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DEPARTMENT OF
FINANCE

BETTY MASUOKA
DIRECTOR

CITY OF SACRAMENTO
CALIFORNIA

April 4, 1990

CITY HALL
ROOM 14
915 I STREET
SACRAMENTO, CA
95814-2685

916-449-5736

Transportation and Community Development Committee and
Budget and Finance Committee
Sacramento, California

DIVISIONS:
ACCOUNTING
BUDGET
REVENUE
RISK MANAGEMENT

Honorable Members in Session:

SUBJECT: Use of Certificates of Participation (COP) Proceeds for
Flood Control

SUMMARY

The attached report which was submitted by Sacramento Area Flood Control Agency (SAFCA) recommends that the City Council, by resolution, authorize the City Manager and City Treasurer to negotiate and execute with the Sacramento Area Flood Control Agency a loan for a maximum value of \$10,000,000. The proceeds from this loan are to be used for the Sacramento Urban Area Levee Reconstruction Project and other administrative expenses related to the implementation of 200-year Flood protection.

RECOMMENDATION

It is recommended that the Joint Transportation and Community Development and Budget and Finance Committee review and recommend acceptance of the attached report and adoption of the Resolution by full Council.

Respectfully submitted,

Betty Masuoka

BETTY MASUOKA
Director of Finance

RECOMMENDATION APPROVED:

Solon Wisham, Jr.

SOLON WISHAM, JR.
Assistant City Manager

All Districts
April 10, 1990

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

A RESOLUTION AUTHORIZING A \$10,000,000 LOAN TO THE SACRAMENTO AREA FLOOD CONTROL AGENCY

WHEREAS, the City Council finds that 200-year Flood Protection for the region is critical to the health and welfare of all City residents; and

WHEREAS, State legislation to assure a financing mechanism for 200-year flood protection is currently in the process; and

WHEREAS, it is important that all City residents be treated fairly and equally in terms of paying for 200-year flood protection;

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

1. The City Manager and the City Treasurer are hereby directed to negotiate and execute with the Sacramento Area Flood Control Agency a loan for a maximum value of \$10,000,000. The proceeds from this loan are to be used for the Sacramento Urban Area Levee Reconstruction Project and other administrative expenses related to the implementation of 200-year flood protection.
2. The Director of Finance is hereby authorized to appropriate \$10,000,000 from the proceeds of the 1989 Certificate of Participation for the reason stated above in Item No. 1.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.:

SACRAMENTO AREA FLOOD CONTROL AGENCY

Agenda Date: April 10, 1990

City Council
Sacramento, California

Honorable Members in Session

SUBJECT: USE OF CERTIFICATES OF PARTICIPATION (COP) PROCEEDS FOR FLOOD CONTROL

SUMMARY:

The Sacramento Urban Area Levee Reconstruction Project involves levee stabilization work on approximately 32 of the 110 miles of levees around the Sacramento Area. The project includes South Sacramento, Natomas and West Sacramento. The Sacramento Area Flood Control Agency (SAFCA) has been responsible for coordinating the planning and financing of the project for the local governmental entities. The levee reconstruction project will help prevent a sudden and devastating failure of the levee system that protects most of the City of Sacramento.

At the present time, a financing plan has been put in place which will raise the necessary local funds for the project. This plan involves the City of Sacramento, the County of Sacramento, and the American River Flood Control District temporarily bearing the costs for the property owners outside of Natomas since there is no assessment mechanism in place at the present time. These funds will be paid back when SAFCA receives the authority to levy assessments from the State of California and when an assessment is approved for the area. For the Natomas area, however, it is planned that RD1000 would form an assessment district immediately and levy an assessment in order to raise the necessary local funds. In the meantime SAFCA has issued a note in order to raise the cash necessary to proceed with the project now.

Resulting from a request from the City Council, we investigated the feasibility and desirability of using a portion of the proceeds from the City's Certificates of Participation (COP) funds in order to develop a better financing plan for the levee stabilization project as well as funding other flood control activities now planned by SAFCA.

After considerable research and discussion, the staff recommends that a portion (\$10 million) of the City's COP proceeds be made available as a loan to SAFCA for use in financing the local share of the Sacramento Urban Area Levee Reconstruction Project. The approval of this recommendation will result in RD1000's abandoning their assessment proceedings and delaying the assessment for flood control for the Natomas property owners until such time as the overall assessment district is approved by SAFCA. This would give the Natomas property owners the same status as everyone else in the City and County.

BACKGROUND:

Project Description:

The Sacramento Urban Area Levee Reconstruction Project is the critical first step toward the City's goal of obtaining the 200-year level of flood protection for the Sacramento area. During the environmental review process for the Land Use Policy the City Council made the finding that the risk of a sudden and devastating failure of the levee system was too great to permit additional residential buildings to be constructed in the Natomas area until such time as the levees along the Sacramento River were stabilized.

The levee system on the east side of the Sacramento River from the Cross Canal in Sutter County to the town of Freeport protect the lives and properties of the residents of the City of Sacramento regardless of jurisdictional boundaries. Figure 1 illustrates the potential flood area based on a levee failure within the project area and shows that most of the inundation is within the City boundaries. In reviewing the flood plain, the staff estimates that 90-95% of the urbanized area that is protected by the levee reconstruction project is within the City. In addition, a major developed area outside of the City boundaries that benefits the City is Metropolitan Airport. In this regard, the preliminary assessment engineering work for the Reclamation District No. 1000 (RD1000) indicates that for the RD1000 area which includes considerable acreage outside of City boundaries, the benefits to properties within the City boundaries is about 70-80% of the total. Of the remaining 20-30%, about 12% of project benefits is attributable to property owned by Metropolitan Airport.

Figure 2 illustrates the location of the levees that have been identified to be structurally deficient and that are part of the Sacramento Urban Area Levee Reconstruction Project. Engineering studies conducted by the U.S. Corps of Engineers, City Public Works and Reclamation District No. 1000 have shown the devastating potential of flooding for City residents if levee failure occurs on the east side of the Sacramento River.

Financing Background:

The Sacramento Area Flood Control Agency (SAFCA) was created in October 1989 by an joint exercise of powers agreement entered into by the City of Sacramento, the County of Sacramento/Water Agency, the County of Sutter/Water Agency, Reclamation District No. 1000 (RD1000), and the American River Flood Control District (ARFCD). SAFCA's primary tasks are the planning and financing of flood control projects that involve its member entities. SAFCA's role was evident in identifying the desired project for upstream storage (i.e. the expandable flood control dam at Auburn). For the

Sacramento Urban Area Levee Reconstruction Project, SAFCA did not exist when the State, the local sponsor of the project, requested local participation. Consequently, the City, County, RD1000 and ARFCD committed to participate in the project, as a result of SAFCA's predecessor Agency, the Sacramento Metropolitan Flood Protection Task Force, coordinating this effort.

The Sacramento Urban Area Levee Reconstruction Project is financed by the Federal government, the State and local governmental entities. For the east side portion of the project, the City, the County, RD1000 and ARFCD have presently committed to temporarily finance the local share. The four entities' committed to fund the project until such time as SAFCA had the ability to repay. In essence, the funds are being "loaned" to SAFCA. SAFCA will repay the loans when it receives assessment authority from the State of California and forms an assessment district.

In the 1989-90 Final Budget, the City Council approved funds earmarked for the levee reconstruction project. On September 5, 1989 and January 23, 1990, the City Council authorized the Mayor to sign the Sacramento Urban Area Levee Reconstruction Project Local Cost Sharing Agreement which commits the City to fund the City's portion of the project outside Natomas.

Similarly, the County and ARFCD have proceeded to commit funds for the portion of the project outside Natomas. At this point, it is important to emphasize that since there is no assessment mechanism for the area outside Natomas, the funds that have been committed by the City, the County, and ARFCD will not be repaid until such time as SAFCA obtains its assessment authority and is able to levy an assessment to benefitted property owners thereby generating the necessary funds to repay these loans.

With respect to the Natomas area, RD1000 committed to fund that portion of the project since it has the responsibility for maintaining and rehabilitating the levees around the Natomas area. However, as you are aware, the District has had the most difficult assignment since the largest portion of the local costs were assigned to this area resulting from the high property acquisition costs and because they were asked to finance a portion of the State costs which were not in the State's approved budget.

Consequently, during the last part of 1989, RD1000 began proceedings to form an assessment district using the 1913 Municipal Improvement Act and 1915 Municipal Bond Act. Authority was granted by Sacramento City and County and Sutter County for RD1000 to undertake these proceedings on November 21, 1989.

The proposed assessment district raised considerable questions of equity from Natomas residents. Therefore, the RD1000 Board of Trustees elected to postpone the proceeding until the assessment engineer had sufficient time to review the assessment methodology. The next public hearing has been set for May 18, 1990. However, given noticing requirements, community meetings, etc. a decision must be made by mid-April regarding whether or not RD1000 should proceed with the assessment district formation.

With RD1000's failure to form an assessment district by December 31, 1989, SAFCA issued the \$11,000,000 1990 Notes on February 1, 1990. The 1990 Notes (commonly referred to as the bridge loan) is an unsecured one year loan due on February 1, 1991. The bridge loan was designed to "bridge" the gap between the time funds were needed for property acquisition to the time RD1000 is able to form an assessment district. If RD1000 is unsuccessful in forming an assessment district, SAFCA would either have to form an assessment district or roll the loan over for an additional year. The current plan calls for SAFCA to "roll over" or renegotiate the loan for another year when it becomes due in 1991.

Equity Concerns:

During the RD1000 assessment district hearings, questions of equity were raised. In particular, concerns were expressed about the benefits that the developers were receiving; namely, (1) flood protection enabling additional development; and, (2) assessment procedures which freeze the amount assessed and which cannot be increased in the future when entitlements are granted for urbanization. In addition, the Natomas residents expressed concerns about the fact that residents outside Natomas were receiving a benefit by having their assessments delayed until SAFCA received assessment authority, formed a district, and levied an assessment. Questions arose as to why the Natomas residents should be treated differently from those in the rest of the City. No amount of explanation regarding legal ability, the extent of the Natomas costs, etc. has been satisfactory. It appears to be, and probably is a basic equity issue.

These types of questions and concerns are the reasons that the parent entities created SAFCA. The parent entities, particularly the City and County recognized the need for a single agency to plan and finance the flood control projects needed to obtain a 200 year or greater level of protection. SAFCA's responsibility is to finance the major flood control projects for the metropolitan area. As described previously, the funds that the City, County, ARFCD and RD1000 committed for the levee reconstruction project are being treated as a loan to SAFCA. By treating these cash advances as loans, SAFCA will be able to assess the residents as equitably as possible. This will help eliminate the

concerns of RD1000 and City residents that they are being treated differently than other City residents. Likewise, City residents living within ARFCD boundaries will be treated similarly to those living in Natomas or in the Pocket area.

The allegations that the Natomas developers are benefitting disproportionately from this project is, we suppose, a matter of perspective. Of course, this project will enable development to proceed in accordance with the City Council's adopted Community Plan. However, more importantly the lives and property of thousands of residents and business owners will gain significant protection from flooding. Moreover, if the proposal for the City to loan SAFCA \$10 million is approved, the benefit assessment will be postponed which will enable SAFCA to obtain appropriate legislation to address the question of assessing future development as well as spreading the assessment on a more equitable basis. We believe SAFCA will ultimately have better tools with which to address the issue. For example, the current draft of SAFCA's legislation provides for the imposition of development fees as well as assessments which could be used to retire the debt for this flood control project. In any event, we believe that this loan would provide the time to secure the special legislation as well as develop a more equitable revenue package to offset the costs for flood control.

FINANCIAL DATA:

After reviewing SAFCA's financing requirements, it appears that the most equitable method of financing flood control improvements is to request the City to loan \$10,000,000 from the COP proceeds for about a three year period beginning February 1, 1991. The City loan will be used (1) to fund the Sacramento Urban Area Levee Reconstruction project and related costs and (2) to help repay the \$11,000,000 SAFCA 1990 Notes ("bridge loan") which are due and payable on February 1, 1991. The total amount of the bridge loan will not be needed because of anticipated unused proceeds.

The Plan:

The COP proceeds totaling \$10,000,000 will be made available to SAFCA as a loan for a three (3) year period, beginning on February 1, 1991. These funds will be used for the local share and related expenses of the Sacramento Urban Area Levee Reconstruction Project. SAFCA will repay the total amount of the loan during 1993 when SAFCA forms an assessment district and when the debt is issued for the levee reconstruction project and for the American River Watershed project (including the raising of certain levees around Natomas and the construction of an expandable dam at Auburn).

Project Costs:

<u>DESCRIPTION</u>	<u>ESTIMATE</u>
Natomas	
Project costs	\$ 4,214,000
Incidentals	\$ 1,919,000
South Sacramento	
City	\$ 596,000
ARFCD	\$ 224,000
County	\$ 149,000
Capitalized interest (1 year)	\$ 720,000
Other potential non-federal costs	\$ 2,000,000
Contingency	<u>\$ 178,000</u>
 TOTAL REQUIREMENTS	 \$10,000,000

Repayment Agreement:

SAFCA will capitalize the interest for the first year and establish an Operation and Maintenance (O&M) assessment rate sufficient to cover administrative and interest payments for 1992 and 1993. It is assumed that the City will charge SAFCA only interest during the period of the loan. The annual interest payments would range from \$707,000 to \$720,000 depending upon the interest rate the City elects to charge.

The following shows the funding sources for the interest payment:

1. 2/91-12/91--Capitalized Interest (from loan proceeds)
2. 1/92-12/92--SAFCA O&M Assessments
3. 1/93-12/93--SAFCA O&M Assessments

Benefits:

In evaluating the potential use of the City's COP proceeds for flood control, we determined the following benefits of the Loan:

1. Assurances that the SAFCA Notes do not default.

2. Elimination of the need for RD1000 to form an assessment district.
3. Postponement of the assessment for the residents of Natomas, thereby giving them the same status as those residents outside Natomas.
4. Maintenance of the project costs as an obligation of SAFCA and its parent entities.
5. Relief of immediate pressure and granting of time to SAFCA to obtain special legislation which should provide greater flexibility to develop a fairer revenue package for flood control.

Potential Issues/Risks:

The following identifies the potential issues/risks that the City Council must consider:

1. SAFCA's ability to form an assessment district, levy assessments, and generate funds to repay this loan is dependent upon State legislation.
2. In the event that SAFCA is unable to obtain legislation in 1990, SAFCA will not be able to make an interest payment in 1992. Should this occur, SAFCA would default on their loan to the City, and the City would be obligated to consider the use of its storm drainage fees for repayment of the COP debt. In the event that storm drainage fees were used to provide the repayment of the loan, the annual debt service would be \$1,073,000 annually or about 8% increase in storm drainage fees. We estimate that this would amount to about \$1.00 per month on the current revenue base.
3. The formation of a SAFCA Flood Control Assessment District is planned for 1993. Staff believes that it will be beneficial to combine the major projects (i.e. levee reconstruction, raising of the Natomas levees and the flood control dam at Auburn). As mentioned above, if SAFCA does receive assessment authority this year, we would plan to levy an administrative assessment so that SAFCA would begin to repay its member entities.

Alternative:

In addition to the plan described above, we considered the possibility of a direct City contribution to the levee project. This alternative was rejected for the following reasons:

1. City contributions can only be used for that which benefits the City.
2. City contributions for the City's portion of the project does not avoid the need to form an assessment district by RD1000 within Sacramento and Sutter Counties boundaries.
3. City contributions do not provide for repayment of the non-City portion of the bridge loan.
4. City contributions may be viewed as a subsidy to developers, because the burden of the current assessment would only be lifted from a portion of the land owners in the Natomas area.

POLICY IMPLICATIONS:

On May 5, 1987, the City Council adopted Resolution No. 87-346 which identified its desired to obtain a minimum of 200-year level of flood protection and supported a flood control project on the American River which could be constructed within the shortest possible time. The actions recommended are consistent with this policy direction.

MBE/WBE:

Not applicable.

RECOMMENDATIONS:

It is recommended that the attached resolution be adopted approving the concept of a \$10,000,000 City loan to the Sacramento Area Flood Control Agency and that staff be directed to negotiate and report back with a repayment agreement and/or other appropriate documents. If staff recommendations are approved by the City Council, the plan will be scheduled for approval by the SAFCA Board of Directors and RD1000 Board of Trustees.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

Approval Recommended

Walter J. Slipe
WALTER J. SLIPE
City Manager

CONTACT PERSONS:

Betty Masuoka
Director of Finance
449-5736

Satoshi Matsuda
Director of Administration
440-7606

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RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

A RESOLUTION AUTHORIZING A \$10,000,000 LOAN TO THE SACRAMENTO AREA FLOOD CONTROL AGENCY

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MAYOR

ATTEST:


CITY CLERK

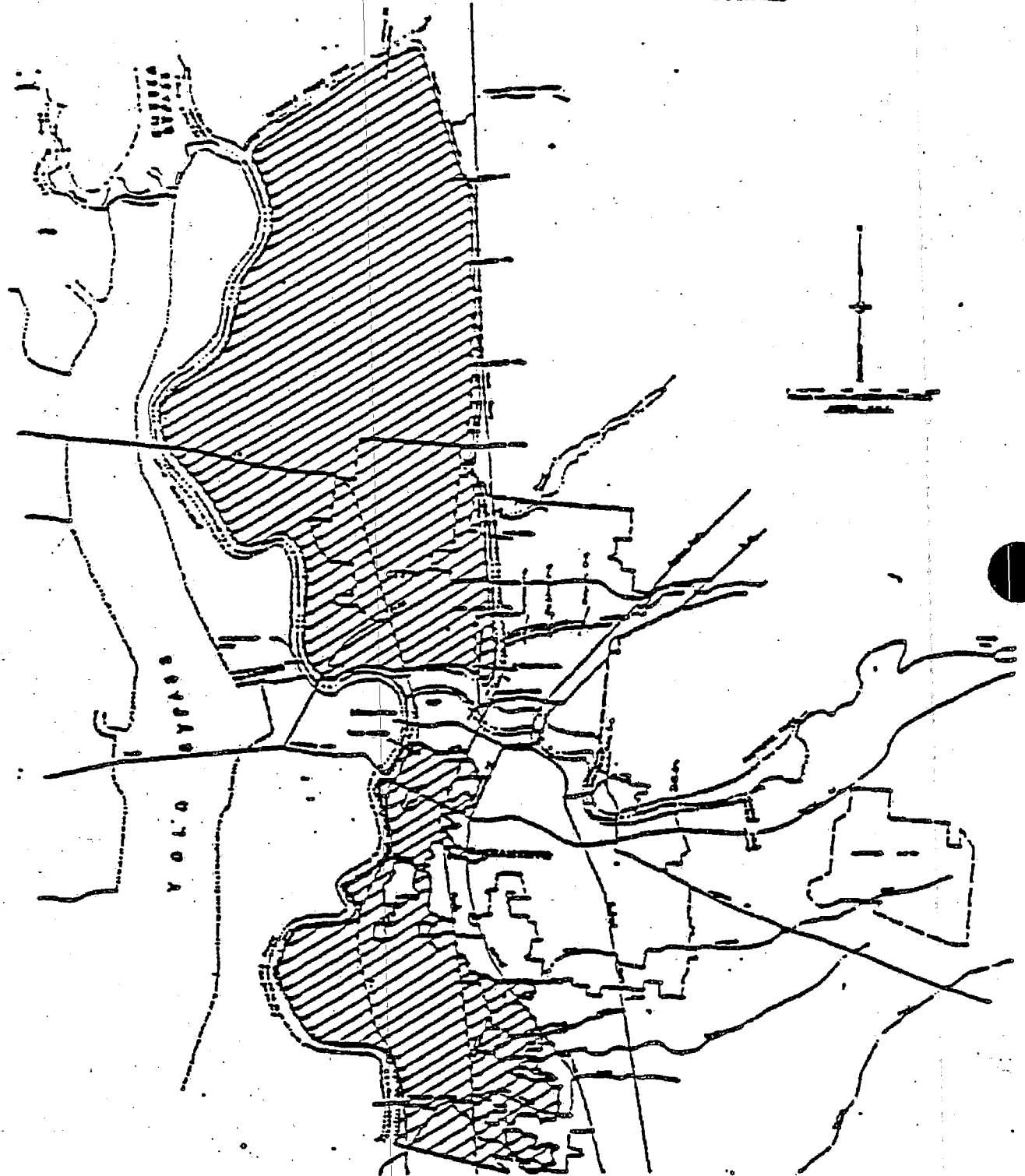
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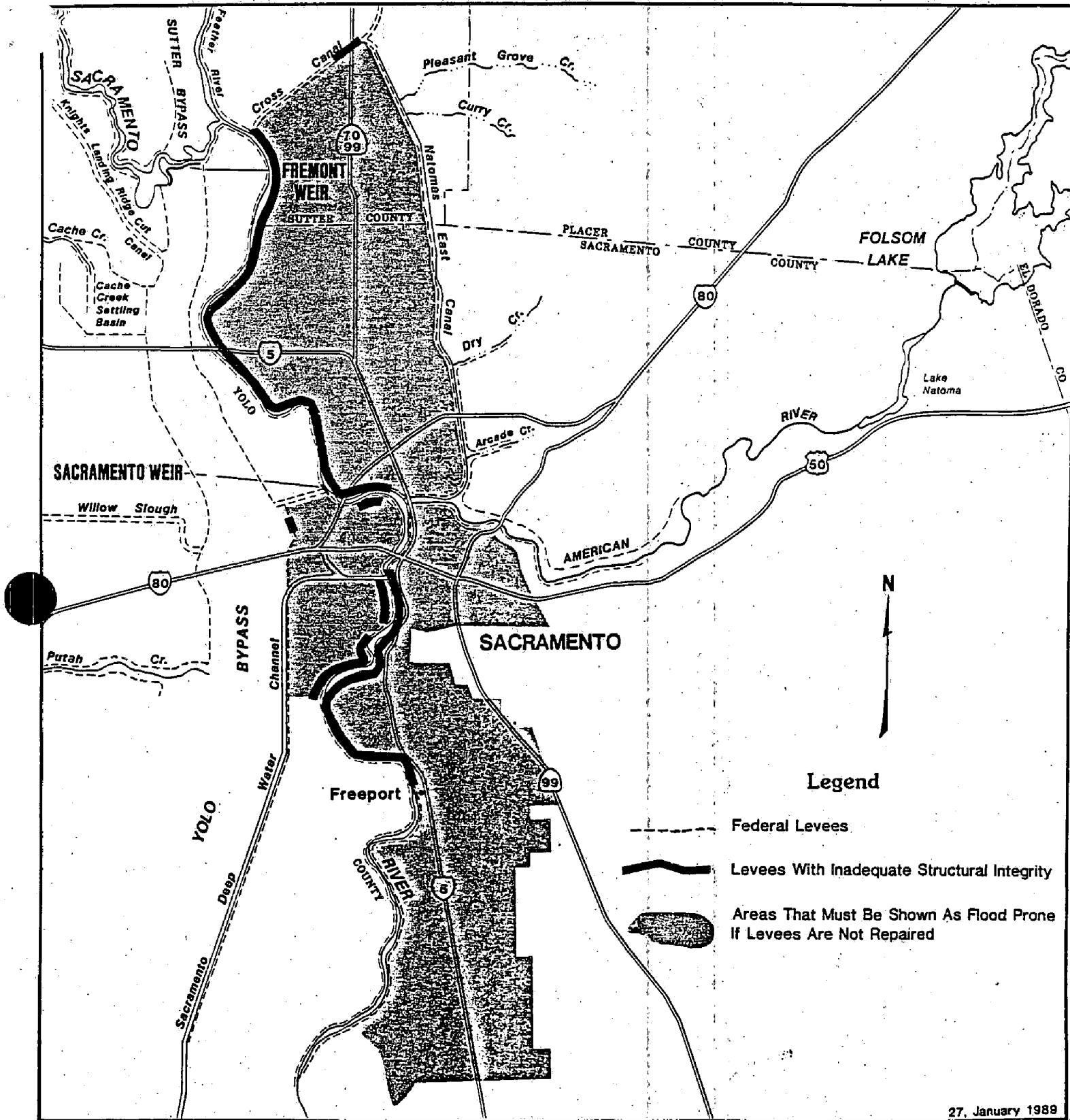
RESOLUTION NO.: _____

FIGURE 1

LEGEND

 SACRAMENTO RIVER FLOOD DAMAGE
WHERE REMEDIAL LEVEE REPAIRS
REQUIRED





27, January 1989

STRUCTURALLY DEFICIENT LEVEES