



REPORT TO COUNCIL 17

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

Public Hearing
September 12, 2006

**Honorable Mayor and
Members of the City Council**

Title: Sacramento Area Flood Control Agency (SAFCA) – Bond Anticipation Notes

Location/Council District: Natomas Basin/Council District 1

Recommendation: Adopt 1) **Resolution** approving the proposed financing of flood control projects by SAFCA and determining that there are significant public benefits to the citizens of the City; and 2) **Resolution** authorizing the appropriation of \$5 million of the General Fund Reserve for Disaster Recovery for the purchase of Bond Anticipation Notes (BANS) issued by SAFCA.

Contact: Janelle Gray, Public Finance and Banking Manager, 808-8296

Presenters: Janelle Gray, Public Finance and Banking Manager

Department: Office of the City Treasurer

Division: Public Finance

Organization No: 0900

Description/Analysis

Issue: SAFCA, a joint exercise of powers agency, is in need of approximately \$10 million to fund project planning, permitting, design, and preparation of construction bid documents for the Natomas Levee Improvement Project. To help meet this short-term financing need, the SAFCA Board approved the authorization for its Executive Director to issue BANS to be purchased by the City and County of Sacramento, in the amount of \$5 million each. The proceeds will be primarily used to fund the cost of designing and constructing levee improvements around the Natomas Basin and creating a new capital assessment district to finance construction of these improvements. A summary of the short-term financing need and structure is contained in Attachment 1 (page 4).

Prior to issuance, Government Code Section 6586.5 requires a local agency, within whose boundaries the public capital improvement is to be located, to approve the financing of the public capital improvement and make a finding of significant public benefit after a noticed public hearing. The City and County of Sacramento are holding such public hearings.

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Policy Considerations: The City Council, within whose boundaries the public capital improvements are to be located, per Government Code Section 6586.5, must determine that there are significant public benefits to the citizens of the City prior to issuance of the BANS. The benefits 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 findings of “Significant Public Benefit” are more fully described in Attachment 2 - a Memorandum, dated August 29, 2006, to the City Council from SAFCA (page 6).

The purchase of the BANS is contingent on SAFCA’s approval of the financing at its regular September 21, 2006 meeting and upon receipt of an opinion by its bond counsel to permit short-term financing secured by assessments and other fees. Additionally, the County of Sacramento will be presenting the same financing proposal to the Board of Supervisors on September 12, 2006.

Environmental Considerations: None.

Rationale for Recommendation: The activities to be funded through the purchase of the BANS are necessary to reduce flood risk in the urban core of Sacramento and around the Natomas Basin.

Financial Considerations: Council approval will allow the City Treasurer to purchase the \$5 million of BANS. Funding for the purchase of the BANS will be from the General Fund Reserve for Disaster Recovery, which has a current fund balance of \$6.0 million. The terms of the BANS will be a fixed interest rate of 6.25% for five years and 2 months with a 15-year amortization. SAFCA may redeem the BANS at any time with at least seven (7) calendar days notice.

The purchase of the BANS is not deemed to be a City Pool A investment, but an advance from the General Fund Reserve for Disaster Recovery securitized through the purchase of the BANS. The terms of the BANS are deemed prudent; the interest rate of 6.25% is appropriate for the repayment risk and duration of the BANS. Over the five year two month period, the City will receive principal and interest payments with earnings totaling \$1,473,159.72. The terms along with the amortization schedule are more fully described on Attachment 3 (page 8).

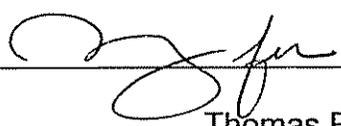
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Bond Anticipation Notes

Emerging Small Business Development (ESBD): None.

Respectfully Submitted by: _____


Janelle Gray
Public Finance and Banking Manager

Approved by: _____


Thomas P. Friery
City Treasurer

Recommendation Approved:

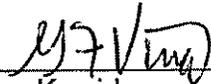

for _____
Ray Kerridge
City Manager

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BACKGROUND

On May 18, 2006, SAFCA, a joint exercise of powers agency consisting of the City of Sacramento, Sacramento County, Sutter County, Reclamation District 1000 and the American River Flood Control District, detailed in its FY 2006-07 Proposed Budget that it needs an additional \$10,000,000, to pay 1) SAFCA's share of cost for Reclamation District 1000 to improve the east levee of the Sacramento River in the vicinity of RD1000's Prichard Lake pumping facility; 2) cost of pre-construction work for repairs in the Natomas Basin; 3) the cost of completing the environmental review and permitting process necessary to commence construction of improvements in the summer of 2007; and 4) the cost of forming a new capital assessment district to finance construction of the needed improvements, which is anticipated to be initiated in the first quarter of 2007.

SAFCA proposed its conceptual financing structure at its June 15, 2006, board meeting. The SAFCA Board approved the authorization for its Executive Director to issue Bond Anticipation Notes (BANS) to be purchased by the City and County of Sacramento, in the amount of \$5 Million each, to fund the cost of designing and constructing levee improvements around the Natomas Basin and creating a new capital assessment district to finance construction of these improvements. Principal and interest on the BANS would be payable from the proceeds of the new capital assessment district, from Federal reimbursements due to SAFCA for construction of the North Area Local Project, and from funds appropriated to the California Department of Water Resources for needed levee improvement work.

If the new capital assessment district cannot be formed or SAFCA is unsuccessful in securing Federal and/or State funding for the work covered by the loans, the debt service on the BANS will be paid from the annual assessments collected by the Operations and Maintenance (O&M) District after payment by SAFCA of its O&M expenses, debt service and any payments for required coverage amounts on SAFCA's 2005 Capital Assessment District No. 2 Bonds, and debt service and payments for required coverage amounts on SAFCA's 1996 Subordinated O&M Assessment Bonds.

Council approval will allow the City Treasurer to purchase the \$5 Million of BANS. The terms of the BANS will be a fixed interest rate of 6.25% for five years and 2 months; under a 15 year amortization schedule with principal payment reduction rounded up to \$5,000. The extra two months is required due to SAFCA's assessment collection cycle where proceeds from assessments are not received and available for disbursement until November and the BANS will be issued in September. Although the BANS are structured for a five year maturity, to ensure sufficient available operating funds for SAFCA, the BANS are amortized over a 15 year period with a "balloon" principal payment due in the fifth year. Should the BANS not be fully amortized at the end of the five year and two month period, additional financing will be required to pay off the BANS. SAFCA may redeem the BANS at any time upon at least seven (7) calendar days notice.

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The purchase of the BANS is not deemed to be a City Pool A investment, but an advance from the General Fund Reserve for Disaster Recovery fund securitized through the purchase of the BANS. The terms of the BANS is deemed prudent; the interest rate of 6.25% is appropriate for the repayment risk and duration of the BANS. Over the five year two month period, the City will receive principal and interest payments with earnings totaling \$1,473,159.72.

These expenditures are largely for preliminary construction work and would not be able to be implemented if the funding for the construction is not approved. Further, if the financing initiatives cited above are not approved, there is little likelihood that SAFCA will be able to pay off the notes to the City within the term of the BANS, and subsequent financing will be needed.



Sacramento
Area Flood
Control
Agency

MEMORANDUM

TO: City Council of the City of Sacramento
Board of Supervisors of the County of Sacramento

FROM: Sacramento Area Flood Control Agency

DATE: August 29, 2006

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) and the County of Sacramento (the County) each purchase \$5,000,000 of its Bond Anticipation Notes (the Notes). The Agency believes that the purchase by the City and the County 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 and County that contain a residential population of more 350,000 people, damageable property with a value in excess of \$30 billion, and a network of governmental buildings and infrastructure, including the State Capitol Building, Sacramento International Airport, and Interstate Highways 5 and 80 and U.S. Highway 50, that are critical to the functioning 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 cost of the improvements that are needed to reduce flood risk in the urban core of Sacramento 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 experienced significant stress as a result of sustained high water in the Sacramento River channel this winter.

Government Code Section 6586.5 requires that the local agency within whose boundaries the project is to be located (in this case, the City and the County) 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 6586 provides that "significant public benefits" 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 effective user charges levied by a local agency, or (c) employment benefits from undertaking the project in a timely fashion,

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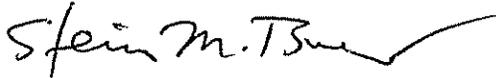
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or (d) more efficient delivery of local agency services to residential and commercial development.

Because these Notes are payable from a super-subordinated operation and maintenance assessment and therefore would be difficult to sell in the public markets, this purchase by the City and the County results 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 and the County resulting from improved flood protection should also produce 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 within the City and County.

Sincerely,

A handwritten signature in black ink, appearing to read "Stein M. Buer", with a long, sweeping horizontal stroke extending to the right.

Stein M. Buer, Executive Director
Sacramento Area Flood Control Agency

Sacramento Area Flood Control Agency –
Bond Anticipation Notes

Attachment 3

**Sacramento Area Flood Control Agency
Bond Anticipation Notes (BANs), Series 2006 A/B
August 10, 2006**

Issuer:	Sacramento Area Flood Control Agency ("SAFCA")
Purchasers:	Series A by County of Sacramento (the "County") and Series B by the City of Sacramento (the "City")
Amounts:	County: \$5,000,000; City: \$5,000,000; 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, prior to the issuance of bonds secured by assessments from a yet to be formed capital assessment district, to fund: (1) the costs of evaluating and designing improvements to the levees protecting the Natomas area identified in the Public Review Draft Natomas Levee Evaluation Report (March 13, 2006); (2) the costs of forming a new assessment district to finance construction of these and other Sacramento Area flood system improvements; and, (3) a portion of the costs of emergency repairs to the east levee of the Sacramento River in the vicinity of Reclamation District 1000's Prichard Lake pumping facility.</p> <p>All of the purposes on which BAN proceeds will be spent are eligible for financing/refinancing by the yet to be formed capital assessment district. See "Security" below.</p>
Closing/Delivery Date:	<p>September 26, 2006; subject to receipt of all necessary approvals from the Board of Supervisors of the County on September 12, 2006, the City Council of the City on September 12, 2006 and the governing board of SAFCA on September 21, 2006.</p> <p>The County and the City will hold noticed public hearings and make the findings required by Government Code Section 6586.5 as a condition to closing. These public hearings will be held at the same time as the Board of Supervisors and City Council meetings on September 12, 2006 that authorize 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 maturity date of the BANs will be November 15, 2011.
Interest Payments:	Interest on the BANs will be due annually each November 15 until the outstanding balance is paid in full, commencing November 15, 2007. Any accrued but unpaid interest will be added to the principal balance and accrue interest from the date originally due at the Interest Rate.

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Interest Rate:	The BANs will accrue interest at a fixed rate of 6.25% amortized through November 15, 2021. Interest will be calculated on a 30/360 day basis.
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.
Security:	<p>SAFCA expects to start proceedings to create a new capital assessment district in the Natomas area prior to October 1, 2006. The creation of this capital assessment district is conditioned on receiving sufficient property owner approvals as required under Proposition 218. If and when this capital assessment district can be formed, SAFCA expects that bonds will be issued that will be secured by these capital assessments. Proceeds of these bonds, if and when issued, would be used to redeem the BANs.</p> <p>Until a capital assessment district is created, SAFCA will repay the BANs with (1) any legally available monies and (2) any and all O&M Assessment District funds legally available on June 30 of each fiscal year after payment of:</p> <ul style="list-style-type: none"> a. O&M Expenses b. Debt service and any payments for required coverage amounts on the 2005 Capital Assessment District No. 2 Bonds c. Debt service and any payments for required coverage amounts on the 1996 Subordinated Operation and Maintenance Assessment Bonds
Transfer of Ownership Restrictions:	The BANs will not be transferable. The County and the City must hold the BANs until maturity or redemption.
No Disclosure Document:	There will be no disclosure document prepared in connection with the sale of the BANs.
Payment of Purchase Price of BANs:	The County and the City will not be able to purchase the BANs with the proceeds of any tax-exempt bonds.
No Rating:	No credit rating will be requested by SAFCA. The BANs will be unrated.
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP will act as bond counsel to SAFCA. The County and the City will be required to waive the conflict presented since Orrick also acts as bond counsel to County and the City. The County and the City will also acknowledge that Orrick is not representing or advising the County and the City about the ability of these entities to purchase the BANs or in any other way in connection with their purchases of BANs.
Financial Advisor:	First Southwest Company will act as financial advisor to SAFCA.
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.

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Resolutions:	Orrick, Herrington & Sutcliffe LLP will draft the approving resolution of SAFCA and the Notice of Public Hearing referred to in “Closing /Delivery Date” above. The offices of the County Counsel and the City Attorney will draft the respective approving resolutions of the County and the City.
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Sacramento Area Flood Control Agency – Bond Anticipation Notes

Sacramento Area Flood Control Agency Bond Anticipation Notes, Series A/B

Principal Amount: \$ 10,000,000.00
Fixed Interest Rate: 6.25%
Approximate Term (yrs.): 5.00

Date	Principal Payment	Interest Payment	Total Payment	Principal Balance
9/26/06	\$ -	\$ -	\$ -	\$ 10,000,000.00
11/15/06	-	-	-	10,000,000.00
11/15/07	350,000.00	710,069.44	1,060,069.44	9,650,000.00
11/15/08	450,000.00	603,125.00	1,053,125.00	9,200,000.00
11/15/09	480,000.00	575,000.00	1,055,000.00	8,720,000.00
11/15/10	510,000.00	545,000.00	1,055,000.00	8,210,000.00
11/15/11	8,210,000.00	513,125.00	8,723,125.00	-
	<u>\$ 10,000,000.00</u>	<u>\$ 2,946,319.44</u>	<u>\$ 12,946,319.44</u>	

Sacramento Area Flood Control Agency Bond Anticipation Notes, Series A

Principal Amount: \$ 5,000,000.00
Fixed Interest Rate: 6.25%
Approximate Term (yrs.): 5.00

Date	Principal Payment	Interest Payment	Total Payment	Principal Balance
9/26/06	\$ -	\$ -	\$ -	\$ 5,000,000.00
11/15/06	-	-	-	5,000,000.00
11/15/07	175,000.00	355,034.72	530,034.72	4,825,000.00
11/15/08	225,000.00	301,562.50	526,562.50	4,600,000.00
11/15/09	240,000.00	287,500.00	527,500.00	4,360,000.00
11/15/10	255,000.00	272,500.00	527,500.00	4,105,000.00
11/15/11	4,105,000.00	256,562.50	4,361,562.50	-
	<u>\$ 5,000,000.00</u>	<u>\$ 1,473,159.72</u>	<u>\$ 6,473,159.72</u>	

Sacramento Area Flood Control Agency Bond Anticipation Notes, Series B

Principal Amount: \$ 5,000,000.00
Fixed Interest Rate: 6.25%
Approximate Term (yrs.): 5.00

Date	Principal Payment	Interest Payment	Total Payment	Principal Balance
9/26/06	\$ -	\$ -	\$ -	\$ 5,000,000.00
11/15/06	-	-	-	5,000,000.00
11/15/07	175,000.00	355,034.72	530,034.72	4,825,000.00
11/15/08	225,000.00	301,562.50	526,562.50	4,600,000.00
11/15/09	240,000.00	287,500.00	527,500.00	4,360,000.00
11/15/10	255,000.00	272,500.00	527,500.00	4,105,000.00
11/15/11	4,105,000.00	256,562.50	4,361,562.50	-
	<u>\$ 5,000,000.00</u>	<u>\$ 1,473,159.72</u>	<u>\$ 6,473,159.72</u>	

Prepared by First Southwest Company on 8/10/06

RESOLUTION NO. 2006-_____

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
A AND SERIES B; AND DETERMINING THAT THERE ARE
SIGNIFICANT PUBLIC BENEFITS TO THE CITIZENS OF THE CITY
FROM THE PROPOSED FINANCING**

BACKGROUND:

- A. The City Council (the "City Council") of the City of Sacramento (the "City") took action to call a public hearing which was held by the City Council on Tuesday, the 12th day of September, 2006, at [2:00 p.m.], at the regular meeting place of the City Council, City Council Chambers, Sacramento City Hall, 915 I Street, Sacramento, California 95814, to consider (1) the proposed financing of the flood control projects (the "Project") to be located within the City by the issuance and sale by the Sacramento Area Flood Control Agency (the "Agency") of its Bond Anticipation Notes in an aggregate principal amount of not to exceed \$10,000,000 (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, bond preparation, bond underwriting or bond issuance costs, 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 (in accordance with Section 6586 of the California Government Code).
- B. A notice of the public hearing was duly published as required by law in The Daily Recorder, a newspaper of general circulation in the City, at least 5 days prior to the date hereof, identifying the Project, 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 therefore, 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.

**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 E of the Background are true.

Section 2. The City Council hereby approves the proposed financing of the Project by the issuance by the Agency of its Notes for purposes of Section 6586.5 of the California Government Code and hereby determines that there are significant public benefits to the citizens of the City from the proposed financing including demonstrable savings in effective interest rate, bond preparation, bond underwriting or bond issuance costs, 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 (in accordance with Section 6586 of the California Government Code).

RESOLUTION NO. 2006-_____

Adopted by the Sacramento City Council

RESOLUTION AUTHORIZING THE APPROPRIATION OF \$5 MILLION FROM THE GENERAL FUND RESERVE FOR DISASTER RECOVERY FOR THE PURCHASE OF BOND ANTICIPATION NOTES (BANS) ISSUED BY SACRAMENTO AREA FLOOD CONTROL AGENCY

BACKGROUND:

- A. SAFCA is seeking interim financing from the City and County of Sacramento to fund project improvements through the issuance of its Bond Anticipation Notes, Series A and Series B (the "BANS") in a principal amount not to exceed \$10,000,000 until a proposed Capital Assessment District can be formed;
- B. On September 12, 2006, City Council determined that there are significant public benefits to the citizens of the City proposed financing;
- C. The City desires to advance \$5,000,000 from the City's General Fund Reserve for Disaster Recovery, which will be securitized through the purchase of the BANS issued by SAFCA as the City's share of the interim financing being sought;
- D. The City has considered all the information provided related to the BANS; is fully advised as to the terms and risks, and deems the purchase of BANS both prudent and permissible under the authority granted to the City as a Charter city.

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

Section 1. The City Council finds and determines the statements in paragraphs A thru D of the Background are true

Section 2. The City Council authorizes the appropriation of \$5,000,000 from the General Fund Reserve for Disaster Recovery for the purchase of BANS issued by SAFCA.

Section 3. The General Fund Non-departmental expenditure budget for FY 2007 shall be increased as follows:

101-750-7110-4XXX Non-departmental Expenditure Budget \$5,000,000

