



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: 5/24/2011

Report Type: Public Hearing

Title: Sacramento Area Flood Control Agency (SAFCA) Bond Anticipation Notes (Noticed on 5-18-11)

Report ID: 2011-00386

Location: Citywide

Recommendation: Conduct a public hearing and upon conclusion, adopt a Resolution 1) approving the financing of flood control projects by SAFCA by the issuance of bond anticipation notes; 2) finding significant public benefit from the proposed financing; and 3) approving the City's purchase of the bond anticipation notes.

Contact: Bob Tokunaga, Senior Investment Officer, Office of the City Treasurer, (916) 808-5340, Russell Fehr, City Treasurer, Office of the City Treasurer, (916) 808-5832

Presenter: Bob Tokunaga, Senior Investment Officer, (916) 808-5340, Office of the City Treasurer

Department: City Treasurer / None

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
 - 2-BACKGROUND
 - 3-SAFCA-BAN-Term-Sheet
 - 4-SAFCA-Memo-public-benefit
 - 5-Resolution
-

City Attorney Review

Approved as to Form
Joseph Cerullo
12:30 P.M.

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr

Assistant City Manager: Patti Bisharat



Description/Analysis

Issue: The Sacramento Area Flood Control Agency (“SAFCA”), a joint-exercise-of-powers agency, needs approximately \$6.2 million in interim funds for (1) the additional local funding of cost increases in the ongoing Natomas Levee Improvement Program (the “Natomas Project”) and (2) the costs of forming a new assessment district (the “Natomas Basin Local Assessment District”) to finance construction of these improvements. SAFCA has elected to issue bond anticipation notes (“BANs”) to provide the interim funds, and the City Treasurer desires to purchase the BANs in a private-placement transaction. The BANs will be repaid from a future bond issuance secured by assessments imposed by the newly formed Natomas Basin Local Assessment District. A summary of the short-term financing need and structure is contained in the Term Sheet, Attachment 1.

Prior to issuance of the BANs, Government Code section 6586.5 requires a local agency within whose boundaries the public capital improvements are to be located (1) to approve the financing of the public capital improvements and (2) to make a finding of significant public benefit after a noticed public hearing. This agenda item is intended to fulfill that requirement.

Policy Considerations: The Natomas Project is within the City’s boundaries. Thus, to comply with Government Code section 6586.5, the City Council must determine, before the BANs are issued, that the BAN financing will provide significant public benefits to the citizens of the City. The benefits here include savings in effective interest rate, bond preparation, bond underwriting or bond issuance costs, and staff efficiency in completing the issuance in a timely manner. The support for the findings of significant public benefit is more fully described in the Memorandum to the City Council from SAFCA, Attachment 2.

The purchase of the BANs by the City is conditioned on SAFCA’s approval of the issuance of the BANs at its regular May 19, 2011, meeting, and upon receipt of an opinion by its bond counsel to permit interim financing secured by assessments and other fees.

Environmental Considerations: Not Applicable

California Environmental Quality Act (CEQA): The Natomas Project has undergone, or will undergo, its own environmental review under appropriate state and, as applicable, federal environmental laws.

Sustainability: Not applicable.

Commission/Committee Action: None

Rationale for Recommendation: Facilitating the timely completion of the Natomas Project will promote public safety, provide financial relief to Natomas property owners in the form of reduced flood insurance premiums, and promote economic development in the Natomas area. The proposed financing by way of private placement of BANs with the City provides significant public benefits in the form of savings in effective interest rate, bond preparation, bond

underwriting or bond insurance costs, and a more efficient delivery of Agency services from the timely issuance of the BANs.

Financial Considerations: The purchase of the SAFCA BANs is a permissible investment under the City's investment policy and within the discretion of the City Treasurer. The source of funds for the purchase is the treasury pools managed by the City Treasurer and normally available for investment for the term specified by the BANs.

The terms of the BANs include a fixed interest rate of 3.5% per annum, through June 15, 2016. The rate is comparable to similar municipal bonds available in the present market. The BANs will be subject to redemption upon seven days notice.

Emerging Small Business Development (ESBD): Not applicable.



BACKGROUND

The Sacramento Area Flood Control Agency (“SAFCA”) is a joint-exercise-of-powers agency consisting of the City of Sacramento, the County of Sacramento, the County of Sutter, Reclamation District 1000, and the American River Flood Control District.

In its ongoing efforts to complete levee-improvement work under its Natomas Levee Improvement Program within the Natomas Basin (the “Natomas Project”), SAFCA is now faced with increased costs to meet the requirements of recently revised federal flood policies implemented by the Army Corp of Engineers (the “Corps”). Approximately one-half of the increased cost is attributable to design changes in the levee improvements along the Sacramento River east levee, including the Corps’ new standards for levee vegetation and encroachment. The other half of the increase is attributable to design changes in the levee improvements the east side of the Natomas Basin brought on by new water-surface elevations and geotechnical data. Overall, the changes in federal flood policy require a substantial expansion of the Natomas Project and significant increases in land acquisition costs; relocation and mitigation costs; and planning, engineering, and construction management costs. These changes added approximately \$366 million to the total cost of the Natomas Project, which was estimated in 2007, before the changes in federal policies, to be approximately \$414 million.

To partly cover the near-doubling in project costs, SAFCA has proposed that approximately \$40 million of the projected funding gap come from property assessments within a new assessment district (the “District”). Accordingly, on March 2, 2011, the SAFCA Board of Directors unanimously approved resolutions declaring its intent to undertake special-benefit assessment proceedings for the District (Resolution No. 2011-026) and tentatively approving the supporting engineer’s report and certain procedural steps in the formation process (Resolution No. 2011-027). Through a ballot process, Natomas property owners have approved the formation of the District.

To facilitate the timely completion of the near-term phases of the Natomas Project, SAFCA needs approximately \$6.2 million in interim funds for (1) the additional local funding of cost increases in the Natomas Project and (2) the costs of forming the District to finance construction of these improvements. SAFCA has elected to issue bond anticipation notes (“BANs”) to provide the interim funds. The BANs will be repaid from an anticipated future bond issuance (the “Take-Out Bonds”) secured by assessments imposed by the District. Accordingly, the purposes on which the BAN proceeds will be spent are eligible for financing or refinancing by the District. A summary of the short-term financing need and structure is contained in the Term Sheet, Attachment 1.

As reflected in the Term Sheet, the terms of the BANs include a fixed-interest rate of 3.5% per annum through June 15, 2016. The rate is comparable to similar municipal bonds available in the present market. The BANs will be subject to redemption upon seven days notice. In 2014, SAFCA anticipates issuing the Take-Out bonds secured by assessments of the District. A portion of the proceeds of the Take-Out Bonds will be used to pay the BANs. If the Take-Out Bonds are not issued by July 1, 2015, then repayment of the BANs will come from then-existing O&M assessments and District assessments received by SAFCA, with further terms of repayment negotiated by the City Treasurer and SAFCA, which terms will include an interest rate set at 175 basis points over the appropriate municipal-bond rates set forth in Municipal Market Data (MMD), Representative Municipal "A" Rated Yield Curve for June 1, 2016.

Because the Natomas Project's capital improvements are to be located within the City, Government Code section 6586.5 requires the City Council to determine, before the BANs are issued, whether the proposed financing will provide significant public benefits to the citizens of the City. The benefits here include (1) savings in the effective interest rate; (2) savings in the costs of bond preparation, bond underwriting, and bond issuance; and (3) staff efficiency in completing the issuance in a timely manner. The support for the findings of significant public benefit is more fully described in the Memorandum to the City Council from SAFCA, Attachment 2.



Sacramento Area Flood Control Agency
Bond Anticipation Notes, Series 2011 (“BANs”)
Final Draft as of May 17, 2011

Issuer:	Sacramento Area Flood Control Agency (“SAFCA”)
Purchaser:	City of Sacramento (the “City”)
Amount:	Not-to-exceed \$6,200,000 in denominations of \$5,000.
Authorization:	Marks-Roos Local Bond Pooling Act of 1985 (Government Code Section 6584 and following).
Purpose:	<p>BAN proceeds will be used to provide interim funds for: (1) the additional local funding of cost increases in the ongoing Natomas Levee Improvement Program (“Natomas Project”) and (2) the costs of forming a new assessment district (the “Natomas Basin Local Assessment District”) to finance construction of these improvements. All of the purposes on which BAN proceeds will be spent are eligible for financing/refinancing by the Natomas Basin Local Assessment District. See “Security” below.</p> <p>On March 2, 2011, the SAFCA Board of Directors unanimously approved two resolutions relating to the Natomas Basin Local Assessment District:</p> <ol style="list-style-type: none">1) Resolution No. 2011-026 declared the Board’s intention to undertake special benefit assessment proceedings for the Natomas Basin Local Assessment District, and2) Resolution No. 2011-027 tentatively approved the Report of the Assessment Engineer on the Natomas Basin Local Assessment District, fixed the time and place for a public hearing to consider the formation of the district and the levy and collection of special benefit assessments and to consider the implementation of the project proposed and the issuance and sale of bonds to finance all or portions of the project. <p>On April 28, 2011, the SAFCA Board of Directors unanimously approved Resolution No. 2011-051 which approved the Final Engineer's Report and directed tabulation of assessment ballots weighted in accordance with the Final Engineer's Report.</p> <p>On April 29, 2011, the SAFCA Board of Directors unanimously approved Resolution No. 2011-052 which ordered the recordation of notices of assessment and the assessment diagram for the Natomas Basin Local Assessment District and authorized and directed related actions as necessary to form the assessment district.</p>

Sacramento Area Flood Control Agency
Bond Anticipation Notes, Series 2011 (“BANs”)
Final Draft as of May 17, 2011

Closing/Delivery Date:	<p>Tentatively, June 23, 2011; subject to receipt of all necessary approvals from the governing board of SAFCA on June 16, 2011 and from the City Council of the City on May 24, 2011.</p> <p>The City will hold a noticed public hearing and make the findings required by Government Code Section 6586.5 as a condition to closing. This public hearing will be held at the same time as the City Council meeting on May 24, 2011 which authorizes purchase of the BANs.</p>																																												
Form of Delivery:	BANs will be issued in registered form, and as a physical note. BANs will not be subject to book-entry.																																												
Dated Date:	The dated date of each BAN will be the Delivery Date.																																												
Maturity:	The final maturity date of the BANs will be June 15, 2016.																																												
Interest Payments:	Interest on the BANs will be due annually each June 15 until the outstanding balance is paid in full, commencing June 15, 2012. Any accrued but unpaid interest will be added to the principal balance and accrue interest from the date originally due at the Interest Rate. From and after June 15, 2016 interest will accrue on any unpaid portion of the principal of the Notes and any accrued but unpaid interest on the Notes at a rate equal to 175 basis points over the appropriate municipal bond rates set forth in Municipal Market Data (MMD), Representative Municipal “A” Rated Yield Curve for June 1, 2016.																																												
Interest Rate:	The BANs will accrue interest at a fixed rate of 3.50% amortized through July 1, 2016. From and after June 15, 2016, the BANs will accrue interest at the rate determined as specified under “Interest Payments” above. Interest will be calculated on a 30/360 day basis.																																												
Payment Schedule:	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 15%;">Principal Payment</th> <th style="width: 15%;">Interest Payment</th> <th style="width: 15%;">Total Payment</th> <th style="width: 15%;">Principal Balance</th> </tr> </thead> <tbody> <tr> <td>6/23/11</td> <td>\$ -</td> <td>\$ -</td> <td>\$ -</td> <td>\$ 6,200,000</td> </tr> <tr> <td>6/15/12</td> <td>325,000</td> <td>212,178</td> <td>537,178</td> <td>5,875,000</td> </tr> <tr> <td>6/15/13</td> <td>330,000</td> <td>205,625</td> <td>535,625</td> <td>5,545,000</td> </tr> <tr> <td>6/15/14</td> <td>345,000</td> <td>194,075</td> <td>539,075</td> <td>5,200,000</td> </tr> <tr> <td>6/15/15</td> <td>355,000</td> <td>182,000</td> <td>537,000</td> <td>4,845,000</td> </tr> <tr> <td>6/15/16</td> <td>4,845,000</td> <td>169,575</td> <td>5,014,575</td> <td>-</td> </tr> <tr> <td></td> <td>\$ 6,200,000</td> <td>\$ 963,453</td> <td>\$ 7,163,453</td> <td></td> </tr> </tbody> </table>					Date	Principal Payment	Interest Payment	Total Payment	Principal Balance	6/23/11	\$ -	\$ -	\$ -	\$ 6,200,000	6/15/12	325,000	212,178	537,178	5,875,000	6/15/13	330,000	205,625	535,625	5,545,000	6/15/14	345,000	194,075	539,075	5,200,000	6/15/15	355,000	182,000	537,000	4,845,000	6/15/16	4,845,000	169,575	5,014,575	-		\$ 6,200,000	\$ 963,453	\$ 7,163,453	
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Optional Redemption:	The BANs will be subject to redemption at par plus accrued interest at the option of SAFCA at any time upon at least seven (7) calendar days notice.																																												

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Final Draft as of May 17, 2011

<p>Security:</p>	<p>SAFCA created the Natomas Basin Local Assessment District. SAFCA expects that the bonds secured by these capital assessments will be issued in 2014 (the “Take-Out Bonds”). Proceeds of the Take-Out Bonds, if and when issued, would be used to redeem the BANs.</p> <p>Until the Take-Out Bonds are issued, SAFCA will repay the BANs with any and all O&M Assessment District funds legally available on June 15 of each fiscal year after payment of (1) O&M Expenses and (2) debt service and any payments for required coverage amounts on the 1996 Subordinated Operation and Maintenance Assessment Bonds.</p> <p>In addition, SAFCA will covenant that, in the event that the Take-Out Bonds are not issued by July 1, 2015, SAFCA, so long as any BANs are Outstanding, will annually levy in each Fiscal Year (beginning with the 2015-16 Fiscal Year) the assessments authorized to be levied within the Natomas Basin Local Assessment District in an amount equal to the maximum amount of such assessments authorized by law to be levied in such Fiscal Year and such assessments shall be used first to pay principal of and interest on the BANs.</p> <p>If the Take-Out Bonds are not issued for any reason, it is anticipated that there will not be sufficient O&M Assessment District funds and Natomas Basin Local Assessment District Funds to pay the BANs at its final maturity date and the City and SAFCA will need to negotiate any additional terms of repayment of the remaining amounts owed on the BANs. By purchase of the BANs, the City will acknowledge this anticipated circumstance.</p>
<p>Transfer of Ownership Restrictions:</p>	<p>The BANs will not be transferable. The City must hold the BANs until maturity or redemption.</p>
<p>No Disclosure Document:</p>	<p>There will be no disclosure document prepared in connection with the sale of the BANs.</p>
<p>Payment of Purchase Price of BANs:</p>	<p>The City will not be able to purchase the BANs with the proceeds of any tax-exempt bonds.</p>
<p>No Rating:</p>	<p>No credit rating will be requested by SAFCA. The BANs will be unrated.</p>
<p>Bond Counsel:</p>	<p>Orrick, Herrington & Sutcliffe LLP will serve as bond counsel to SAFCA. The City has waived the conflict presented since Orrick also acts as bond counsel to the City. The City also will acknowledge that Orrick is not representing or advising the City about its ability to purchase the BANs or in any other way in connection with its purchase of BANs.</p>
<p>Financial Advisor:</p>	<p>First Southwest Company will serve as financial advisor to SAFCA.</p>

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Opinions:	Orrick, Herrington & Sutcliffe LLP will provide an opinion in its customary form that the BANs constitute the valid and binding limited obligations of SAFCA. SAFCA counsel will provide an opinion in customary form addressing matters similar to that addressed in connection with the issuance of the 2006 BANs.
Resolutions:	Orrick, Herrington & Sutcliffe LLP will draft (1) the approving resolution of SAFCA, (2) the Notice of Public Hearing referred to in “Closing /Delivery Date” and the (3) approving resolution of the City.



MEMORANDUM

TO: City Council of the City of Sacramento

FROM: Sacramento Area Flood Control Agency

DATE: May 13, 2011

RE: Sacramento Area Flood Control Agency Bond Anticipation Notes:
Support for Findings of “Significant Public Benefit” As Required by
Government Code Section 6586.5

The Sacramento Area Flood Control Agency (the Agency) has requested that the City of Sacramento (the City) purchase \$6,200,000 of its Bond Anticipation Notes (the Notes). The Agency believes that the purchase by the City of the Notes is critical because the proceeds of the Notes will fund planning, design and construction activities necessary to reduce the risk of flooding to low lying areas of the City that contain a residential population of more than 80,000 people with a value in excess of \$8 billion, and a network of governmental buildings and infrastructure including Sacramento International Airport, and Interstate Highways 5 and 80, that are critical to the function of the Sacramento Region and the State of California.

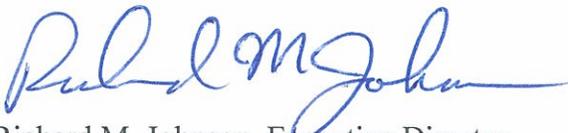
More specifically, the funded planning activities will facilitate formation of a benefit assessment district capable of providing the local share of the costs of improvements that are needed to reduce flood risk in and around the Natomas basin; the funded design activities will accelerate the construction of improvements to the levees around the Natomas basin which protect about 20% of the people and property at risk in Sacramento, and do not currently meet minimum federal performance standards; and the funded construction activities will address the need for emergency repairs to a portion of the east levee of the Sacramento River in the Natomas area that experiences significant stress as a result of sustained high water in the Sacramento River channel during the winter months.

Government Code Section 6586.5 requires that the local agency within whose boundaries the project is to be located (in this case the City) approve the financing of the project and make a finding of “significant public benefit” in accordance with the criteria specified in Government Code 6586 after a noticed public hearing. Government Code

Section 6586 provides that “significant public benefit” means any of the following benefits to the citizens of the local agency: (a) demonstrable savings in effective interest rate, bond preparation, bond underwriting or bond issuance costs or (b) significant reductions in user charges levied by a local agency, or (c) employment benefits from undertaking the project in a timely fashion, or (d) more efficient delivery of local agency services to residential and commercial development.

Because these Notes are payable from a super-subordinated operation and maintenance agreement and therefore would be difficult to sell in the public markets, this purchase by the City resulting in a lower effective interest rate on the Notes than would be likely to be obtained with a public offering, if such an offering were even possible. In addition, the benefits to the residents of the City resulting from improved flood protection should also provide employment benefits. Finally, the borrowing is essential to enable the Agency to more effectively deliver its absolutely vital services of flood protection to residential and commercial development with the City.

Sincerely,

A handwritten signature in blue ink, appearing to read "Richard M. Johnson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Richard M. Johnson, Executive Director
Sacramento Area Flood Control Agency.



RESOLUTION NO. 2011-_____

Adopted by the Sacramento City Council

APPROVING THE PROPOSED FINANCING OF FLOOD CONTROL PROJECTS BY THE SACRAMENTO AREA FLOOD CONTROL AGENCY'S ISSUANCE OF ITS BOND ANTICIPATION NOTES, SERIES 2011; DETERMINING THAT THERE ARE SIGNIFICANT PUBLIC BENEFITS TO THE CITIZENS OF THE CITY FROM THE PROPOSED FINANCING; AND APPROVING THE CITY'S PURCHASE OF SUCH BOND ANTICIPATION NOTES

BACKGROUND:

- A. The City Council (the "City Council") of the City of Sacramento (the "City") took action to call a public hearing on Tuesday, May 24, 2011, at 6:00 p.m., at its regular meeting place, City Council Chambers, Sacramento City Hall, 915 I Street, Sacramento, California, to consider (1) the proposed financing of flood-control projects to be located within the City (the "Project") by the issuance and sale by the Sacramento Area Flood Control Agency (the "Agency") of its Bond Anticipation Notes, Series 2011, in a principal amount of not to exceed \$6,200,000 (the "Notes"); and (2) whether there are any significant public benefits to the citizens of the City from such proposed financing, including demonstrable savings in effective interest-rate costs and the costs of bond preparation, bond underwriting, or bond issuance; significant reductions in effective user charges levied by the Agency; employment benefits from undertaking the project in a timely fashion; and more efficient delivery of Agency services to residential and commercial development.
- B. A notice of the public hearing identifying the Project was duly published as required by law in *The Daily Recorder*, a newspaper of general circulation in the City, at least five days before the date hereof, and a copy of the proof of publication of the notice of public hearing is on file in the office of the City Clerk.
- C. The public hearing was duly convened by the City Council at the time and place set forth in the notice of public hearing, and the City Council heard all interested persons desiring to address the City Council on the foregoing matters at the public hearing.
- D. Evidence of the public benefits to the citizens of the City from the proposed financing was provided by the Agency.
- E. The City has considered the information provided by the Agency and is fully advised in the premises.
- F. A term sheet specifying the basic terms of the Notes (the "Term Sheet") is on file with the Office of the City Clerk and was presented to the City Council at this meeting.

G. On the terms and conditions specified in the Term Sheet and/or upon such other and/or additional terms and conditions as are consistent with City's Investment Policy governing the investment of the City's treasury pools as the City Treasurer may determine, the City Treasurer desires to purchase the Notes as an investment consistent with the City's Investment Policy governing the investment of the City's treasury pools.

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

Section 1. The City Council finds and determines that the statements in paragraphs A through G of the Background are true.

Section 2. In accordance with section 6586.5 of the California Government Code, the City Council hereby approves the proposed financing of the Project by the issuance by the Agency of its Notes and hereby determines, in accordance with section 6586 of the California Government Code, that there are significant public benefits to the citizens of the City from the proposed financing, including demonstrable savings in effective interest-rate costs and the costs of bond preparation, bond underwriting, or bond issuance; significant reductions in effective user charges levied by the Agency; employment benefits from undertaking the Project in a timely fashion; and more efficient delivery of Agency services to residential and commercial development.

Section 3. On the terms and conditions specified in the Term Sheet and/or upon such other and/or additional terms and conditions as are consistent with the City's Investment Policy governing the investment of the City's treasury pools as the City Treasurer may determine, such determination to be conclusively evidenced by the purchase of the Notes, the City Council hereby approves of the purchase of the Notes by the City Treasurer as an investment of the City's treasury pools. The approval set forth in this Section 3 is conditioned upon final approval of the issuance and sale of the Notes by the Board of Directors of the Agency.

Section 4. The City Treasurer and the other officers of the City or their respective designees are hereby authorized and directed to do any and all things and to execute, deliver and perform any and all agreements and documents that such officers or their respective designees deem necessary or advisable to consummate the purchase of the Notes, and to effect the purposes of this Resolution and the transactions contemplated herein, including, without limitation, the negotiation, implementation and execution and delivery of any and all terms, conditions and documents necessary to provide for the repayment of the Notes if the principal of and interest on the Notes are not paid when due.

PASSED AND ADOPTED by the City Council of the City of Sacramento
on May 24, 2011, by the following vote:

AYES:

NOES:

ABSENT:

APPROVED:

Mayor

(SEAL)

ATTEST:

City Clerk