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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 109
915 I STREET
SACRAMENTO, CA
95814-2684

December 3, 1986
BA:86209:EM:KMF

916-449-5704

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Allocation of the 1986 Certificate of Participation
Contingency

SUMMARY

The attached informational report identifies the proposed allocation plan for the Certificate of Participation contingency reserve. Specific requests to augment the stated projects will be provided in separate reports.

RECOMMENDATION

This report is for Committee information only.

Respectfully submitted,

BETTY MASUOKA
Budget Officer

Attachment

APPROVED FOR COMMITTEE INFORMATION:

All Districts
December 9, 1986

JACK R. CRIST
Director of Finance



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December 2, 1986
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City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Allocation of the 1986 Certificate of Participation
Contingency

SUMMARY

As a part of the \$14.5 million Certificate of Participation issued in July, 1986, a \$732,854 contingency reserve was established. This amount was included in the borrowing as assurance to the bondholders that the City could complete the projects being financed.

This report recommends that the reserve be divided between three of the five financed projects and that a procedure be adopted for approving any expenditures from the reserve. This report was heard by the Budget and Finance Committee on December 9, 1986.

BACKGROUND

In July, 1986, a \$14.5 million Certificate of Participation (COP) was issued to finance five projects. As many projects as feasible were bundled together in the one issue in order to take advantage of favorable interest rates and to avoid the limitations anticipated from the federal tax reform legislation. The distribution of the \$14.5 million was as follows:

1986 CERTIFICATE OF PARTICIPATION
USE OF FUNDS

Project Acquisition & Construction Costs

o Local Government Financial System	\$2,593,522	
o Public Safety Communications	2,929,575	
o Stockton Boulevard Library	1,800,000	
o Fire Station #11	1,100,000	
o 90-Gallon Containers	1,470,000	
	<u> </u>	\$9,893,097
Contingency		732,854
Funded Interest (Incl. accrued interest)	2,029,687	
Less: Investment Interest Income	(748,208)	
	<u> </u>	1,281,479
Reserve Fund		2,121,600
Underwriters Discount		345,402
Costs of Issuance		115,568
		<u> </u>
Total		<u><u>\$14,490,000</u></u>

The \$9,893,097 in the acquisition/construction line is currently held by the trustee but available to the City to spend on the stated projects. The funded interest amount (\$2,029,687) and the Reserve Fund (\$2,121,600) are held by the trustee but not available for expenditure for project purposes. The anticipated interest earnings from amounts remaining in the acquisition/construction fund plus the funded interest and reserve fund will be put into the construction/acquisition contingency as it is earned. The transfer of earned interest into the construction/acquisition contingency fund will be made semi-annually in January and July. The January 1987 transfer is currently estimated to be in excess of \$100,000. The City Treasurer will provide a quarterly update on interest earnings so project managers can remain apprised on the availability of contingency funds.

The contingency amount (\$732,854) was included in the financing as an additional assurance that the financed projects could be completed. At the time of the financing a couple of the projects were still in preliminary design stages and therefore at risk for unanticipated cost increases. Therefore, staff and the financial consultant agreed that a prudent reserve be included in the financing to cover any of the projects

which might need it. Staff now proposes that the reserve be allocated between those projects which actually need it, thereby giving the project managers a "bottomline" within which to work, and to ensure that the contingency amounts are utilized, if needed, within the required 36-month period.

The Budget Office has reviewed each of the projects with their respective managers and has confirmed that they are currently on schedule and with the exception of the Library project generally within budget. The Stockton Boulevard Library, which is not scheduled for completion until September, 1988 was originally budgeted at \$1.8 million. The current estimate is now \$2.047 million. The increase was a result of discovering an abandoned underground storage tank which must be removed and the addition of off-site preparation costs and total furnishings within the scope of the project. The two projects which could benefit from enhancements are the Local Government Financial System and the Public Safety Communication Equipment. Although both projects can be completed within the original stated budget, certain upgrades in equipment may prolong the useful life of the systems. The two remaining projects, Fire Station #11 and the 90-Gallon containers are not in need of additional funding.

Based on degree of project completion and potential need, the following contingency distribution is recommended:

CONTINGENCY ALLOCATION

Local Government Financial System	\$200,000
Public Safety Communication Equipment	250,000
Stockton Boulevard Library	282,854
	<hr/>
	\$732,854
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The above contingency amounts will not be appropriated to the specific projects until such time as the City Treasurer verifies the interest earnings are available and the managing departments actually request City Council approval for the transfer. Such requests will include specific justification. The contingency amounts must be spent within 36 months from the date of issue (July 1989). If not required during that period, the project contingency can then be used to call bonds thereby reducing future debt service.

FINANCIAL

This report has no net financial impact.

RECOMMENDATION

This report is for information only. The actual requests to augment any of the three identified projects will be submitted in separate reports.

Respectfully submitted,

Betty Masuoka

BETTY MASUOKA
Budget Officer

APPROVED FOR COUNCIL INFORMATION:

Walter J. Slipe Jr.

For:

WALTER J. SLIPE
City Manager