



# REPORT TO COUNCIL

## City of Sacramento

18

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

Consent  
**April 10, 2007**

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

**Title:** 1997 Lease Revenue Bonds – Notices of Mode Change and Mandatory Tender

**Location/ Council District:** District 1

**Recommendation:** Adopt a resolution of the **Sacramento City Financing Authority** (the “Authority”) that initiates the mandatory tender and remarketing of the Authority’s 1997 Lease Revenue Bonds by (1) approving a Notice of Mode Change; (2) approving a Notice of Mandatory Tender; and (3) authorizing the City Treasurer, who serves as Treasurer of the Authority, to execute and deliver the notices.

**Contact:** Thomas P. Friery, City Treasurer, 808-5168; Janelle Gray, Public Finance & Banking Manager, 808-8296

**Presenters:** Not Applicable

**Department:** Office of the City Treasurer

**Division:** Public Finance

**Organization No:** 0900

### **Description/Analysis**

**Issue:** In July 1997, the Authority issued \$73.725 million in lease revenue bonds (the “Bonds”) in order to restructure a privately financed debt obligation associated with Arco Arena (“Arena”). Although the Bonds have a 30-year structure, they also provide for a mandatory tender and remarketing of outstanding Bonds after 10 years. In other words, the Authority is **obligated** to repurchase the outstanding Bonds from the current holders this July and then resell the Bonds at interest rates currently available.

The first prerequisite to remarketing the Bonds is to provide the remarketing agent, trustee, and Bond insurer with notice of the Authority’s intention to change the interest-rate mode of the Bonds. This report provides the form of that notice and as well as the form of the Notice of Mandatory Tender that the Authority must provide to the Bond holders no later than June 18, 2007.



**Policy Considerations:** The approval of staff's recommendation is necessary to satisfy the requirements of the covenants associated with the Bonds. This action neither compromises nor modifies the original terms of the financing as approved by the Authority in 1997. We will be seeking approval of necessary legal documents associated with the mandatory remarketing of the Bonds when we come back to City Council on May 8, 2007. A time-and-responsibility schedule of the remarketing is provided as Attachment 2.

**Environmental Considerations:** This report concerns administrative activities that do not constitute a "project" as defined by the California Environmental Quality Act (CEQA) Guidelines Section 15378(a). These activities are, therefore, not subject to the requirements of CEQA (see CEQA Guidelines 15060(c)).

**Rationale for Recommendation:** Both the Notice of Mode Change and the Notice of Mandatory Tender are required by section 2.10(a)(i) of the indenture associated with the Bonds.

**Financial Considerations:** The Bonds were structured based on a 30-year maturity schedule and a July 15, 2027, final maturity. The Bonds were issued at an initial interest rate of 6.845% with a mandatory tender (bond call) to occur after 10 years, i.e., on July 18, 2007. Under section 3.09(h) of the indenture, the Bonds outstanding on that date (which will total approximately \$70 million) will be subject to a remarketing in which a new interest rate will be determined and applied.

Debt service payments are derived from rental payments made by the Arena owners on a quarterly basis. The new interest rate on the outstanding Bonds will be determined at the time of pricing, expected around mid-May 2007.

**Emerging Small Business Development (ESBD):** Not applicable.

Respectfully Submitted by:

  
\_\_\_\_\_  
Janelle Gray  
Public Finance and Banking Manager

Approved by

  
\_\_\_\_\_  
Thomas P. Frier  
City Treasurer

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**ATTACHMENT 1**

**Background**

In July 1997, in response to the Arena owner's request for assistance, the Authority issued the Bonds in the amount of \$73.725 million. This financing enabled the restructuring of outstanding debt and enabled the reinvestment of certain proceeds into the Sacramento Kings basketball organization. An additional \$8.5 million in deferred capital notes were also issued from 1997 to 2003 to assist with cash flow in the early years. The deferred capital notes were later repaid in full by the Arena owners on April 13, 2005. The Arena owners have never missed or been late in paying their debt obligations.

Initially, the Bonds were structured based on a 30-year maturity schedule and a July 15, 2027, final maturity. The Bonds were issued at an initial interest rate of 6.845% with a mandatory bond call to occur after 10 years, i.e., on July 18, 2007. Pursuant to the bond covenants, the outstanding bonds on that date (which will total approximately \$70 million) will be subject to a mandatory tender and remarketing in which a new interest rate will be determined and applied. If the outstanding Bonds are not tendered and remarketed as required, then the City of Sacramento will risk being in default.

On or before April 19, 2007, the Authority is required to provide notice to the original remarketing agent, insurer, and trustee of the intention to change the interest-rate mode on the Bonds.

On or prior to June 18, 2007, the Authority is required to provide notice to holders of the Bonds regarding the mandatory tender on July 18, 2007.

Arco Arena continues to be a positive economic and social asset to the Sacramento metropolitan area, especially for the City of Sacramento. Since September 1988, when the arena first opened, it has hosted over 3,200 events with a total attendance of approximately 31 million patrons. The arena provides 175 full-time and approximately 1,400 part-time jobs, and has influenced economic growth in North Natomas over the past 10 years.

**ATTACHMENT 2**

**CITY OF SACRAMENTO**  
**OFFICE OF THE CITY TREASURER**  
1997 LEASE REVENUE BONDS  
(ARCO ARENA ACQUISITION)  
Mandatory Tender / Remarketing July 2007

**DRAFT**

**Financing Schedule**  
(As of March 15, 2007)

March 2007						
S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

April 2007						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

May 2007						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

June 2007						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

July 2007						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

Date(s)	Task Description	Party (ies)	✓
Thursday, March 1	Kick-off Meeting for Remarketing	All Parties	✓
Week of March 5	Finalize preferred rate mode structure	City, AA	✓
Week of March 12	Finalize discussions with MBIA	City, GS	
Wednesday, March 14	Release 1 <sup>st</sup> Draft of Documents ✓ Remarketing Memorandum ✓ Legal docs	OHS, SA	✓
Friday, March 16	Document Review Conf. Call at 10:00 am ✓ Review Legals & Remarketing Memorandum	All Parties	
March - April 2007	Briefing of Remarketing financing with City Council	CTO	
Date(s)	Task Description	Party (ies)	✓
Thursday, March 22	Deadline for legal documents to City for April 10	All Parties	

1997 Lease Revenue Bonds – Notices of Mode Change  
and Mandatory Tender

April 10, 2007

**Council Meeting**

Week of April 2	<b>Release 2<sup>nd</sup> Draft of Documents</b> ✓ Remarketing Memorandum ✓ Legal docs	OHS, GS, SA	
Thursday, April 5	<b>Document Review Conf. Call</b> ✓ Review Legals & Remarketing Memorandum	All Parties	
Tuesday, April 10	<b>City Council Meeting Date</b> ✓ Approve notice to insurer, trustee, paying agent, & remarketing agent of mode change ✓ Approve notice to be sent to bondholders	All parties	
Wednesday, April 11 (Mandatory Date = April 19, 2007)	<b>Notify Insurer, Trustee, Paying Agent, Remarketing Agent of mode change</b>	GS	
Wednesday, April 11 (Mandatory Date = June 18, 2007)	Written Confirmation to Bondholders ✓ Mode Determined ✓ Commencement Date	City, OHS, Trustee	
Thursday, April 19	<b>Release “Near Final” Documents</b> ✓ Remarketing Memorandum ✓ Legal docs	OHS, GS, SA	
Thursday, April 19	<b>Deadline for legal documents to City for May 8 Council Meeting</b>	All Parties	
April 19 - May 7, 2007	<u>Update Council members &amp; Others</u>	CTO	
Tuesday, May 1	Draft Press Release	CTO	
Friday, May 4	Rating Confirmation ✓ On AAA insurance provider	City, GS	
Tuesday, May 8	<u>City Council Meeting</u> ✓ Approve Legals & Remarketing Memorandum as applicable	All Parties	
Wednesday, May 9	Remarketing Memorandum released to Printer	SA *	
May 16/17, 2007	Price bonds / swap	All Parties	
<b>Date(s)</b>	<b>Task Description</b>	<b>Party (ies)</b>	<b>✓</b>
May 16/17, 2007	Authority enter into Binding Agreement	City, GS	

1997 Lease Revenue Bonds – Notices of Mode Change  
and Mandatory Tender

April 10, 2007

(Mandatory Date =  
July 3, 2007)

- ✓ Commitment with Remarketing Agent to purchase all outstanding bond
- ✓ Commitment must be acceptable to MBIA

May 16/17, 2007

Confirm Draft Press Release

City

Week of May 14, 2007  
Week of May 28, 2007

Mail Remarketing Memorandum  
Closing of Remarketing Bonds

OHS, SA  
All Parties

Wednesday, July 18

Mandatory tender and remarketing of bonds  
Expiration of Swap

All Parties

DTC instructed to tender/redeem all outstanding bonds.

CAO	City Attorney's Office	GS	<b>Goldman Sachs – Remarketing Agent</b>	US	US Bank - Trustee
CTO	City Treasurer's Office	City	All Corresponding City Offices	MBIA	MBIA Insurer
AA	Tenant/Owner - Kings Arco Arena	OHS	Orrick, Herrington & Sutcliffe, Bond Counsel		
		SA	Sidley Austin, Underwriter's Counsel		

**ATTACHMENT 3**

**RESOLUTION NO. 2007-**

Adopted by the Sacramento City Financing Authority

**AUTHORIZING THE CITY TREASURER, ACTING AS TREASURER OF THE  
AUTHORITY, TO EXECUTE AND DELIVER A NOTICE OF MODE CHANGE AND A  
NOTICE OF MANDATORY TENDER RELATING TO THE 1997 LEASE REVENUE  
BONDS (ARCO ARENA ACQUISITION)**

**BACKGROUND**

- A. On July 17, 1997, the Sacramento City Financing Authority (the “Authority”) and the City of Sacramento entered into a purchase contract with Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) regarding \$73.725 million in lease revenue bonds for the acquisition of Arco Arena (the “Bonds”).
- B. Initially, the Bonds were structured with a 30-year maturity schedule and a July 15, 2027, final maturity. The Bonds were issued at an interest rate of 6.845%, with a mandatory bond call and remarketing to occur after on July 18, 2007.
- C. Pursuant to section 2.10(a)(i) of the indenture associated with the Bonds, the Authority is required to give written notice to the remarketing agent, insurer, and trustee of the Authority’s intention to change the interest-rate mode on the Bonds.
- D. The Notice of Mode Change must be provided to remarketing agent, insurer, and trustee no later than 90 days before the mandatory tender and remarketing of the Bonds (i.e., on or before April 19, 2007).
- E. The Notice of Mandatory Tender must be provided to the holders of the outstanding Bonds on or before June 18, 2007, informing them of the mandatory tender of the Bonds on July 18, 2007

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

- Section 1. The above recitals are true, and City Council so finds and determines.
- Section 2. The City Treasurer, acting as Treasurer of the Authority, is authorized to execute and deliver a Notice of Mode Change and a Notice of Mandatory Tender to fulfill requirements in section 2.10(a)(i) of the indenture associated with the Bonds. The Notice of Mode Change and the Notice of Mandatory Tender shall be substantially in the forms set forth in Exhibit A and Exhibit B to this resolution, both of which forms are hereby approved.

**Table of Contents:**

Exhibit A – Notice of Mode Change

Exhibit B – Notice of Mandatory Tender

**EXHIBIT A**

**NOTICE OF MODE CHANGE**

City of Sacramento  
City Hall  
915 I Street  
Sacramento, CA 95814  
Attention: City Clerk

Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
World Financial Center - North Tower  
250 Vesey Street, 9th Floor  
New York, NY 10080  
Attention: Short Term Desk

U.S. Bank National Association  
One California Street, Suite 2100  
San Francisco, California 94111  
Attention: Corporate Trust Department

MBIA Insurance Corporation  
113 King Street  
Armonk, New York 10504  
Attention: Insured Portfolio Management -  
Western Region

Re: Sacramento City Financing Authority 1997 Lease Revenue Bonds  
(ARCO Arena Acquisition)

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Ladies and Gentlemen:

In accordance with Section 2.10(a)(i) of the Indenture, dated as of July 1, 1997 (the “Indenture”), between the Sacramento City Financing Authority (the “Authority”) and U.S. Bank National Association, as successor trustee and paying agent (the “Paying Agent”), related to the above-referenced bonds (the “Bonds”), the Authority hereby provides notice of its intention to effect a change in the Mode related to the Bonds on July 18, 2007 from the current Floating Rate Mode to a new Floating Rate Mode with an initial Floating Rate Period of 10 years.

The Paying Agent is hereby requested to provide notice of mandatory tender pursuant to Section 3.09(a) of the Indenture in substantially the form attached hereto as Exhibit A on April 12, 2007, which is more than thirty (30) days prior to the date for mandatory tender of the Bonds, namely, July 18, 2007.

SACRAMENTO CITY FINANCING  
AUTHORITY

By: \_\_\_\_\_  
Thomas P. Friery  
Treasurer

**EXHIBIT B**

**NOTICE OF MANDATORY TENDER FOR PURCHASE  
TO THE OWNERS OF**

**SACRAMENTO CITY FINANCING AUTHORITY  
1997 LEASE REVENUE BONDS  
(ARCO ARENA ACQUISITION)**

CUSIP 785846 BR6

Notice is hereby given pursuant to Section 2.10(a)(i) of the Indenture, dated as of July 1, 1997 (the “Indenture”), between the Sacramento City Financing Authority (the “Authority”) and U.S. Bank National Association, as successor trustee and paying agent, related to the above-referenced bonds (the “Bonds”), that all Bonds are subject to mandatory tender on **July 18, 2007** (the “Mandatory Tender Date”) at a purchase price (the “Purchase Price”) equal to 100% of the principal amount of the Bonds, plus accrued interest thereon to the Mandatory Tender Date.

All Bonds shall be delivered by the Owners to the office of U.S. Bank National Association, as paying agent (the “Paying Agent”) specified below at or before 12:00 noon New York time on the Mandatory Tender Date and payment of the Purchase Price of the Bonds shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on the Mandatory Tender Date.

Notice is hereby further given that interest shall cease to accrue on the Bonds on the Mandatory Tender Date as to the Owners of the Bonds on the Mandatory Tender Date in accordance with the provisions of Section 3.09(a) of the Indenture.

The CUSIP number appearing herein has been included solely for the convenience of the Owners of the Bonds. Neither the Authority nor the Paying Agent shall be responsible for the selection or use of the CUSIP number nor is any representation made as to the correctness of the CUSIP number on any of the Bonds or as indicated herein.

Capitalized terms not otherwise defined herein and used in this notice shall have the meanings given such terms in the Indenture.

The address of the office of the Paying Agent for delivery of Bonds is:

U.S. Bank National Association  
60 Livingston Ave, 2nd Floor  
Attn Specialized Finance  
St Paul, MN 55107

Dated: April 12, 2007.

By: U.S. Bank National Association,  
as Paying Agent