Title: Approval of a Waiver of Conversion Notice and Other Actions Needed to Redeem the Outstanding 1997 Lease Revenue Bonds (ARCO Arena Acquisition)

Location: District 1

Recommendation: Pass a Motion authorizing the City Treasurer, as City Treasurer and as Treasurer of the Sacramento City Financing Authority, to sign and approve a waiver-of-conversion notice and to take such other actions as are needed to redeem and cancel the outstanding 1997 Lease Revenue Bonds (ARCO Arena Acquisition).

Contact: Brian Wong, Debt Manager, (916) 808-5811; Colin Bettis, Senior Debt Analyst, (916) 808-8292, Office of the City Treasurer

Presenter: None

Attachments:
1-Description/Analysis
2-Waiver of Conversion Notice (signed by the Kings Arena Limited Partnership)
Description/Analysis

Issue Detail: The 1997 Lease Revenue Bonds (ARCO Arena Acquisition) (the “Bonds”) were most recently remarketed on July 19, 2017, with a mandatory tender date of January 22, 2019. On that date, the issuer of the Bonds—Sacramento City Financing Authority (“SCFA”)—must either (1) remarket the Bonds once more, thereby converting them to a new interest-rate mode; or (2) redeem the Bonds by paying all outstanding principal and any accrued interest. For redemption to occur, the Kings Arena Limited Partnership (“KALP”) would have to provide SCFA with the necessary funds. The trustee under the indenture for the Bonds (the “Trustee”) would then use the funds to pay to Bank of America, N.A., as the sole holder of the Bonds (the “Holder”), the outstanding principal and accrued interest.

KALP has confirmed in writing that it will provide SCFA with the funds needed for redemption by January 22, 2019. Accordingly, the Bonds will not be remarked on that date and converted to a new interest-rate mode but instead will be redeemed and cancelled.

To accomplish the redemption, however, SCFA must first address a procedural technicality. Section 20.06 of the third supplemental indenture sets out the rules that apply to the mandatory tender of the Bonds on January 22, 2019. Among other things, it requires SCFA to enter into a contract to remarket the Bonds at a new interest-rate mode on that date. It also requires that SCFA decide on the new interest-rate mode and notify the Trustee (as the Holder’s representative) about the new mode no later than October 24, 2018. But because the Bonds will be redeemed rather than tendered and remarked, SCFA did not satisfy this notice requirement. So section 20.06 now requires that SCFA, the City, KALP, the Holder, and the Trustee agree in writing to waive it. SCFA must also take other actions to complete the prepayment and cancel the outstanding Bonds.

Policy Considerations: Not applicable.

Economic Impacts: Not applicable.

Environmental Considerations: Not applicable.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Approval of the recommended motion will authorize the City Treasurer, acting as such and as SCFA’s treasurer, to sign the Waiver of Conversion Notice
and proceed with the prepayment and cancellation of the Bonds. As noted, the funds for the prepayment will come from KALP.

Financial Considerations: As part of the financing structure for the Bonds, in 1997 the City and SCFA entered into several leases covering ARCO Arena (now Sleep Train Arena), including a Facility Lease under which SCFA is the landlord and the City the tenant. Cancellation of the Bonds will release the City from its obligation to pay to SCFA, from the General Fund, the base rental payments owed under the Facility Lease.

Local Business Enterprise (LBE): Not applicable.

Background: SCFA issued the Bonds on July 31, 1997, in the principal amount of $73,725,000. Under an indenture dated July 1, 1997, the Bonds were and are payable from SCFA’s revenues, primarily consisting of the City’s base rental payments under the Facility Lease. Funding for the base rental payments is solely from the rent KALP pays the City under a sublease of ARCO Arena. KALP has continued to pay that rent in a timely manner even though the arena has not been used for NBA basketball since the opening of Golden 1 Center.
WAIVER OF CONVERSION NOTICE

TO: U.S. Bank National Association, as Trustee under the Indenture (as defined below)

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

The undersigned authorized representatives of the City of Sacramento (the “City”), the Sacramento City Financing Authority (the “Authority”), and the Kings Arena Limited Partnership (“KALP”) hereby certify as follows:

1. The above-referenced bonds (the “Bonds”) are subject to mandatory tender on January 22, 2019 (the “Mandatory Tender Date”).

2. The City and KALP are landlord and tenant, respectively, under a sublease dated as of July 1, 1997, that is related to the Bonds (the “Sublease”). A representative of KALP has notified the City that KALP intends to prepay all amounts due under the Sublease before the Mandatory Tender Date (the “Prepayment”).

3. As a result of the Prepayment, the Bonds will not be converted to a new Mode on the Mandatory Tender Date. Instead, the Prepayment will be used to pay the purchase price of the Bonds to Bank of America, N.A., as holder of 100% of the outstanding principal amount of the Bonds (the “Holder”) on the Mandatory Tender Date. Upon receipt of the purchase price of the Bonds, the Holder agrees to deliver the Bonds to the Trustee (as defined in Paragraph 4 below), and the Trustee is hereby instructed to promptly, in the normal course, thereafter cancel the Bonds.

4. The Authority and U.S. Bank National Association, as trustee (the “Trustee”), are parties to an Indenture dated as of July 1, 1997, as amended by a First Supplemental Indenture dated as of July 1, 2007, a Second Supplemental Indenture dated as of June 1, 2017, and a Third Supplemental Indenture dated as of July 1, 2017 (collectively, the “Indenture”). Because the Bonds will not be converted to a new Mode, but instead will be prepaid and cancelled, the undersigned agree that the requirements of the Indenture related to conversion of the Bonds to a new Mode are not applicable and are hereby waived.

5. To facilitate the payment of the purchase price of the Bonds to the Holder on the Mandatory Tender Date, KALP agrees to pay the following to the City not later than January 18, 2019: (a) the purchase price of the Bonds to the Trustee; and (b) related expenses, including legal fees of bond counsel to the City and the Authority, legal fees of counsel to the Holder, and fees and expenses of the Trustee and its counsel. The Holder agrees to provide KALP and the Trustee with the amount of the purchase price of the Bonds on the Mandatory Tender Date not later than January 7, 2019, and the City agrees to provide KALP with the amount of the related expenses not later than January 7, 2019.

6. The Authority, the City, and the Trustee agree to take any reasonable actions requested by KALP, at the expense of KALP, (a) to transfer the land underlying the ARCO Arena (and all improvements to the land at the time of transfer) to KALP and (b) to remove the financing leases (and all other liens in favor of the City, the Trustee, the Authority, the Trustee or the Holder, related in any way to the Bonds or the Indenture) from the real property (and from all official records relating to the real property) subject to the Sublease once the Bonds have been cancelled and the related expenses described in Paragraph 5(b) above have been paid by KALP to the City.
7. The parties may sign this Waiver of Conversion Notice in counterparts, each of which will be considered an original, but all of which will constitute the same document. Delivery of signed counterparts may be accomplished by email transmission of pdf files.

(Signature Pages Follow)
Capitalized terms not otherwise defined herein and used in this waiver have the meanings given them in the Indenture.

Dated: December __, 2018

SACRAMENTO CITY FINANCING AUTHORITY

By: 

John P. Colville, Jr.
Treasurer

CITY OF SACRAMENTO

By: 

John P. Colville, Jr.
City Treasurer

KINGS ARENA LIMITED PARTNERSHIP,
a California limited partnership

By: 

President of Business Operations
ACKNOWLEDGED AND ACCEPTED:

BANK OF AMERICA, N.A.

By: ____________________________
    Nancy D. Nuerenberg,
    Senior Vice President

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: ____________________________
    Authorized Officer