

Meeting Date: 10/29/2013

Report Type: Consent

Report ID: 2013-00789

Title: North Natomas Financing Plan Inter-Program Loan and Bond Call

Location: District 1

Issue: An on-demand loan between North Natomas fee programs is necessary to fund debt obligations.

Recommendation: Pass a Resolution authorizing on-demand loans between fee programs in the North Natomas Financing Plan and directing a call on bonds used to finance the acquisition of the North Natomas Regional Park.

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

Presenter: None

Department: Finance

Division: Public Improvement Finance

Dept ID: 06001321

Attachments:

1-Description/Analysis

2-Background

3-Resolution

City Attorney Review

Approved as to Form

Joseph Cerullo

10/23/2013 2:50:25 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt

Russell Fehr

10/16/2013 12:19:50 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 10/23/2013 8:59:38 AM

Description/Analysis

Issue: The North Natomas Financing Plan allocates revenue from its fee programs to pay principal and interest on certain bond debt. Because of the continuing building restrictions in North Natomas, cash available in the Regional Park Fee program to service debt issued to acquire the Regional Park will be insufficient to meet the payment due on December 1, 2013. This payment, and future payments, can be funded with loans as needed from the Transit Fee program. Repayment of the loans will occur when fee revenue from development in North Natomas exceeds the debt-service obligation or when repayment is required for the purpose of the Transit Fee, whichever occurs first.

The purpose of the Transit Fee is to finance the construction of light-rail stations on the Green Line in North Natomas. The recommended action will permit on-demand, as-needed loans during a period of up to five years. The amount that would be borrowed depends on when the building restrictions are lifted and the subsequent pace of development. Regional Transit staff estimates that even with no development the balance remaining in the Transit Fee program during the five years will be adequate. If, after five years, there is an outstanding balance on the loans and repayment is triggered by requirements for the Green Line, then replacement loans would need to be obtained from other fee programs or sources. The fee programs in North Natomas can support full repayment of the loans until Fiscal Year 2020/21.

Also on December 1, the City has the opportunity to redeem, at par, a portion of the bonds used to acquire the Regional Park. Redemption makes economic sense and will reduce the amount that must be loaned between programs.

Policy Considerations: The Sacramento City Code authorizes the City Council to make loans between the fee programs (i.e., special funds) of the North Natomas Financing Plan as needed to accomplish the purposes of each fee program so long as the loans do not unreasonably delay the accomplishment of the lending fund's purposes. See Section 18.24.180.B (authorizing loans "to assure adequate cash flow for ... acquisition of ... public property on a timely basis so long as such ... loans do not unreasonably delay such ... acquisition under the lending fund") and Section 18.24.360.B (authorizing loans "to assure adequate cash flow for the timely accomplishment of the purposes and uses of the fees deposited in each of the borrowing funds, while not causing an unreasonable delay in the accomplishment of the purposes and uses of the fees deposited in each of the lending funds"). The Transit Fee is collected to build light-rail stations in North Natomas at such time as the Green Line is extended to this area. Construction of the stations will not be delayed even if loans in the maximum amounts are made during the five-year period. If, after five years, station construction commences while all or part of the loans are outstanding, then replacement loans would need to be obtained from other fee programs or sources.

Economic Impacts: This report does not have direct economic impacts.

Environmental Considerations:

California Environmental Quality Act (CEQA): Under the California Environmental Quality Act (CEQA) guidelines, continuing administrative activities

do not constitute a project and are therefore exempt from review.

Sustainability: There are no sustainability considerations applicable to administrative activities.

Committee/Commission Action: None

Rationale for Recommendation: A loan between fee programs in North Natomas is necessary to pay debt-service on bonds issued to acquire the Regional Park. In addition, economic analysis indicates that substantial savings in future payments can be realized if some of those bonds are called and redeemed on December 1, 2013.

Financial Considerations: In 2003, the City issued 30-year bonds to complete the purchase of the North Natomas Regional Park. The debt was to be paid by the Regional Park Fee program, which was designed to be adequate to cover the debt under almost every scenario. The continuing building restrictions have depleted the funds remaining in the program to a point where the debt-service payment due December 1, 2013, cannot be fully funded. Approximately \$300,000 will be available from the program to make a payment of \$596,663. There will also be continuing debt service requiring additional borrowing until such time as the restrictions are lifted and fee revenue exceeds debt-service requirements. To address this revenue shortfall, staff recommends that the City Council authorize an as-needed, on-demand loan program for a period of up to five years using the features and methods discussed below.

Funding for the debt-service payments is available in other North Natomas fee programs. Loans can be made with City Council approval by resolution. Such loans must not unreasonably delay the completion of the purposes for which the lending fee program was established.

The North Natomas fee programs collectively hold approximately \$37 million in cash. Most of these programs have near- or intermediate-term uses or potential uses including debt-service payments, existing capital projects, developer reimbursements, contingencies for emergency improvements, and maintenance of prudent reserves. Only one program, the Transit Fee program, has no near- or intermediate-term use that would be delayed by loans. The program holds approximately \$10.9 million and is designed to fund light-rail stations on the Green Line in North Natomas. With the maximum amount that could be borrowed, as detailed below, Regional Transit staff estimates that the remaining funds will be adequate for the potential uses during the five-year period that loans could be drawn. This fee program is, therefore, the recommended source for the loans.

Should funding be required for the stations before the loans are fully repaid, loans from other fee programs or other sources would need to be explored. However, in the unlikely event that there is no development over the next nine years (through 2020), the fee programs in North Natomas can support the repayment of any loans without resorting to other funding sources.

To reduce the amount that must be loaned between programs, the City should take advantage of the opportunity to redeem some of the bonds for the Regional Park on the next call date, which is also December 1, 2013. The bonds to be redeemed are the

original 2003 issue through the December 2020 maturity. The redemption cost is \$4,195,000. Redemption will substantially reduce the interest paid on the bonds: the face value of savings is \$716,843. These savings increase sharply the longer the building restrictions continue. This occurs because, by State law, the borrowing program must pay interest to the lending program at the same rate that the lending fund would otherwise earn. This rate is the Pool A rate. If the bonds are not called, then the higher debt service will require more borrowing on which interest must be paid.

With a bond call, the scheduled debt-service payments after December 1 will be reduced from \$596,663 to \$211,000 semiannually. These remaining payments represent interest on bonds maturing after 2020, bonds that cannot be called.

Hopefully, the necessity for borrowing will be short-lived. If it is not, then staff recommends that the as-needed, on-demand loan authorization expire after five years unless renewed by the City Council.

In sum, staff is recommending a loan program with the following features:

- The program is on-demand from the Transit Fee program as Regional Park debt-service payments are due.
- On December 1, 2013, the City will call the Regional Park bonds that have maturities through December 2020.
- The loaned funds will earn interest at the Pool A rate.
- The program will expire in five years unless renewed.

The initial loan will be \$4,495,000, consisting of the call price (\$4,195,000) and the difference between cash on hand and the scheduled debt-service payment (approximately \$300,000). Thereafter, semiannual payments of \$211,023 are due each June 1 and December 1 on bonds maturing after 2020. Through the entire five-year period of the loan program—and only if there is no development—the total amount loaned would be \$6,394,209.

The Finance Department has worked closely with the Treasurer's Office on this recommendation. The City Treasurer is in agreement with this recommendation.

Emerging Small Business Development (ESBD): None. No goods or services are being purchased.

Background

It is very difficult to know, of course, when the Natomas Basin building restrictions will be lifted. And, it is just as difficult, if not more so, to know the subsequent pace of development and the associated fee revenue.

However, the assets and liabilities of the fee programs for the North Natomas Finance Plan are known. Through Fiscal Year 2033/34, when all debt is paid, the assets and liabilities by fee program are as follows:

	Fee Program					Totals
	Drainage	Public Facility Fee	Transit	Public Land Acquisition	Regional Park	
June 30, 2013:						
Cash	1,195,564	23,718,306	10,871,207	856,070	278,847	36,919,993
Reserves*	(1,195,564)	(3,813,455)		(856,070)		(5,865,089)
Available	0	19,904,851	10,871,207	0	278,847	31,054,904
Future Fiscal Years Debt Service:						
					Running Balance	
2013/14		(1,633,678)			(897,671)	28,523,555
2014/15		(1,806,612)			(1,141,016)	25,575,927
2015/16		(1,854,655)			(1,177,511)	22,543,760
2016/17		(1,888,740)			(1,186,461)	19,468,559
2017/18		(1,929,193)			(1,198,189)	16,341,177
2018/19		(912,284)			(1,231,961)	14,196,932
2019/20		(716,982)			(968,874)	12,511,076
2020/21		(646,524)			(872,166)	10,992,385
2021/22		(557,371)			(837,011)	9,598,003
2022/23		(561,640)			(843,422)	8,192,941
2023/24		(563,279)			(845,882)	6,783,781
2024/25		(549,594)			(825,332)	5,408,855
2025/26		(553,307)			(830,908)	4,024,639
2026/27		(555,103)			(833,604)	2,635,933
2027/28		(558,217)			(838,281)	1,239,435
2028/29		(578,495)			(868,732)	(207,792)
2029/30		(580,604)			(871,899)	(1,660,294)
2030/31		(583,773)			(876,659)	(3,120,727)
2031/32		(588,674)			(884,018)	(4,593,419)
2032/33		(592,737)			(890,120)	(6,076,276)
2033/34		(618,809)			(872,008)	(7,567,093)
Totals	0	1,074,580	10,871,207	0	(19,512,880)	(7,567,093)

* For appropriated capital projects and developer reimbursements

The bond call recommended in this report improves cash balances \$716,843 by reducing debt service to \$211,000 semiannually beginning June 1, 2014 and ending December 1, 2020.

RESOLUTION NO. 2013-____

Adopted by the Sacramento City Council
on October 29, 2013

AUTHORIZING AS-NEEDED LOANS BETWEEN THE TRANSIT FEE PROGRAM AND THE REGIONAL PARK ACQUISITION FEE PROGRAM OF THE NORTH NATOMAS COMMUNITY DEVELOPMENT FUND AND AUTHORIZING THE CALLING CERTAIN BONDS USED TO ACQUIRE THE NORTH NATOMAS REGIONAL PARK

BACKGROUND

- A. Revenues generated by the North Natomas Transit Fee (the "**Transit Fee**") and the Regional Park Land Acquisition Fee (the "**Park Fee**") of the North Natomas Financing Plan are deposited in separate fee programs within the North Natomas Community Development Fund. These programs are the functional equivalents of two "special funds" identified in Sections 18.24.170.B and 18.24.350.B of the Sacramento City Code—the North Natomas Transit Fund and the Regional Park Land Acquisition Fund, respectively.
- B. The Sacramento City Code authorizes the City Council to make loans between the fee programs as needed to accomplish the purposes of each, but only if the loans do not unreasonably delay the accomplishment of the lending program's purposes. Specifically, Section 18.24.180.B authorizes loans "to assure adequate cash flow for . . . acquisition of . . . public property on a timely basis so long as such . . . loans do not unreasonably delay such construction and acquisition under the lending [program]," and Section 18.24.360.B authorizes loans "to assure adequate cash flow for the timely accomplishment of the purposes and uses of the fees deposited in each of the borrowing [programs], while not causing an unreasonable delay in the accomplishment of the purposes and uses of the fees deposited in each of the lending [programs]."
- C. Cash in the Park Fee program is used to pay the principal and interest on bonds issued to finance the acquisition of the North Natomas Regional Park (the "**Park Bonds**"). But because of the continuing building restrictions in North Natomas, the cash available in the Park Fee program for servicing the Park Bonds will be insufficient to make the payment due on December 1, 2013. And, until the building restrictions are lifted and sufficient revenue is received from the Park Fee, cash in the Park Fee program will continue to be inadequate to make debt-service payments.

- D. December 1, 2013, is also a “call date” on which the City has the opportunity to redeem certain principal portions of the Park Bonds, thereby saving \$716,843 in interest over the next five years of debt-service payments.
- E. The cash in the Transit Fee program—\$10.9 million as of June 30, 2013—was collected to fund the engineering, design, environmental clearance, and construction of light-rail stations for the Green Line in North Natomas. The cash may be used to make loans to the Park Fee program for the purposes of making debt-service payments and calling a portion of the Park Bonds to the extent that the purposes for which the Transit Fee was collected are not hindered.
- F. The loans to obtain funds for paying debt service and for calling a portion of the Park Bonds are to be made on an as-needed, on-demand basis for five years, i.e., until June 1, 2018. At that time, the City Council will evaluate the need for additional loans and the appropriate funding strategies for those loans.
- G. In the unlikely event that the building restrictions continue for the five years of the loan authorization, the total, maximum amount borrowed would be \$6,394,209. This amount consists of a \$300,000 deficiency for the debt-service payment on December 1, 2013; \$4,195,000 for the principal of bonds called; and nine payments of \$211,023 semiannually on June 1 and December 1, which represent the interest on the Park Bonds that mature after 2020 and cannot be called.
- H. The maximum amount that could be borrowed leaves approximately \$4.5 million in the Transit Fee program. The \$4.5 million may be required to fund the Transit Fee program’s fair share of the cost to design the stations or to conduct environmental clearance for the stations. Regional Transit staff estimates that the \$4.5 million will be adequate for the potential uses during the five-year period of the loan authorization.
- I. The Finance Director recommends that the City Council authorize the proposed loans, and the City Treasurer concurs with that recommendation.
- J. The City Council is fully advised in this matter.

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

Section 1. The statements of fact in paragraphs A through J of the Background are accurate.

Section 2. In accordance with Sections 18.24.180.B and 18.24.360.B of the Sacramento City Code, the City Manager is hereby authorized to initiate loans on an as-needed, on-demand basis from the Transit Fee program to the Park Fee program. The loans will be used to pay debt service on the Park Bonds and to call a portion of the principal of the Park Bonds; will earn interest at the Pool A rate; and will be repaid when the City Manager determines that cash for that purpose is available in the Park Fee program or when repayment is required for the allowable purposes on the Green Line, whichever occurs first.

Section 3. The City Treasurer is hereby authorized to call, on December 1, 2013, the portion of the 2003 Capital Improvement Revenue Bonds (representing maturities through December 1, 2020) used to acquire the North Natomas Regional Park.

Section 4. The authority conferred by this resolution expires as of the debt-service payment of June 1, 2018.

Section 5. The City Manager is authorized to take all actions, including budgetary actions, necessary to implement this resolution.