(39)

CITY OF SACRAMENTO

OFFICE OF THE TREASURER
800 - 10TH STREET
SUITE 1
SACRAMENTO, CA 95814
TELEPHONE (916) 449-5318

THOMAS P. FRIERY
TREASURER

DONALD E. SPERLING
ASST. TREASURER

October 10, 1985

APPROVED BY THE CITY COUNCIL
OCT 15 1985
OFFICE OF THE CITY CLERK

Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Authorize $13.5 Million 1985/86 Tax and Revenue Anticipation Note (TRAN) Issue and Other Matters Related to this Financing

SUMMARY

City Finance Department staff have determined that a $13.5 Million TRAN sale can be accomplished for FY 1985/86 to meet cash flow deficits resulting from timing differences from when major City revenue sources are received as opposed to when they are needed. City Treasury staff have determined that the $13.5 million proposed TRAN sale will meet the City projected cash flow deficits and permit all financing costs to be recovered as well as produce an estimated net benefit of $302 thousand for the City General Fund if all assumptions are met.

To implement the 1985/86 TRAN financing it is necessary for City Council to:

-- Authorize staff to proceed with a $13.5 million TRAN sale as outlined in the financing action plan, and

-- Approve:

  --The selection of Paine Webber, Inc. as Underwriter for the TRAN

  --The selection of Orrick, Herrington & Sutcliffe as Bond Counsel for the TRAN

-- Authorize the City Treasurer to negotiate the TRAN with Paine Webber, Inc. on November 5, 1985 subject to final City Council approval that same day, and

-- Authorize the City Manager to execute a TRAN Purchase Contract with Paine Webber upon approval by City Council of the Sale of Notes.

October 10, 1985

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SUMMARY

City Finance Department staff have determined that a $13.5 Million TRAN sale can be accomplished for FY 1985/86 to meet cash flow deficits resulting from timing differences from when major City revenue sources are received as opposed to when they are needed. City Treasury staff have determined that the $13.5 million proposed TRAN sale will meet the City projected cash flow deficits and permit all financing costs to be recovered - and in particular to authorized net benefit of $281 thousand for the City General Fund if all assumptions are met.

To implement the 1985/86 TRAN financing it is necessary for City Council to:

- Authorize staff to proceed with a $13.5 million TRAN sale as outlined in the financing section plan, and

Approve:

- The selection of Paine Webber, Inc. as Underwriter for the TRAN

- The selection of Orrick, Herrington & Sutcliffe as Bond Counsel for the TRAN

- Authorize the City Treasurer to negotiate the TRAN with Paine Webber, Inc. on November 5, 1985 subject to final City Council approval that same day, and

Authorize the City Manager to execute a TRAN Purchase Contract with Paine Webber upon approval by City Council in the form as shown.

This action is required at this time to permit staff to proceed with the TRAN financing and complete the sale prior to when the projected cash flow deficits are estimated to occur. Attachment 1 contains a list of the TRAN Financing Committee assigned to completing this project.

BACKGROUND

From fiscal year 1981/82 through 1984/85 a total of 4 TRAN financings have been completed to meet cash flow deficits. The total of these financings were $61.3 million. As a result of these financings, all City cash flow deficits have been met and all notes will be retired as of October 15, 1985. Further, all financing costs and expenses associated with these TRANs have been recovered through the investment of these TRAN proceeds when not needed for cash flow deficits and a total of $1.9 million in net benefit has been earned and transferred to the City General Fund as a result of these financings.

Of the TRAN financings previously completed, one was competitively bid and three were negotiated. The following is a lsit of the TRANs completed as well as the designation of sale and underwriter:

Fiscal Year	Issue Size	Borrowing Cost	Bid	Underwriter
1981/82	$ 9.5 million	10.00%	Competitive	Paine Webber
1982/83	11.3 million	9.02%	Negotiated	Paine Webber
1983/84	23.0 million	6.60%	Negotiated	Bank of America
1984/85	17.5 million	6.50%	Negotiated	Paine Webber
Totals	$61.3 million			

In fiscal year 1984/85, the Treasurer received bids from Bank of America and Paine Webber, Inc. to perform as Underwriter for that year's TRAN. Paine Webber's bid produced approximately $3 thousand in savings for the City as compared to Bank of America's bid.

Due to the major workload financings being performed by the City Treasury and Finance Department staffs on Light Rail, Regional Transit, and Housing and Redevelopment in recent months, City staff have only recently been able to ascertain the City's 1985/86 TRAN financing needs. There presently is not sufficient time to receive bids to perform as underwriter on the City's proposed 1985/86 TRAN .

However, the City Treasurer has discussed the role of performing as underwriter with Paine Webber. Paine Webber has agreed to perform in this role for the 1985/86 TRAN under the same terms and conditions as the 1984/85 TRAN which was competitively bid and determined the best at that time.

Therefore, the City Treasurer recommends retaining Paine Webber, Inc. for the year's proposed 1985/86 TRAN. The terms and conditions will be the same as the investment banking agreement entered into in FY 1984/85.

FINANCIAL

City Finance Department staff have determined that the maximum cash flow deficit of $2.991 million occurs in the third week of December of 1985. As a result of TRAN financing arbitrage regulations which permit borrowing the maximum deficit plus the next month's disbursements, a total of $13.5 million in TRAN borrowing can be accomplished.

Assuming a borrowing cost of 6% on the $13.5 million TRAN, a maturity date of November 14, 1986, reinvestment of TRAN proceeds at 9% and financing costs and expenses not to exceed .65% ($87,750.00), then the net benefit to be received by the City General Fund after all costs and expenses are met and cash flow deficits are covered is estimated to be approximately $302 thousand.

To implement this program it is necessary for City Council to:

-- Authorize staff to proceed with a $13.5 million TRAN sale as outlined in this financing action plan (see Attachment 2), and

-- Approve:

   The selection of Paine Webber as Underwriter under the terms and condition of their 1984/85 TRAN Investment Banking Contract with the City (see Attachment 3).

   The selection of Orrick, Herrington & Sutcliffe as Bond Counsel.

-- Authorize the City Treasurer to negotiate the TRAN rate with Paine Webber on November 5, 1985 subject to final City Council approval that evening, and

-- Authorize the City Manager to execute the TRAN Purchase Contract with Paine Webber upon approval by City Council of the sale of TRAN notes to Paine Webber.

RECOMMENDATION

The Sacramento City Council does hereby:

-- Authorize staff to proceed with a $13.5 million TRAN sale as outlined in this financing action plan (see Attachment 2), and

-- Approve:

The selection of Paine Webber as Underwriter under the terms and condition of their 1984/85 TRAN Investment Banking Contract with the City (see Attachment 3).

The selection of Orrick, Herrington & Sutcliffe as Bond Counsel.

-- Authorize the City Treasurer to negotiate the TRAN rate with Paine Webber on November 5, 1985 subject to final City Council approval that evening, and

-- Authorize the City Manager to execute the TRAN Purchase Contract with Paine Webber upon approval by City Council of the sale of TRAN notes to Paine Webber.

Respectfully submitted,

THOMAS P. FRIERY
City Treasurer

JACK R. CRIST
Director of Finance

RECOMMEDATION APPROVED:

WALTER J. SLIPE, City Manager

October 15, 1985
All Districts

Attachments (3)

ATTACHMENT 1

FINANCING COMMITTEE
1985-86 TRAN

James P. Jackson	City Attorney 812 - 10th St., Ste. 201 Sacramento, CA 95814	(916) 449-5346
Lorraine Magana	City Clerk City Hall, Rm. 203	(916) 449-5426
Thomas P. Friery	City Treasurer 800 - 10th St., Ste. 1 Sacramento, CA 95814	(916) 449-5168
Donald E. Sperling	Assistant Treasurer	" "
Deborah Carter	Investment Officer	" "
Jack R. Crist	Director of Finance City Hall, Rm. 112	(916) 449-5736
Betty Masuoka	Budget Officer	" "
Phil Ezell	Accounting Officer City Hall, Rm. 114	(916) 449-5769
Mike Medema	Revenue Officer City Hall, Room 104	(916) 449-5724
Ken Nishimoto	Sr. Mgmt. Analyst City Hall, Room 112	(916) 449-5736
Harriet Commons (2 copies)	Price Waterhouse 455 Capitol Mall, Ste. 500 Sacramento, CA 95814	(916) 441-2370
Carlo Fowler	Orrick, Herrington & Sutcliffe 600 Montgomery St. San Francisco, CA 94111	(415) 392-1122
Ash Wood	Paine Webber, Inc. 100 California St., 12th Floor San Francisco, CA 94111	(415) 954-6898
Steve Melikian	Paine Webber, Inc. (same as above)	(415) 954-5996

ATTACHMENT 2

1985-86
TRAN FINANCING SCHEDULE

*Item	*Responsibility	Milestone Date	Completion Date
City staff submit financial data for OS	FC	9/20/85	9/20/85
OH provide Draft 1 ROS to Friery	OH	10/8/85	10/8/85
Distribute Draft 1 ROS for comments	Friery	10/9/85	10/9/85
OH provide Draft 1 OS to Friery	OH	10/9/85	
Distribute Draft 1 OS for comments	Friery	10/10/85	
Comments on Draft 1 OS & ROS to Friery by 1:00 p.m.	FC	10/15/85	
Draft comments to UW at 4:00 p.m.	Friery/UW	10/15/85	
BF/C:	Friery/Crist	10/15/85	
--Authorize TRAN sale & financing action plan		"	
--Selection of PW as UW		"	
--Delegate authority to City Manager to execute Purchase Contract		"	
--Selection of OH as Bond Counsel		"	
--Authorize Treasurer to Negotiate TRAN 11/5/85 subject to BF/C final approval		"	
OH provide Draft 2 ROS & OS to Friery	OH	10/16/85	
Distribute Draft 2 for comments	Friery	10/17/85	
Comments Draft 2 OS & ROS by 1:00 p.m.	FC	10/18/85	
Draft comments to PW by 4:00 p.m.	Friery/UW	10/18/85	
OH provide Draft 3 OS & ROS to Friery	OH	10/21/85	
BF/C	Friery/Crist	10/22/85	
--Adopt ROS		10/22/85	
--Approve OS		10/22/85	
Mail OS to rating agencies & sales force	UW	10/23/85	
Draft 1 Purchase Contract to City for review	UW	10/25/85	

*See Legend for abbreviation explanation.

1985-86 TRAN Financing Schedule
Page 2

*Item	*Responsibility	Milestone Date	Completion Date
Final comments Draft Purchase Contr.	FC	10/30/85	
Rating agencies announce rating	UW	10/31/85	
Final Purchase Contract to Friery	UW	11/5/85	
Negotiate and preliminarily accept or reject TRAN bid	Friery/UW	11/5/85	
BF/C --Award TRAN to UW	Friery	11/5/85	
City Manager approve Purchase Contr.	Slipe	11/5/85	
Draft closing documents for review	OH	11/5/85	
TRAN notes printed	OH	11/7/85	
Final comments OS	FC	11/7/85	
Final audit letter	A	11/7/85	
Final OS printed	OH	11/11/85	
TRAN pre-closing	OH/UW/Friery	11/13/85	
TRAN closing & settlement	OH/UW/Friery	11/14/85	

*LEGEND (Explanation of abbreviations used)

A	Price Waterhouse (Auditors)
BF	Budget & Finance Committee
C	Sacramento City Council
FC	Financing Committee (see Attachment 1)
OH	Orrick, Herrington & Sutcliffe (Bond Counsel)
OS	Official Statement
ROS	Resolution of Sale
UW	Paine Webber (Underwriter)
PW	Paine Webber, Inc.

Attachment 339

INVESTMENT BANKING AGREEMENT

CITY OF SACRAMENTO

THIS AGREEMENT, made this 30th day of July, 1984 by and between the CITY OF SACRAMENTO, Sacramento County, California, a public body, corporate and politic, created and existing under and by virtue of the laws of the State of California, hereinafter referrred to as "City," and PAINE WEBBER INCORPORATED, a corporation, hereinafter referred to as "PAINE WEBBER;"

W I T N E S S E T H :

WHEREAS, City plans to issue at a single sale approximately $15,900,000 par value of tax and revenue anticipation notes to finance a projected temporary shortfall in its revenue stream; and

WHEREAS, City deems it to be in its best interest and in the best interest of the citizens of the City to appoint an investment banker to advise the City on the planning of the financing including the preparation of supporting data and to market and sell the notes; and

WHEREAS, Paine Webber is qualified and has offered to serve the City and has previously been retained by numerous other public entities in connection with the sale of such tax and revenue anticipation notes;

NOW, THEREFORE, for and in consideration of the above and of the mutual convenants herein set forth below, the parties hereto agree as follows:

1. Paine Webber will make available for consultation and conference with City officers, employees, and legal counsel, at times and place mutually agreed upon personnel qualified to advise on all matters relating to the sale of notes.

City Agreement No. 84-012

City Agreement No. 84-012

2. Paine Webber will advise specifically on the timing of the proposed note sale, the dating and maturity of the notes, provisions for appointment of paying agents, good faith check, terms of delivery, convenants as to the periodic deposit of revenues, permitted invesments, and similar technical matters. Paine Webber will cooperate with bond counsel employed by City in determining such financial specifications as may be required in any legal document relating to the issuance and sale of the notes, and will work to assure maximum marketability of such notes.

3. Paine Webber will prepare, at the direction of and for adoption by City, an Official Statemtent relating to any notes to be offered for sale to be supplied to prospective buyers of the notes. Such Official Statement will include, among other things, a detailed description of the notes offered, a factual account of City's powers, the econmic and financial background and resources of City, and such other fiscal, legal and statistical matters as experience has shown to be desirable in securing ratings for the notes from investment services and the widest participation among potential buyers. Paine Webber will arrange for the distribution of the Official Statement to a comprehensive list of prospective note underwriters, banks and institutions.

4. At times reasonably in advance of the proposed note sale, Paine Webber will consult with and advise City concerning advertising, information to prospective buyers, the provision of information to financial journals and investment rating services, and similar measures designed to stimulate and broaden interest in the notes proposed to be sold. After and in accordance with such consulation, Paine Webber will contact note buyers, institutional investors, financial publications, and rating services to the extent that such contacts are deemed beneficial to the interests of City. Paine Webber will advise City, prior to sale of any notes, as to the advisability of information meetings and if such meetings are recommended and approved, will assist City in presentation of financial information on such occasions.

5. Paine Webber shall pay its own costs of travel, communications, and overhead expense inconnection with the above services. City shall pay costs of note printing, printing and distribution of Official Statements, advertising, direct cost of

information meetings, and expenses for legal, rating, statistical or other professional services incurred by City. Nothing in this paragraph shall, however, prevent City from assigning Paine Webber the responsibility of arranging for and supervising such printing and/or distribution of Official Statements.

6. Paine Weber will engage a counsel to the underwriters. The fees and expenses of counsel to the underwriters will be paid by Paine Webber. Counsel to the underwriters will review all documentation prior to the sale of any notes and will prepare the purchase contact and customary legal memoranda for use in the resale by the underwriters of the notes.

7. At such time as all pertinent reports, rulings, resolutions, the preliminary Official Statement, and all other necessary documents and proceedings have been determined by City and Bond Counsel to be satisfactory in all respects for financing purposes, Paine Webber will, subject to the satisfaction of Paine Webber and the City, offer to purchase, on the terms and conditions stated therein, the notes in question. During the (approximately) three business days immediately preceding the submission of any such offer to purchase the notes, Paine Webber will indicate to City the interest rate(s), the purchase price to the City and the public offering price of the notes which Paine Webber then estimates will be included in such offer. Any form of offer to purchase the notes will be accepted or rejected by the City on the same day such offer is submitted. City will be under no obligation to accept any such offer and, if after negotiations with Paine Webber acting on behalf of the underwriting group, the parties fail to agree to the proposed terms of sale of such notes the City may than offer the notes to others on terms not less favorable to City than those offered by Paine Webber.

8. In carrying out this Agreement, Paine Webber will make available the full experience of its organization and will employ its members and prestige so as to represent the City with maximum effectiveness in contracts with the financial community and with investors.

9. Paine Webber and the underwriting group organized by it are to receive compensation solely from the difference between the price paid to the City for

the notes by Paine Webber and the underwriting group and the price at which the notes are to be resold to investors. The price paid to the City by Paine Webber for the notes will be negotiated in good faith by City and Paine Webber in accordance with customary discounts paid to underwriters in financings of the type contemplated hereby, and will be reflected in the offer contemplated by Section 7 hereof. It is anticipated at the present time by Paine Webber and agreed by it that the total compensation with respect to the notes will be the total of the following: the Management Fee, the Expenses incurred during the financing, the Underwriter's Fee and the Selling Commission, all as described in Exhibit A hereto. Such total sum payable out of the note proceeds at the time of purchase of the notes will be not more than 4.5% of the aggregate principal amount of the obligations (the gross spread).

10. It is expressly understood and agreed, and the City hereby recognizes, that in performing its duties and activities under the Agreement, Paine Webber is to be acting solely on its own behalf as prospective manager of an underwriting group which plans to submit to the City an offer to purchase notes for resale to investors. Nothing in the Agreement shall be construed to limit or restrict in any way the unqualified right of City to reject any proposal or offer of Paine Webber or as a delegation of any of the powers, duties and obligations of the City.

11. All the covenants, promises, rights and agreements in this Agreement contained by or on behalf of Paine Webber shall bind and inure to the benefit of its successor, whether so expressed or not.

12. This agreement shall continue for a period of eight (8) months from the date of execution, and shall continue thereafter so long as any of said notes remain unsold, unless terminated earlier by either party upon ninety (90) days written notice.

IN WITNESS THEREOF, the parties hereto have caused this agreement to be executed by duly authorized officers as of the day and year first above written.

CITY OF SACRAMENTO

Reviewed By: _____
City Treasurer

Approved By: _____
City Manager

PAINE WEBBER INCORPORATED

_____
Ashford D. Wood
Vice President

APPROVED AS TO FORM:

_____
City Attorney

ATTACHMENT A:
Underwriter's Compensation

The total underwriter's compensation is the sum of four fees, each of which is a payment for a separate portion of the financing program. Each area is explained below in brief.

** Management Fee: This is a payment by the syndicate to the managing underwriters in recognition of their expertise in finance and marketing skills in the development and implementation of the financing, and for the amount of time and effort expended on the financing. Market conditions have little effect on the size of this fee, but it generally declines as the size of an issue increases.

** Expenses: These represent the out-of-pocket disbursements made by the underwriters for expenses incurred during a financing. Underwriter's Counsel fee and a fee to clear physically the notes at closing are the two major components of this category. Other expenses can include computer costs, travel and entertainment and advertising. Legal expenses and computer expenses vary depending upon the complexity of the financing. Generally, the expense component of the spread is relatively independent of market conditions.

** Underwriter's Fee: This is the compensation to the members of the underwriting syndicate for the risk associated with the commitment of their capital to underwrite the notes. This fee could increase under adverse market conditions reflecting the increased likelihood of underwriters taking notes into their own portfolios, hence potentially taking substantial inventory losses. In strong markets, or in financings wherein the underwriting syndicate has minimal market risk, this portion of the gross spread can be reduced.

** Selling Commission: Also referred to as "takedown", this item is the single largest component of the spread. The takedown is that portion which is paid as a commission to the underwriting syndicate's sales organizations for their efforts in selling the notes. The takedown varies considerably with different note issues, depending on the maturity of the notes, the size of the issue, the type of issuer, the nature of the credit behind the notes and the stability of the credit markets, all of which effect the acceptance of the notes in the market. The takedown usually increases as the maturity lengthens. Therefore, the takedown will be larger for term bond maturities and smaller for shorter maturities or notes.

RESOLUTION NO. 84-641

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

JUL 24 1984

A RESOLUTION AUTHORIZING THE CITY MANAGER
TO FINALIZE THE INVESTMENT BANKING AGREEMENT WITH
PAINE WEBBER, INC. FOR THE PROPOSED 1984/85 TRAN

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

The City Manager is hereby authorized to execute the Investment Banking Agreement with Paine Webber, Inc. for the $15.9 million 1984/85 TRANs.

DAVID SHORE
VICE MAYOR

ATTEST:

LORRAINE MAGANA
CITY CLERK

CERTIFIED AS TRUE COPY
of Resolution No. 84-641

JUL 30 1984
DATE CERTIFIED
Lorraine Magana
CITY CLERK, CITY OF SACRAMENTO