REPORT TO COUNCIL
City of Sacramento

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Consent
May 13, 2008

Honorable Mayor and
Members of the City Council

Title: Arbitrage Calculation Services

Location/Council District: Citywide

Recommendation: Adopt a **resolution** authorizing the Interim City Treasurer to enter into a professional-services agreement with American Municipal Tax Exempt Compliance Corporation (dba Amtec) to provide arbitrage calculation services for the City for a term of up to three years at a total cost not to exceed $100,000.

Contact: Karolyn Pelka, Treasury Analyst, 808-6787; Janelle Gray, Public Finance Manager, 808-8296

Presenters: NA

Department: City Treasurer's Office

Division: Finance

Organization No: 0900

Description/Analysis

Issue: The City Treasurer's Office is responsible for the calculation of arbitrage liability on approximately 70 bond issues, ranging in size and complexity from small assessment district financings to large capital improvement bonds that involve multiple programs. In February, the City Treasurer's Office issued a Request for Proposals (RFP) for firms to provide arbitrage calculation services. This is the first time the City has issued this type of RFP; five proposals were received.

After reviewing the proposals, the Selection Committee narrowed the pool down to two firms. The City Treasurer's Office then conducted reference checks and follow-up phone calls with the two firms. As a result of this selection process, the City Treasurer's Office recommends that the City Council select Amtec to provide the City with arbitrage calculation services for a maximum term of three years. The Interim City Treasurer supports this decision, and staff is seeking City Council to approval of the attached resolution authorizing an agreement with Amtec.

Policy Considerations: This RFP process is consistent with past selection methods approved by City Council. The Interim City Treasurer recommends a one-year initial term with a City option to extend the term for up to two additional years.

Environmental Considerations: The City Council's action in adopting this resolution is not a project for purposes of the California Environmental Quality Act.

Rationale for Recommendation: Internal Revenue Service (IRS) Regulations require that positive arbitrage earnings be rebated back to the federal government. It is recommended that the issuers of tax-exempt bonds perform arbitrage calculations annually. Every five years, if arbitrage liability exists, the City is required to report the liability to the IRS and pay the rebate amount owed. The approval of the attached resolution authorizes the Interim City Treasurer to enter into a professional-services agreement with Amtec to provide arbitrage-calculation services for the City, including the preparation of these reports, with a potential term of three years. After the reviewing the submitted proposals, the Selection Committee finds that Amtec best meets the City's needs.

Financial Considerations: There are sufficient funds available in the City Treasurer's Investment Management Capital Improvement Project (CIP AB51 / D05000100) budget to compensate for arbitrage-calculation services. The Interim City Treasurer is seeking authority to use these funds for this purpose. The term of this agreement is for a maximum of three years; a specific / minimum list of reports due over the next three years was listed in the RFP, and the total cost of these reports is estimated to be $26,000. The RFP also provides the flexibility to include more arbitrage calculations, training, and additional services as necessary. Over the maximum three-year term, with the possible inclusion of additional calculations and training for City staff, the total amount paid to Amtec under the attached agreement will not exceed $100,000.

Emerging Small Business Development (ESBD): City Council adoption of the attached resolution is not affected by City policy related to the ESBD Program.

Respectfully Submitted by: _____
Janelle Gray
Public Finance Manager

Recommendation Approved:

_____
Thomas S. Berke
Interim City Treasurer

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Background:

Introduction

Arbitrage is the profit that results from investing tax-exempt proceeds in higher-yielding taxable securities. In general, Internal Revenue Service (IRS) Regulations require that positive arbitrage earnings be rebated back to the government. It is recommended that the issuers of tax-exempt bonds perform arbitrage calculations annually. Every five years, if arbitrage liability exists, the City is required to report the liability to the IRS and pay the rebate amount owed.

This is the first time the City Treasurer's Office has solicited proposals from firms interested in providing arbitrage-calculation services. Previously, the calculations have been performed by the City Treasurer's Office, with a few exceptions which were contracted out individually.

At this time, it is contemplated that the majority of the reports will continue to be calculated in house; however, in recent years the City has issued several bonds that are more complex in structure, including advance refundings and additional funds associated with the City's commitment to capital improvement projects. These bond issues require more complex arbitrage analysis. The Interim City Treasurer has determined it necessary to acquire the services of a firm with this specialty expertise. The objective in requesting proposals is to enter into an agreement with a firm that specializes in arbitrage calculations and is willing to provide appropriate training for City staff (to enhance their knowledge) and to prepare reports for these more complex bond issues. The agreement will also include the potential services for other reports as well. All services provided will be of great benefit to the City.

RFP Process

The RFP process began in February with the distribution of the RFP on February 29, 2008. The below events followed:

Event	Date
Distribution of RFP	February 29, 2008
Proposals Received	March 14, 2008
Reference Checks	Week of April 7, 2008
Selection Notification	Week of April 21, 2008
City Council Presentation	May 13, 2008

The RFP was sent out to approximately 11 arbitrage calculation firms, and over 25 firms viewed the RFP online using the Procurement Services Division's website. On March 14th, the City received five quality proposals from Amtec; Bond Logistix LLC; Hawkins, Delafield & Wood LLP; Integrity; and Muni Financial.

The City's RFP review process entailed the Selection Committee reviewing the proposals individually and ranking the firms. The Selection Committee consisted of Janelle Gray, Public Finance Manager; Lydia Abreu, Investments and Banking Manger; Karolyn Pelka, Treasury Analyst; and Satoshi Matsuda, Finance Director of the Sacramento Housing and Redevelopment Agency.

The evaluation criteria used by the Selection Committee in reviewing the written proposals focused on four critical areas:

- Staff Qualifications & Experience
- Firm Experience
- Cost
- Other Factors

Additionally, a 5% preference was to be added for certified Emerging Small Business Enterprise firms; however, none of the firms qualified.

As the Selection Committee ratings were collected, it was determined the two best firms to provide arbitrage calculation services for the City were Amtec and Bond Logistix LLC. During the week of April 7, 2008, several reference checks were made for each firm. Additionally, on April 15, 2008, follow-up phone calls were made to each firm. At the conclusion of the reference checks and follow-up phone calls, it was determined the firm to best meet the needs of the City is Amtec.

Amtec is a nationally recognized consulting firm and has been performing arbitrage calculations since 1990. It provides a unique level of tax-exempt financing expertise to its clients' compliance endeavors. Amtec's services are directed toward tax compliance, investment optimization, and the elimination of negative arbitrage. Additionally, Amtec prides itself on its customer service and accessibility. It offers training and open communication to ensure the ongoing education and training for City staff. Amtec's fees are cost effective, and the combination of their specialized expertise and commitment to the customer best meets the needs of the City.

Attachment 2

RESOLUTION NO.

Adopted by the Sacramento City Council

APPROVING AGREEMENT FOR ARBITRAGE-CALCULATION SERVICES

BACKGROUND:

A. The City Treasurer's Office desires to retain the services of an arbitrage-calculation firm to provide arbitrage-calculation services for the City by preparing recommended and required arbitrage reports.

B. The City Treasurer's Office has solicited proposals from several firms well qualified to provide such arbitrage-calculation services.

C. Having reviewed the proposals received, the City Treasurer has selected American Municipal Tax Exempt Compliance Corporation. The City Treasurer recommends that the City Council approve an agreement with Amtec, on the terms described below, and authorize him to sign it on the City's behalf.

D. There are sufficient funds available in the City Treasurer's Investment Management Capital Improvement Project (CIP AB51 / D05000100) budget to compensate Amtec for arbitrage-calculation services.

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

Section 1. The City Council hereby finds that the statements in paragraphs A through D above are accurate.

Section 2. The City Council hereby authorizes the City Treasurer to enter into an agreement with American Municipal Tax Exempt Compliance Corporation, dba Amtec, for the arbitrage-calculation services described in **Exhibit A** to this resolution. The agreement (a) must be in the form of the City's standard professional-services agreement, with such changes as are approved by the City Treasurer and the City Attorney's Office; (b) must have a one-year initial term and give the City the option, at the City Treasurer's discretion, to extend the term for up to two additional years; and (c) must be for total compensation that does not exceed $100,000.

Section 3. The City Council hereby authorizes the City Treasurer to use funds from the City Treasurer's Investment Management Capital Improvement Project (CIP AB51 / D05000100) budget to compensate Amtec for the arbitrage-calculation services.

Scope of Services

Services required to be provided to the City are to reflect the methodology and scope of services stated in Amtec's proposal dated March 14, 2008. These services are summarized below:

1. Provide advice and recommendations related to the arbitrage liability of specified bond issuance(s).

2. Review the necessary legal documents pertaining to the bond issuance(s) to understand the necessary details that would affect arbitrage liability.

3. Analyze available cash flow of various funds associated with the bond issuance(s).

4. Review necessary bank statements to determine the level of assets (being held by a third party) and related cash flow associated with a specific fund of a bond issuance.

5. Prepare a comprehensive "final" or "interim" arbitrage calculation report identifying the cash flow of each fund. Additionally, a write-up should accompany each fund to summarize key points and / or specify items that need to be focused on.

6. Provide post-report consultation to City staff on applicable tax laws, interpretation of the completed report(s), and other pertinent information that would provide a full understanding of the completed report(s).

7. City option to request training and education for City staff to perform future arbitrage calculations.

8. Verification that each issue is subject to the rebate requirements.

9. Calculation of the bond yield.

10. Calculate the gross proceeds through a reconciliation of the sources and uses of funds.

11. Calculation of the yield on all investments, subject to rebate, annually and upon the date that all bonds of an issue are retired.

12. Determine the arbitrage rebate liability.

13. Verification of whether a penalty in lieu of rebate has been elected.

14. Testing for exceptions from rebate.

15. Written explanation of the computation methodology and recommendations for rebate reserves. Each rebate report includes a written explanation of the methodology,

assumptions, and conclusions employed. Each report must be accompanied by recommendations for rebate reserves or the elimination of negative arbitrage and recommendations for changes in record keeping and investment policy.

16. Delivery of updated calculations and formal rebate reports, rebate exception reports, and penalty in lieu of rebate reports, each indicating the above stated information; the issuance of Amtec's professional opinion stating that the computations are in accordance with the Internal Revenue Code and applicable regulations.

17. Delivery of appropriate documentation required to support all computations with each rebate report.

18. Unlimited consultation with City personnel, as necessary, regarding arbitrage related matters. Consultation on the results of our Report with staff, bond counsel, auditors, trustees, and the IRS, if requested.

19. Monitoring of the City's ongoing compliance with all arbitrage requirements for its tax-exempt issues and the safeguarding of completed projects for a period of six years after the final redemption date of each issue.

20. Assurance to the City that all current issues are in compliance with the the Internal Revenue Code and applicable regulations.

21. Guarantee the completeness and accuracy of our work, computation methodology and positive compliance with the Internal Revenue Code and the applicable regulations.

22. Preparation of IRS Form 8038-T, accompanying documentation, payment instructions, and report delivery, within 30 days of the final computation date and 30 days prior to the payment due date, should a rebate payment be required.

23. Review of existing accounting and investment practices and recommendations for improvements, if required.

24. Assistance in the planning stages of new bond issues to discuss possible rebate exceptions, various rebate liability with and without bond insurance; the pro-forma testing of anticipated expenditures of proceeds for rebate exception purposes based on a variety of investment scenarios.

Amtec shall perform these services during the term of the agreement, which consists of a one-year initial term with City option of up to two one-year extensions.