager

APPROVED
BY THE CITY COUNCIL

JAN 11 1994

OFFICE OF THE
CITY CLERK

RESOLUTION NO. 94-028

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

A RESOLUTION AUTHORIZING THE CITY TREASURER TO EXECUTE AN AGREEMENT WITH BANK OF AMERICA TO PROVIDE THE CITY OF SACRAMENTO WITH A \$10,000,000 LINE OF CREDIT

WHEREAS, the City from time-to-time has a need to temporarily finance cash flow shortages, equipment purchases, reimbursable grant expenditures and or other authorized municipal public purposes, and

WHEREAS, the City Treasurer has negotiated a \$10,000,000 Line of Credit for the City from Bank of America, and

WHEREAS, Bank of America has agreed to provide the \$10,000,000 Line of Credit on a standby basis at no cost to the City until June 30, 1994,

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Sacramento as follows:

1. The City Treasurer is authorized, subject to City Attorney review and approval of all items and conditions, to execute the attached \$10,000,000 Line of Credit with Bank of America, and

2. All draws on the Line of Credit require the written approval of both the City Manager and City Treasurer and must only be made for City Council approved expenditures.

Mayor

[Seal]

Attest:

City Clerk

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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Mayor

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Revised reso -
Item 4.3

Added the phrase
"subject to City Attorney
review and approval of
all items & conditions"