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*City of*  
**SACRAMENTO**  
City Council Presentation  
September 25, 2018

**City of Sacramento TOT Revenue Bonds**

# Project Overview

## Convention Center Renovation and Expansion (~\$196.3 million)

- Expansion of the existing facility through renovation of portions and construction of new facilities including event space, pre-function space, and support space
- Expected start in December 2018 with completion in March 2021

## Community Center Theater Renovation (~\$85.7 million)

- Renovation will improve accessibility and enhance the patron experience through better acoustics, and meet basic modern operational and performance standards
- Expected start in February 2019 and completion by May 2021

## Memorial Auditorium Renovation (~\$16.2 million)

- Renovation includes temporary and permanent improvements, focusing on improving the facility's functional and technical capacity to host performing arts events
- Started in June 2018 and expected completion by May 2019

## Other TOT Eligible Projects (~20 million)

Sacramento Convention Center (rendering)



Community Center Theater (rendering)



Memorial Auditorium



# Transient Occupancy Tax Overview

- The City has imposed a Transient Occupancy Tax (“TOT”) since 1965
- Currently, the TOT is imposed on transients equal to 12% of the rent charged by the operators of hotels within the City
- Hotel is defined as any structure, or any portion of any structure, which is occupied or intended or designed for occupancy by transients for dwelling, lodging or sleeping purposes (including short-term rentals)
- Transients is defined as any person who occupies a hotel for a period of 30 days or less
- TOT Revenues under the Indenture include TOT levied pursuant to Sections 3.28.030 and 3.28.040 of the Sacramento City Code
  - TOT Revenues do not include amounts collected pursuant to Section 3.28.040 to fund the Sacramento Convention and Visitors Bureau (“SCVB”)
  - TOT Revenues do not include amounts collected pursuant to Section 3.28.050 for the City General Fund

## 12% Transient Occupancy Tax

### Included in TOT Revenues

**7% TOT**  
**(Section 3.28.030 – effective 1976)**

**3% TOT**  
**excluding SCVB Amount**  
**(Section 3.28.040 – effective 1978)**

### Excluded from TOT Revenues

**FY18 = \$1.3 MM**  
**Escalating at CPI to SCVB**  
**(Section 3.28.040 – effective 1978)**

**2% TOT to City General Fund**  
**(Section 3.28.050 – effective 1994)**

## Transient Occupancy Tax Uses

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### Special taxes (7% + 3%) are restricted (SCC §3.28.180):

- Administration of chapter
- “Acquisition, construction, completion, operation, repair and maintenance of public assembly and convention halls, including convention center, auditorium, and little theater buildings with facilities for convention meetings, and public assemblies (including dramatic and musical performances), public off-street parking facilities and other site improvements related thereto; lands, easements, and rights-of-way; and other works, property or structures, necessary or convenient for public assembly and convention halls”
- For the facilities described above, any expenses of acquisition, including bond principal payments and interest; and lease payments
- Additionally, a sum certain must fund the Sacramento Convention and Visitor’s Bureau each year. (FY2017/18 ~ \$1.3M)

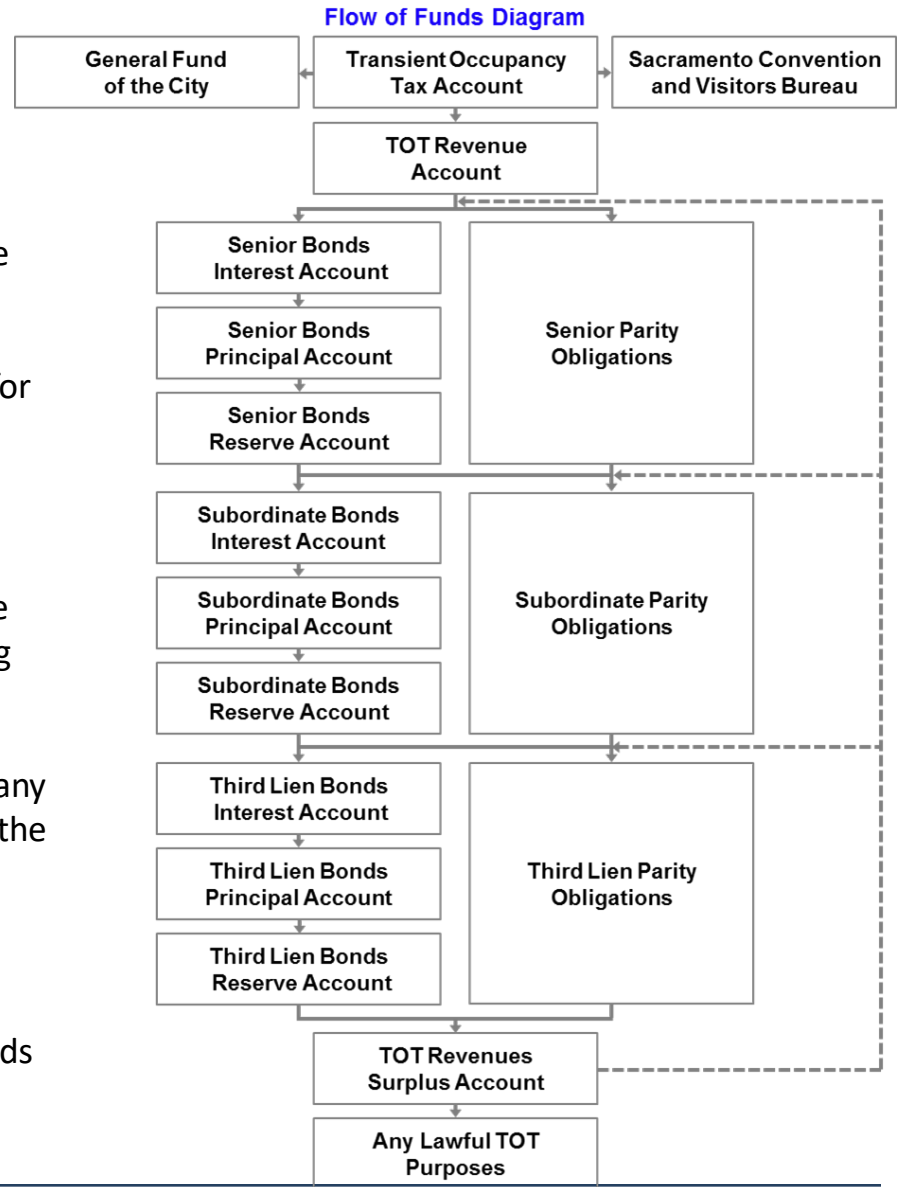
## FY2017/18 Unaudited Year End Results

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<b>FY2017/18 Estimated TOT Breakdown</b>		
<b>Total Estimated FY2017/18 TOT Collections</b>		<b>\$ 31,981,041</b>
2% TOT (Section 3.28.050) To General Fund		<b>\$ (5,330,174)</b>
10% Subtotal TOT		<b>\$ 26,650,867</b>
7% TOT (Section 3.28.030)	\$ 18,655,607	
3%TOT (Section 3.28.040)	\$ 7,995,260	
Visit Sacramento (Section 3.28.040)		<b>\$ (1,307,387)</b>
<b>TOT Revenues (Representative Pledge)</b>		<b>\$ 25,343,480</b>

# Flow of Funds for the Bonds

- The City is required to deposit all TOT in the Transient Occupancy Tax Account
- After setting aside General Fund amounts and SCVB amounts, the City will deposit all remaining TOT in the TOT Revenue Account
- The City must apply the TOT Revenue Account solely for the uses and purposes set forth in the Indenture
- On the first business day of each month, the City will transfer to the Trustee for deposit in the respective Debt Service Fund an amount that equals 1/6th of the amount of interest plus 1/12th of the principal coming due on the Bonds
- Following all required transfers, the City will transfer any TOT Revenues remaining to the Trustee for deposit in the TOT Revenues Surplus Account until the amount on deposit is equal to the Required TOT Surplus Amount
- TOT Revenues remaining in the TOT Revenue Account will be released from the pledge that secures the Bonds and may be applied for any lawful purposes



## Estimated Sources and Uses

Estimated Sources and Uses <sup>(1)</sup>	
Sources	
Bond Par Amount	\$317,770,000
Premium	\$36,342,000
City Identified Funds	\$13,358,000
<b>Total Sources</b>	<b>\$367,470,000</b>
Uses	
Project Fund	\$318,165,000
Capitalized Interest	\$25,089,000
Debt Service Reserve <sup>(2)</sup>	\$21,295,000
Costs of Issuance	\$1,200,000
Underwriter's Discount	\$1,713,000
Additional Proceeds	\$8,000
<b>Total Uses</b>	<b>\$367,470,000</b>

(1) Information provided are estimates provided by Morgan Stanley based on market conditions as of September 4, 2018.

(2) Currently represented as a Cash funded Reserve, the City has requested quotes for a Surety Reserve

## Estimated Project Uses

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<b>Estimated Project Uses</b>	
Memorial Auditorium <sup>(1)</sup>	\$16,170,000
Community Center Theater <sup>(2)</sup>	\$85,660,000
Sacramento Convention Center <sup>(2)</sup>	\$196,335,000
Other TOT Eligible Projects	\$20,000,000
<b>Total Uses</b>	<b>\$318,165,000</b>

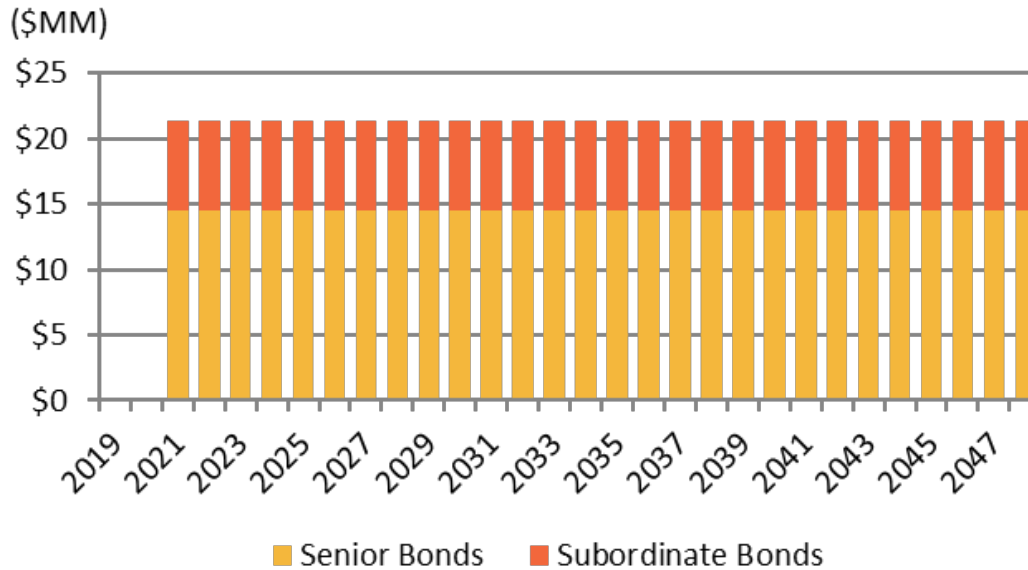
(1) MA cost is identified as the GMP approved by Council on 5/22/2018

(2) Estimates provided by RLB and AECOM-Hunt on 8/31/2018, includes \$1,405,000 estimated for redesign costs for the ballroom.



# Other Pertinent Information

**Estimated Net Debt Service by Fiscal Year**

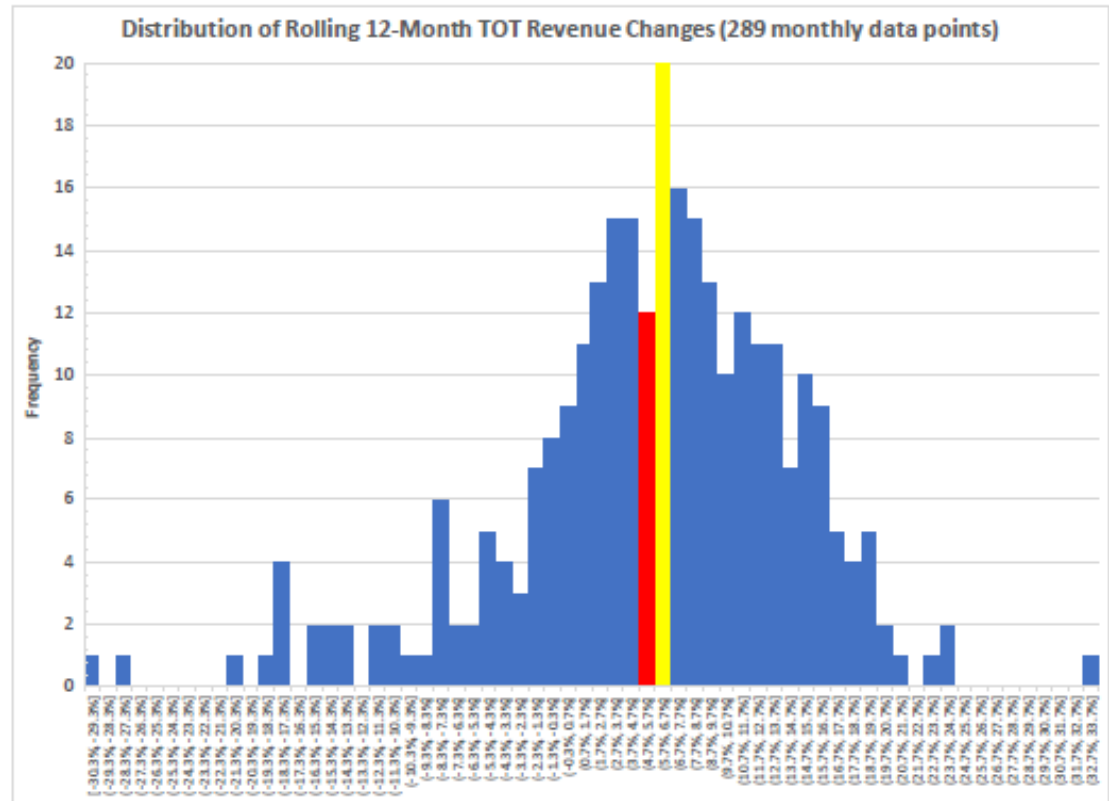


Estimated Bond Statistics*	
Bond Par Amount	\$ 317,770,000
All-In True Interest Cost	4.1445%
Total Interest Payments to Final Maturity	\$ 303,394,829
Total Debt Service to Final Maturity	\$ 621,164,829

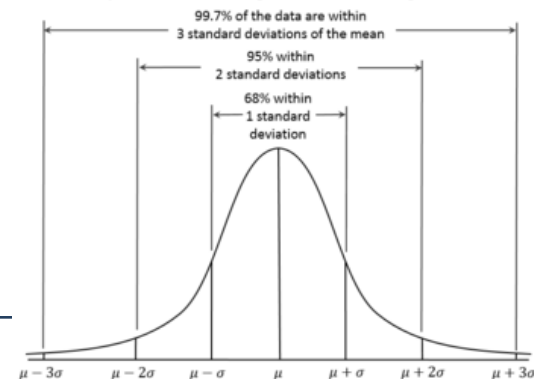
\*Information provided are estimates provided by Morgan Stanley based on market conditions as of September 4, 2018. Actual results may vary.

# Distribution of Rolling 12-month TOT Revenue Changes

- The distribution of the 289 rolling 12-month revenue changes are shown at the top right
  - The average (mean) of 5.52% is within the red column while the yellow column contains the median of 6.45%
  - The maximum and minimum changes for any 12-month period are 33.3% and (30.3%)
  - This distribution is slightly negatively skewed with more figures above the mean than below it
  - The 1, 2 and 3 standard deviations from the mean are +/- 9%, 18% and 27%
- With a normal distribution, the probabilities of occurrence within 1, 2 and 3 standard deviations (SD) are shown in the bottom right graphic
  - Likelihood is 68.3% that values will fall within +/- 1 SD from the mean
  - 95.5% likelihood for +/- 2 SDs
  - 99.7% likelihood for +/- 3 SDs



-21.5%	-12.5%	-3.5%	5.5%	14.5%	23.5%	32.5%
Mean - 3 SDs	Mean - 2 SDs	Mean - 1 SD	Mean	Mean + 1 SD	Mean + 2 SDs	Mean + 3 SDs



## Stress Test Scenarios – Montague DeRose

- Applying the 68–95–99.7 rule to the 12-month TOT revenue distribution, the probability of a revenue decline not exceeding -3.5% is 68%
- Scenario “4B--1Dev” assumes 5.0% TOT revenue growth in FY 2019, a recessionary 1-year decline of 3.5% in FY 2020, followed by recovery and growth of 5.0% annually thereafter
- Scenario “4B--1Dev”
  - Projected minimum CCF balance of \$9.5 million exceeds minimum target level of \$8.0 million
  - Annual CCF balances above \$8.0 million could be used for capital improvements, accelerated repayment of Bonds or transferred from the CCF to other funds

<b>Scenario "4B--1Dev" - 5.0% Growth in FY 2019, 3.5% Decline in FY 2020, 5.0% Growth Thereafter</b>			
<b>FY</b>	<b>Gross (10%) TOT Revenues</b>	<b>TOT % Change</b>	<b>Minimum CCF Balance During FY</b>
2018	26,650,868	n/a	n/a
2019	27,983,411	5.0%	9,494,253
2020	27,003,991	(3.5%)	25,688,194
2021	28,354,191	5.0%	26,126,951
2022	29,771,901	5.0%	22,061,539
2023	31,260,496	5.0%	19,083,519
2024	32,823,520	5.0%	17,069,117
2025	34,464,696	5.0%	15,992,038
2026	36,187,931	5.0%	15,972,130
2027	37,997,328	5.0%	17,071,701
2028	39,897,194	5.0%	19,358,823
2029	41,892,054	5.0%	22,899,074
2030	43,986,657	5.0%	27,427,148
2031	46,185,989	5.0%	33,098,157
2032	48,495,289	5.0%	40,197,455
2033	50,920,053	5.0%	48,804,441
2034	53,466,056	5.0%	59,007,329
2035	56,139,359	5.0%	70,895,700
2036	58,946,327	5.0%	84,565,101
2037	61,893,643	5.0%	100,116,466
2038	64,988,325	5.0%	117,653,895
	Targeted Minimum Balance (a):		8,000,000
	Projected Minimum Balance (b):		9,494,253
	Maximum Balance Shortfall (a-b):		0

## Stress Test Scenarios – Montague DeRose (continued)

- Applying the 68–95–99.7 rule to the 12-month TOT revenue distribution, the probability of a revenue decline not exceeding -12.5% is 95%
- Scenario “4B--2Dev” assumes 5.0% TOT revenue growth in FY 2019, a recessionary 1-year decline of 12.5% during FY 2020, followed by recovery and growth of 5.0% annually thereafter
- Scenario “4B--2Dev”
  - Projected minimum CCF balance of (\$7.9) million relative to the minimum target level of \$8.0 million

<b>Scenario "4B--2Dev" - 5.0% Growth in FY 2019, 12.5% Decline in FY 2020, 5.0% Growth Thereafter</b>			
<b>FY</b>	<b>Gross (10%) TOT Revenues</b>	<b>TOT % Change</b>	<b>Minimum CCF Balance During FY</b>
2018	26,650,868	n/a	n/a
2019	27,983,411	5.0%	9,494,253
2020	24,485,485	(12.5%)	25,495,326
2021	25,709,759	5.0%	21,427,740
2022	26,995,247	5.0%	14,620,107
2023	28,345,009	5.0%	8,845,533
2024	29,762,259	5.0%	3,928,385
2025	31,250,372	5.0%	(148,068)
2026	32,812,891	5.0%	(3,440,612)
2027	34,453,536	5.0%	(5,879,545)
2028	36,176,212	5.0%	(7,414,563)
2029	37,985,023	5.0%	(7,907,685)
2030	39,884,274	5.0%	(7,296,065)
2031	41,878,488	5.0%	(5,525,203)
2032	43,972,412	5.0%	(2,538,203)
2033	46,171,033	5.0%	1,736,869
2034	48,479,585	5.0%	6,885,934
2035	50,903,564	5.0%	13,360,085
2036	53,448,742	5.0%	21,323,422
2037	56,121,179	5.0%	30,862,128
2038	58,927,238	5.0%	42,064,810
	Targeted Minimum Balance (a):		8,000,000
	Projected Minimum Balance (b):		(7,907,685)
	Maximum Balance Shortfall (a-b):		(15,907,685)

## Council Recommended Actions

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Pass

### 1) a Resolution

- a) Authorizing the issuance of Transient-Occupancy-Tax Revenue Bonds in a principal amount of \$350 million to finance capital-improvement projects
- b) Setting limitations of the All-in True Interest Cost and Underwriters Discount
- c) Approve the method of sale of the Bonds on a negotiated basis
- d) Approve the form of Indenture, Bond-Purchase Agreement, Continuing Disclosure Certificate, Preliminary Official Statement
- e) Increase budget in project M17100100
- f) Approve the repayment of the interfund loan involving the Water Fund and the Community Center Fund

### 2) a Motion

- a) Approving a second supplemental agreement with Montague DeRose

## Key Dates

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October 15, 2018

- City is provided Guaranteed Maximum Price (“GMP”) for Convention Center

October 17, 2018 – October 18, 2018

- TOT Bond Pricing; Sign BPA

November 1, 2018

- TOT Bond Closing and Delivery of Funds

November 13, 2018

- GMP for Convention Center Council Action Date

January 2019

- GMP for Community Center Theater Council Action Date

May 2019

- Completion of Memorial Auditorium

September 2020

- Soft Opening of the Community Center Theater

November 2020

- Soft Opening of the Sacramento Convention Center

March 2021

- Estimated Completion of the Sacramento Convention Center

May 2021

- Estimated Completion of the Community Center Theater