

RESOLUTION NO. 2006-366

Adopted by the Sacramento City Council

May 23, 2006

APPROVING POLICY DIRECTIVES RELATED TO THE OVERSIGHT AND MANAGEMENT OF THE 2006 CAPITAL IMPROVEMENT REVENUE BONDS

BACKGROUND:

- A. The Community Reinvestment Capital Improvement Program (CRCIP) is a policy level decision by City Council to make a major investment in quality of life issues in the community. City Council wanted to also optimize the City's ability to invest in these projects while complying with tax laws. Finally, City Council wanted to optimize the economic benefit in the community in an appropriate time window.
- B. City Council approved a list of projects for inclusion in the 2006 Capital Improvement Revenue Bond (CIRBs) issue and directed the City Treasurer to proceed with financing to provide funds for the acquisition and construction of certain CRCIP municipal projects, some of which will be leased, owned and/or operated by various non-profit organizations. As well as provide funds for Sacramento Housing and Redevelopment Agency (SHRA) project areas and three additional financing projects.
- C. The City Council provided direction to the Treasurer's office to report back with the proposed financing structure to meet the city council's overall project priorities. Staff was also directed to develop policy recommendations regarding; rules of engagement with funding, deliverables, use of funding and critical timing as it relates to bond covenants.

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

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

The Policy Directives as fully described in **Exhibit A** (herein incorporated) will be used as the guiding principles to ensure fiscal responsibility and accountability in the management of the 2006 CIRBs.

Section 1. The City Treasurer's Office will report back to City Council on the availability and programming of investment earnings and the status of projects as they relate to compliance with tax-exempt regulations and Policy Directives.

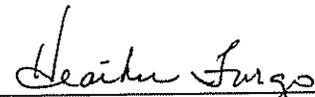
Adopted by the City of Sacramento City Council on May 23, 2006 by the following vote:

Ayes: Councilmembers Cohn, Fong, Hammond, McCarty, Pannell Sheedy,
Tretheway, Waters, and Mayor Fargo.

Noes: None.

Abstain: None.

Absent: None.



Mayor, Heather Fargo

Attest:



Shirley Concolino, City Clerk

**2006 CIRB
CITY COUNCIL POLICY DIRECTIVES
(CRCIP and Loan Program)**

The Community Reinvestment Capital Improvement Program (CRCIP) is a policy decision by City Council to make a major investment in quality of life issues in the community. City Council wanted to also optimize the City's ability to invest in these projects while complying with tax laws. Finally, City Council wanted to optimize the economic benefit in the community in an appropriate time frame. To assure the realization of these objectives it is necessary to establish policies that will accomplish these objectives.

The CRCIP envisioned borrowing \$94+/- million to fund 24 separate Tier I projects for the City and Community non-profit organizations, as well as \$23.4 million for three other City-owned projects. The projects are all in different stages of development. Some projects are "shovel ready," while others require additional funding, and still others have not been sited, completed environmental work, or have construction drawings. Additionally, other projects need additional funding under the

The CRCIP projects, by City Council direction, will be primarily financed with the proceeds of the 2006 CIRB bond sale, not internal City funds. Traditionally, the City uses tax-exempt bonds to finance public improvements. However, the nature and readiness of certain CRCIP projects do not comply with tax-exempt financing regulations (i.e. hedge bonds, arbitrage, private activity), and therefore, those projects require the use of taxable bonds. Taxable bonds generally cost approximately 20% more than tax-exempt bonds.

The City Treasurer's Office has developed a preliminary financing structure based on an assessment of the current project status. However, in addition to current project status, there are future considerations that will subsequently impact the financing structure. In order to determine the final financing structure and comply with City Council's objectives it is necessary to develop Policy Directives. Accomplishing this will ensure optimal use of tax-exempt bonds, while also ensuring City Council's objectives are met. The following are offered as Policy Directives for City Council consideration and adoption.

1. **PROJECT STATUS:** The preliminary financing structure has been based upon current project status and assumes all projects funded with tax-exempt funding will be completed within three years. Failure to comply with this or other tax-exempt financing regulations can result in significant financial liability to the City, including treble damages (for the amount of bonds issued.) Finally, should the identified CRCIP projects not progress in a timely manner, sufficient time must be available to reprogram and expend the tax-exempt bond proceeds and accomplish City Council objectives.

Policy Directive

Preliminary Work: Projects that have not begun preliminary work which may include acquisition, community outreach, environmental, design, etc. within [12] months of July 1, 2006 (anticipated funding availability date), will be reassessed for continued funding or substitution of other projects.

Construction Work: Projects that have not commenced construction within [24] months of July 1, 2006, will be reassessed for continued funding or substitution of other projects.

Projects which are in this category at this time include:

- Animal Shelter Cattery Building*
- Art Rehearsal Space*
- Children's Theater of CA (B Street)*
- Crocker Art Museum Expansion*
- Discovery Museum*
- District Improvement Funding
- District 1 Improvements* - Alkali Flat Boys & Girls Club
- District 1 Improvements* - Stanford Teen Center
- District 2 Improvements*
- District 3 Improvements*
- Fairytale Town*
- George Sim Community Center*
- Indian Heritage Museum
- Intermodal Transportation Facility
- Memorial Auditorium Improvements*
- Neighborhood Park Improvements
- Oak Park Community Center Phase 2*
- Pocket Library*
- Regional Park Improvements*
- Sacramento Unity Center*
- So. Natomas Community Center Improvements*
- Valley Hi-North Laguna Library*

2. **EXTERNAL FUNDING SOURCES:** Several projects, specifically those associated with non-profit organizations, require some form of external funding to complete the identified project. If the external funding is not achieved, it is likely that the project will not be completed. Additionally, if the City bond funds are advanced without assurance that the project will be completed, it is highly unlikely that the City would be repaid and able to reprogram the proceeds for another project.

* Denotes in more than one Policy Directive Category

Policy Directive

City bond funds will not be advanced until such time that [50%] of the needed external funding is achieved.

Projects which are in this category at this time include.

- Arts Rehearsal Space*
- Children's Theatre of CA (B Street Theatre)*
- Crocker Art Museum Expansion*
- District 1 Improvements* (Alkali Flat, Teen Center, Charter School)
- Sacramento Unity Center*

3. **GRANT FUNDS:** Tax-exempt or taxable bond proceeds may be granted to non-profit organizations. Federal requirements on the use of tax-exempt bond proceeds can be eliminated thru the use of a grant. From a tax perspective the funds are considered expended at the time the grant is made. However, absent some form of agreement, from a policy perspective there can be no assurance that the funds would be used for the desired project.

Policy Directive

Agreements or MOUs with grantee organizations should be put in place to ensure project objectives will be met before funding is awarded.

Projects which are in this category at this time include:

- Arts Rehearsal Space* – see General Fund Loan Directive
- Children's Theatre of CA (B Street Theatre)*- e.g. located within City limits, External Funding in place
- Crocker Art Museum Expansion* – see General Fund Loan Directive
- Discovery Museum* – e.g. City owned unrestricted use
- District 1 Improvements* (Alkali Flat, Teen Center, Charter School) – e.g. Policy Directive regarding External Funding
- Fairytale Town* – e.g. City owned unrestricted use
- Sacramento Unity Center* – e.g. Policy Directive regarding External Funding
- Sacramento Zoo* – e.g. City owned unrestricted use

4. **GENERAL FUND LOANS:** In addition to the CRCIP, City Council authorized General Fund loans to three City related projects, two of which have non-profit affiliation. These loans while separate from the CRCIP are included in the overall City financing.

Policy Directive

Loan or Development Agreements with grantee organizations must be put in place prior to award of funding.

Projects which are in this category at this time include:

- Art Rehearsal Space* – e.g. Policy Directive regarding External Funding in-lieu of deferment of TIs
- Crocker Art Museum Expansion* – e.g. \$20 million associated with Lot X
- Haggin Oaks Development Site – e.g. Development Agreement in place

5. **CONTINGENCY:** The CRCIP includes a contingency of approximately \$11 million that is associated with 12 of the 28 Tier I projects. The contingency approximates 17% of these projects. Council has previously indicated that any use of the contingency should return to City Council for approval. As a result of interest rate increases that have occurred since City Council approval of the program there presently are not sufficient project funds to fully fund all Tier I projects and the anticipated \$11 million contingency. The Tier I project funds could be maintained through a prudent reduction in the contingency.

Policy Directive

Contingency is earmarked for Tier I construction projects and should not be reprogrammed to Tier II or other projects until assurance can be made that all Tier I projects have sufficient funding to be completed, and the contingency can be reduced at the time of bond sale of an amount not less than 12% of the Tier I projects that have a contingency, if such reduction is necessary to maintain project funds for all Tier I projects originally approved by City Council. City Council must approve all use of contingency

Projects which are in this category at this time include:

- Animal Shelter Cattery Building*
- Art Rehearsal Space*
- District 2 Improvements*
- District 3 Improvements*
- George Sim Community Center*
- Memorial Auditorium Improvements*
- Oak Park Community Center Phase 2*
- Pocket Library*
- Regional Park Improvements*
- Sierra 2 Restroom & Access Improvements
- So. Natomas Community Center Imp*
- Valley Hi-North Laguna Library*

6. **BOND PROCEEDS MANAGEMENT:** The CRCIP projects have been gross funded and not net funded as is customary for City financings. Therefore, the investment earnings pending expenditure of fund balance are not integral to meeting the objectives of the CRCIP. There is no time limit on the expenditure of investment income earned on taxable bond proceeds, whereas, the expenditure of investment earnings from tax-exempt must comply with federal regulations. Therefore, the investment income should be reported to City Council periodically for programming (as opposed to

EXHIBIT A
To Policy Directive

accumulating in the fund balance). Additionally, because of federal regulations on tax-exempt bond proceeds, routine reporting should be made to City Council.

Policy Directive

The City Treasurer's Office will report back to City Council [semi-annually] on the availability and programming of investment earnings and the status of projects as they relate to compliance with tax-exempt regulations and Policy Directives; and City Council authorize the use of investment earnings from the 2006 CIRB (excluding the SHRA component) unspent lease revenue bond funds to restore all Tier I projects should interest rates increase prior to the bond issue and a reduction in contingency funds previously described not be sufficient to offset the loss of project funds due to potential interest rate increases.

Policy Directives will assist the City Treasurer's Office to structure the CRCIP bonds to meet City Council objectives, manage the bond proceeds in compliance with federal regulations, and provide periodic report backs to City Council on program status.

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