



## City of Sacramento City Council

915 I Street, Sacramento, CA, 95814  
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**Meeting Date:** 8/9/2012

**Report Type:** Consent

**Title:** Appropriation of Interest Earnings, North Natomas CFD No. 4, Series D Construction Fund

**Report ID:** 2012-00662

**Location:** District 1

**Recommendation:** Pass a Resolution appropriating interest earnings on construction fund balances for authorized purposes in North Natomas Community Facilities District No. 4 (CFD 4).

**Contact:** Mark Griffin, Program Manager, (916) 808-8788, Finance Department

**Presenter:** None

**Department:** Finance

**Division:** Public Improvement Finance

**Dept ID:** 06001321

**Attachments:**

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- 1-Description/Analysis
- 2-Background
- 3-Resolution

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**City Attorney Review**

Approved as to Form  
Joseph Cerullo  
8/1/2012 4:21:50 PM

**City Treasurer Review**

Reviewed for Impact on Cash and Debt  
Russell Fehr  
7/23/2012 11:11:57 AM

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 7/31/2012 1:13:25 PM



## Description/Analysis:

**Issue:** Bond proceeds from the 2006 issuance of Series D bonds in CFD 4 have been appropriated and used over the intervening period for the acquisition of authorized facilities and land and the payment of development fees. Because of the economic downturn and the FEMA-imposed restrictions, development within CFD 4 has been delayed together with the expenditure of associated bond proceeds. Cash balances have generated interest earnings that must be used for any remaining authorized purposes, or for paying down the debt where the authorized activities have been completed. Staff recommends the appropriation of \$1,964,565 from interest earned to be applied as required.

The 2006 bond proceeds and associated debt service were split between two developers under separate agreements and master projects for the construction of facilities, the acquisition of land, and the payment of fees on their respective properties. One of those developers, Reynen & Bardis Communities, Inc., has completed its development. Its allocated proceeds have a residual \$67,495 in interest earnings, all of which staff recommends be applied toward a subsequent debt-service payment.

The second developer, Natomas Creek, LLC, has yet to complete development, primarily the Commerce Station project. The remaining authorized facilities and fees exceed the share of the remaining bond proceeds. Staff recommends the appropriation of \$1,897,070 in interest earnings for remaining authorized purposes on the project.

**Policy Considerations:** The recommended action is consistent with existing agreements and the requirements of the City Charter and state and federal law.

**Economic Impacts:** None.

### Environmental Considerations:

**California Environmental Quality Act (CEQA):** Under CEQA guidelines, continuing administrative activities do not constitute a “project” as defined in Section 15378 of the CEQA Guidelines and are therefore exempt from review.

**Committee/Commission Action:** None.

**Rationale for Recommendation:** The appropriation of funds is necessary to allow the use of funds for authorized purposes.

**Financial Considerations:** The project account for Reynen & Bardis Communities, Inc. (J22003400) will be closed, and the remaining balance of \$67,495 associated with accrued interest earnings will be applied toward a subsequent debt-service payment.

The project account for Natomas Creek, LLC (J22003300) will be augmented by \$1,897,070 for remaining authorized expenses.

Interest earnings from tax-exempt bonds are subject to a 100% marginal tax under the Tax Reform Act of 1986 on the interest earned in excess of the interest paid on the bonds. The City Treasurer has verified that the interest earnings on the bond proceeds did not exceed the interest payable on the bonds and therefore there is no potential tax liability.

**Emerging Small Business Development (ESBD):** There are no ESBD considerations as there are no goods or services being purchased.

## Background

On the Natomas Creek, LLC master project, there is currently \$1,536,172 remaining from bond proceeds. Appropriation of the \$1,897,070 will result in a remaining total balance of \$3,433,242. Of this total, \$2,423,544 is a Department of Utilities reserve for the completion of primary drainage facilities. This amount includes a 50% contingency, and will continue to earn interest. The balance, after reserve, of \$1,009,698 will be available for other authorized purposes. There is a pending, verified reimbursement of \$599,511.52 in authorized expenses by the developer, which will be released contingent upon the approval of the appropriations.

For the future, the remaining balance will be available for other facilities and fees together with any remaining balance when the reserve is released by the Department of Utilities.

All funds to date in the Natomas Creek, LLC project total \$21,272,706. Costs to provide infrastructure facilities, or to pay fees, in excess of the bond proceeds and interest earnings are the responsibility of the developer.



## RESOLUTION NO.

Adopted by the Sacramento City Council

### APPROPRIATION OF INTEREST EARNINGS NORTH NATOMAS COMMUNITY FACILITIES DISTRICT NO. 4 SERIES D CONSTRUCTION FUND

#### BACKGROUND

- A. On October 24, 2006, by Resolution Nos. 2006-786 and 2006-787, the City Council authorized the issuance of \$26,210,000 in Mello-Roos bonds through North Natomas Community Facilities District No. 4 (the “**Series D Bonds**”). The authorized purposes for which proceeds from the Series D Bonds may be expended are the acquisition of public improvements and the funding of development-impact fees on lands to be developed by Reynen & Bardis Communities, Inc. (“**Reynen and Bardis**”) and Natomas Creek, LLC (“**Natomas Creek**”).
- B. Bond proceeds remaining after paying costs of issuance (“**Net Proceeds**”) totaled \$22,300,204 and were allocated to the developers in proportion to the debt placed on their respective properties, as follows: \$19,375,636 to Natomas Creek and \$2,924,568 to Reynen & Bardis.
- C. The Net Proceeds were appropriated in full to a master project for each developer, to be used as construction was completed, as land was acquired, or as fees were due. These master projects are J22003300 for Natomas Creek and J22003400 for Reynen & Bardis.
- D. The use of the master projects is governed by the bond covenants and Acquisition and Shortfall Agreements with each developer: City Agreement No. 2006-1351 for Natomas Creek and City Agreement No. 2006-1352 for Reynen & Bardis. Each agreement specifies the improvements and lands to be acquired and the fees to be funded with the Net Proceeds (the “**Authorized Facilities**”).
- E. Section 2(b) in each Acquisition and Shortfall Agreement provides that the funds available to the master projects are limited to the proceeds of the Series D Bonds and to any funds that may subsequently become available, such as interest earned on project-account cash balances or additional bond series. Any costs to provide the authorized facilities in excess of available funds are the responsibility of the developer.
- F. Interest earnings have been realized in both master projects, with \$1,897,070 accruing to the Natomas Creek project and \$67,495 accruing to the Reynen & Bardis project.

- G.** Reynen & Bardis has been fully reimbursed for the Authorized Facilities it provided, so the interest earnings on its project must be appropriated toward a subsequent debt-service payment.
- H.** Natomas Creek has not completed its remaining development (primarily the Commerce Station project) and has remaining Authorized Facilities that exceed available resources. Interest earnings thus must be appropriated to the master project for Authorized Facilities.
- I.** Interest earnings from tax-exempt bonds are subject to a 100% marginal tax under the Tax Reform Act of 1986 on the interest earned in excess of the interest paid on the bonds. The City Treasurer has verified that the interest earnings on the proceeds of the Series D Bonds did not exceed the interest payable on the bonds, so there is no tax liability.

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

- Section 1.** The City Manager (or his designee) is hereby authorized to appropriate \$1,897,070 from interest earnings on the North Natomas Creek Project (J22003300) for authorized purposes under City Agreement No. 2006-1351.
- Section 2.** The City Manager (or his designee) is hereby authorized to appropriate \$67,495 from interest earnings on the Reynen & Bardis Project (J22003400) for the purpose of paying Reynen & Bardis's allocation of the debt service for the Series D Bonds.