



REPORT TO COUNCIL 19

City of Sacramento

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Staff Report
October 24, 2006

**Honorable Mayor and
Members of the City Council**

Title: Issuance of North Natomas Community Facilities District No. 4 Series D Bonds

Location/Council District: Approximately 683 gross acres in the North Natomas Community Plan area / Council District 1.

Recommendation: 1) Adopt a **Resolution** (a) authorizing the issuance of North Natomas Community Facilities District (CFD) No. 4 Series D Bonds; (b) authorizing the execution of the Fourth Supplemental Indenture and related Bond Purchase Agreement, Continuing Disclosure Certificate and Official Statement; and (c) authorizing the actions necessary for the execution of these related documents; and (2) adopt a **Resolution** establishing the revenue and expenditure budget for the Community Facilities District No. 4 Series D Bonds.

Contact: Thomas S. Berke Assistant City Treasurer, 808-5168; Janelle Gray, Public Finance and Banking Manager, 808-8296; Karolyn Pelka, Treasury Analyst, 808-6787

Presenters: Janelle Gray, Public Finance and Banking Manager

Department: City Treasurer's Office

Division: Finance

Organization No: 0900

Description/Analysis

Issue: This action will officially authorize the issuance of approximately \$26.27 million in bonds to finance development and improvements in CFD No. 4. A special tax levy will pay debt service on these bonds without financial obligation to the City.

Proceeds from the sale of the CFD No. 4 Series D Bonds will be used to finance the costs of the acquisition and construction of authorized facilities in Tax Zone IB of CFD No. 4; to increase the amount on deposit in the existing Bond Reserve Fund to the Required Bond Reserve, and to pay costs of issuing the bonds.

Policy Considerations: The bonds are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 *et seq.* of the California Government Code.

The related agreements and documents are on file with the City Clerk’s Office and have been reviewed by the City Attorney’s Office, are in substantially final form, and will be executed after the bonds are priced and appropriate updates completed.

Environmental Considerations: The City Council’s action in adopting the resolution is solely for the purpose of selling bonds and, therefore, is not a project for purposes of the California Environmental Quality Act.

Rationale for Recommendation: The approval of the attached resolutions authorizes the City Treasurer to take the actions necessary for the execution of the related documents for the issuance of the North Natomas CFD No. 4, Series D Bonds. The issuance of these bonds will allow the acquisition and construction of authorized facilities and in turn assist in the growth and development of the North Natomas area.

Financial Considerations: Approximately \$26.27 million in Special Tax Bonds, Series D, will be sold to finance the acquisition and construction of facilities (including associated fees) within CFD No. 4. The payment of principal and interest on the bonds is secured by a special tax lien placed on each property within the CFD, without obligation to the City. The documents associated with these Bonds call for a 115% tax levy to debt service coverage. The Series D bonds projected numbers alone show 158% coverage to date. With the addition of the Series D bonds, CFD No. 4, as a district will now have a 151% coverage.

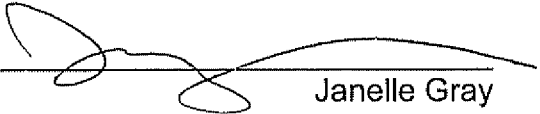
Below is the breakdown of the sources and uses of the funds associated with the CFD No. 4, Series D Bonds:

Table 1 – CFD No. 4, Series D, Sources and Uses of Funds

Sources		
CFD No. 4, Series D Bond Proceeds		\$26,270,000
Uses		
Acquisition and Construction Fund	\$22,102,149	
Other Fund Deposits ⁽¹⁾	\$3,438,801	
Cost of Issuance ⁽²⁾	\$ 729,050	
Subtotal		\$26,270,000
(1) Other Fund Deposits include Capitalized Interest and Reserve Fund (2) Includes Underwriters' Discount		

Emerging Small Business Development (ESBD): City Council adoption of the attached resolution is not affected by City policy related to the ESBD Program.

Respectfully Submitted by:



Janelle Gray
Public Finance and Banking Manager

Recommendation Approved:



Thomas S. Berke
Assistant City Treasurer

Table of Contents:

	Pg	1	Report
Attachments			
1	Pg	4	Background
2	Pg	5	Map
3	Pg	6	Resolution
4	Pg	11	Resolution
	Pg	13	Exhibit A

Background:

In 1998, the eligible landowners in CFD No. 4 authorized the issuance of up to \$85 million in bonds for the district. Since then, the City has issued CFD No. 4, Series A Bonds in 1999 for \$16.215 million (toward facilities in Tax Zone IA and IV); Series B Bonds in 2001 for \$12.75 million (Tax Zone IA and IV); and Series C Bonds in 2003 for \$29.765 million (Tax Zone IA, IB, and II). The Series D Bonds are the fourth and final series of Bonds to be issued pursuant to this authorization. The Series D Bonds are estimated to be in the amount of \$26.27 million (Tax Zone IB). See Attachment 2 for CFD No. 4 Tax Zone map.

The primary purpose of the CFD No. 4 bonds is to pay for drainage improvements including common drainage facilities, trunk drainage facilities, basins, etc. (Primary Facilities). However, built into the financing structure is the flexibility to pay for additional improvements (Secondary Facilities) should there be excess funds after the completion of the Primary Facilities. The land associated with the CFD No. 4, Series D bonds is being developed primarily by three companies, Reynen & Bardis Communities, Inc., Natomas Creek, LLC, and East Commerce Parkway, LLC.

Reynen & Bardis currently anticipates development of approximately 87.7 net developable acres into a mix of single-family detached (low density – 178 units), single family detached (medium density – 231 units), multifamily residential (condominiums – 92 units, and apartments – 128 units), retail and parks and open space. The development is anticipated to take the form of four villages each developed by either an entity related to Reynen & Bardis or by a merchant builder. Reynen & Bardis anticipated a portion of the related infrastructure improvements to be financed with the proceeds of the Series D Bonds and the remainder to be financed by Reynen & Bardis.

Natomas Creek LLC and East Commerce Parkway LLC are owned and controlled by Mr. Kern W. Schumacher. Mr. Schumacher currently anticipates development of approximately 583 net developable acres into a mix of single-family detached, single family detached, multifamily residential, retail, parks, and open space. Portions of the property in the CFD initially held by Mr. Schumacher have been sold to other entities for the construction of single-family residential units.

Mr. Schumacher currently intends to retain ownership of the property designated for transit commercial and office uses for future development. The entire site was mass-graded in 2003 with the installation of major backbone infrastructure. The development plan for the EC (commercial) zoned property owned by Natomas Creek LLC and Commerce Station LLC include zoning the property for approximately 140 acres of commercial development, approximately 21 acres for a shopping center, 4 acres for parks and approximately 15 acres devoted to a freeway buffer. The project will incorporate a light rail station along the proposed light-rail line; from downtown Sacramento through North Natomas to the Sacramento Airport.

RESOLUTION NO.

Adopted by the Sacramento City Council

**RESOLUTION AUTHORIZING THE ISSUANCE OF CITY OF
SACRAMENTO NORTH NATOMAS COMMUNITY FACILITIES
DISTRICT NO. 4, SPECIAL TAX BONDS, SERIES D (2006),
AUTHORIZING THE EXECUTION AND DELIVERY OF A
FOURTH SUPPLEMENTAL INDENTURE, A BOND PURCHASE
AGREEMENT, A CONTINUING DISCLOSURE CERTIFICATE,
AN OFFICIAL STATEMENT; AND AUTHORIZING RELATED
ACTIONS AND THE EXECUTION OF RELATED DOCUMENTS
WITH RESPECT TO THE ISSUANCE AND SALE OF THE
BONDS**

BACKGROUND

- A.** The Council, on December 8, 1998, adopted its Resolution No. 98-612 approving a Master Indenture dated as of February 1, 1999 (the "Master Indenture") by and between the City and BNY Western Trust Company (whose successor is The Bank of New York Trust Company, N.A., as to both entities herein, the "Trustee") authorizing the issuance of bonds under the Mello-Roos Community Facilities Act of 1982, as amended (being Sections 53311 et seq. of the Government Code of the State of California), and all laws amendatory thereof or supplemental thereto (the "Act"), in the aggregate principal amount of eighty-five million dollars (\$85,000,000) in the form and manner provided therein, designated the "North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds" (the "Bonds").
- B.** Pursuant to the Master Indenture, as supplemented by the First Supplemental Indenture dated as of February 1, 1999, by and between the City and the Trustee, the Council provided for the issuance, sale and delivery of its North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds, Series A (1999) (the "Series A (1999) Bonds") in the aggregate principal amount of sixteen million two hundred fifteen thousand dollars (\$16,215,000) to finance the costs of the acquisition and construction of facilities authorized to be financed by the City's North Natomas Community Facilities District No. 4 (the "Community Facilities District") and to pay the costs of issuance of the Series A (1999) Bonds.

- C. Pursuant to the Master Indenture, as supplemented by the Second Supplemental Indenture dated as of April 1, 2001, by and between the City and the Trustee, the Council provided for the issuance, sale and delivery of its North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds, Series B (2001) (the "Series B (2001) Bonds") in the aggregate principal amount of twelve million seven hundred fifty thousand dollars (\$12,750,000) to finance the costs of the acquisition and construction of certain other facilities authorized to be financed by the Community Facilities District and to pay the costs of issuance of the Series B (2001) Bonds.
- D. Pursuant to the Master Indenture, as supplemented by the Third Supplemental Indenture dated as of October 1, 2003, by and between the City and the Trustee, the Council provided for the issuance, sale and delivery of its North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds, Series C (2003) (the "Series C (2003) Bonds") in the aggregate principal amount of twenty-nine million seven hundred sixty-five thousand dollars (\$29,765,000) to finance the costs of the acquisition and construction of certain other facilities authorized to be financed by the Community Facilities District and to pay the costs of issuance of the Series C (2003) Bonds.
- E. The Master Indenture specifies the conditions for the issuance of a series of the Bonds in addition to the Series A (1999) Bonds, the Series B (2001) Bonds and the Series C (2003) Bonds in Section 2.02 thereof, and specifies the procedure for the issuance of such additional series of the Bonds in Section 2.03 thereof, and the Council desires to provide for the issuance of an additional series of the Bonds under the Master Indenture payable on a parity with the Series A (1999) Bonds, the Series B (2001) Bonds and the Series C (2003) Bonds from the Special Tax (as that term is defined in the Master Indenture).
- F. Both Sections 2.02 and 2.03 of the Master Indenture require a supplemental indenture for the issuance of a series of the Bonds in addition to the Series A (1999) Bonds, the Series B (2001) Bonds and the Series C (2003) Bonds under the Master Indenture.
- G. It is desirable and necessary to approve a Fourth Supplemental Indenture by and between the City and the Trustee supplemental to the Master Indenture in the form now on file with the City Clerk (the "Fourth Supplemental Indenture") to specify the conditions, terms and form of such additional series of the Bonds and to designate such additional series of the Bonds as the "North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds, Series D (2006)" (the "Series D (2006) Bonds") to be issued pursuant to the Law, the Master Indenture and the Fourth Supplemental Indenture in order to finance the costs of the acquisition and construction of certain other facilities authorized to be financed by the Community Facilities District and to pay the costs of issuance of the Series D (2006) Bonds.

- H. The City Council has determined that a private sale of the Series D (2006) Bonds under the Act would result in a lower overall cost to the City on the Series D (2006) Bonds.
- I. It is also desirable and necessary to approve the forms of the various financing documents to accompany the issuance of the Series D (2006) Bonds, and to authorize the appropriate officers of the City to perform the functions necessary to the issuance of the Series D (2006) Bonds.
- J. The Council is fully advised on this matter.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** The above recitals are true, and the Council so finds and determines.
- Section 2.** Pursuant to the Law, the Master Indenture, and the Fourth Supplemental Indenture, the Series D (2006) Bonds in an aggregate principal amount not to exceed twenty-six million, two-hundred and seventy thousand dollars (\$26,270,000) are hereby authorized to be issued by the City, which Series D (2006) Bonds shall be in the form set forth in the Fourth Supplemental Indenture and shall be executed by the manual or facsimile signature of the Mayor of the City and attested by the manual or facsimile signature of the City Clerk of the City, and the seal of the City shall be impressed or imprinted thereon.
- Section 3.** The Fourth Supplemental Indenture is hereby approved, and the Treasurer of the City (the "City Treasurer") is hereby authorized to execute and deliver the Fourth Supplemental Indenture on behalf of the City in substantially the form now on file with the City Clerk, with such changes as the City Treasurer or any Authorized Representative (used herein as defined in the Fourth Supplemental Indenture) may require or approve after consultation with the City Attorney and Bond Counsel in the interest of the City; provided, that such additions or changes shall not authorize an aggregate principal amount of Bonds in excess of the amount stated above.

- Section 4.** The Bond Purchase Agreement (the "Bond Purchase Agreement") providing for the sale of the Series D (2006) Bonds, in the form submitted by Stone & Youngberg LLC (the "Underwriter") and now on file with the City Clerk, is hereby approved, and the City Treasurer is authorized to execute and deliver the Bond Purchase Agreement on behalf of the City in substantially the form now on file with the City Clerk, with such changes as the City Treasurer or any Authorized Representative may require or approve after consultation with the City Attorney and Bond Counsel in the interest of the City, for the sale of the Series D (2006) Bonds to the Underwriter at the purchase price to be set forth in the Bond Purchase Agreement, upon the terms and conditions set forth in the Bond Purchase Agreement; provided, that the Series D (2006) Bonds shall be sold at a true interest cost not to exceed eight per cent (8.0%) per annum and with an underwriter's discount (exclusive of original issue discount) not in excess of three per cent (3.0%) of the principal amount thereof.
- Section 5.** The Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") for the Series D (2006) Bonds, in the form now on file with the City Clerk, is hereby approved, and the City Treasurer is authorized to execute and deliver the Continuing Disclosure Certificate on behalf of the City in substantially the form now on file with the City Clerk, with such changes as the City Treasurer or any Authorized Representative may require or approve after consultation with the City Attorney and Bond Counsel in the interest of the City.
- Section 6.** The Preliminary Official Statement (the "Preliminary Official Statement") relating to the Series D (2006) Bonds, in the form now on file with the City Clerk, is hereby approved, and the City Treasurer is hereby authorized to approve the distribution of the Preliminary Official Statement in substantially the form on file with the City Clerk and to certify to the Underwriter on behalf of the City that the Preliminary Official Statement was, as of its date, deemed "final" by the City within the meaning of Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934 (except for the omission of certain final pricing, rating and related information as permitted by such rule), and the City Treasurer is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Underwriter a final Official Statement (the "Official Statement"), which shall be in substantially the form of the Preliminary Official Statement with such additions thereto or changes therein as the City Treasurer shall require or approve, that pertains to the sale of the Series D (2006) Bonds, such approval to be conclusively evidenced by the execution and delivery thereof, and the Underwriter is hereby authorized to distribute copies of the Official Statement to persons who may be interested in the purchase of the Series D (2006) Bonds and the Underwriter is directed to deliver such copies to all actual purchasers of the Series D (2006) Bonds.

Section 7. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents and contracts which they may deem necessary or advisable in order to consummate the sale, execution and delivery of the Series D (2006) Bonds, and otherwise to carry out, give effect to and comply with the terms and intent of this resolution, the Master Indenture, the Fourth Supplemental Indenture, the Series D (2006) Bonds, the Bond Purchase Agreement, the Continuing Disclosure Certificate, the Preliminary Official Statement and the Official Statement; and any such actions heretofore taken by such officers in connection therewith are hereby ratified, confirmed and approved.

Section 8. This resolution takes effect when adopted.

RESOLUTION NO.

Adopted by the Sacramento City Council

RESOLUTION APPROVING THE NORTH NATOMAS DRAINAGE COMMUNITY FACILITIES DISTRICT NO. 4, SERIES D BONDS PROJECT AND ESTABLISHING THE REVENUE AND EXPENDITURE BUDGET

BACKGROUND

- A. The Council, on December 8, 1998, adopted its Resolution No. 98-612 approving a Master Indenture dated as of February 1, 1999 (the "Master Indenture") by and between the City and BNY Western Trust Company (whose successor is The Bank of New York Trust Company, N.A., as to both entities herein, the "Trustee") authorizing the issuance of bonds under the Mello-Roos Community Facilities Act of 1982, as amended (being Sections 53311 et seq. of the Government Code of the State of California), and all laws amendatory thereof or supplemental thereto (the "Act"), in the aggregate principal amount of eighty-five million dollars (\$85,000,000) in the form and manner provided therein, designated the "North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds" (the "Bonds").
- B. Both Sections 2.02 and 2.03 of the Master Indenture require a supplemental indenture for the issuance of a series of the Bonds in addition to the Series A (1999) Bonds, the Series B (2001) Bonds and the Series C (2003) Bonds under the Master Indenture.
- C. It is desirable and necessary to approve a Fourth Supplemental Indenture by and between the City and the Trustee supplemental to the Master Indenture in the form now on file with the City Clerk (the "Fourth Supplemental Indenture") to specify the conditions, terms and form of such additional series of the Bonds and to designate such additional series of the Bonds as the "North Natomas Community Facilities District No. 4, City of Sacramento, County of Sacramento, State of California, Special Tax Bonds, Series D (2006)" (the "Series D (2006) Bonds") to be issued pursuant to the Law, the Master Indenture and the Fourth Supplemental Indenture in order to finance the costs of the acquisition and construction of certain other facilities authorized to be financed by the Community Facilities District and to pay the costs of issuance of the Series D (2006) Bonds.

THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** The North Natomas Drainage Community Facilities District No. 4, Series D project is hereby approved; the debt service is 859, the construction fund is 688, and the project numbers are 63AD and 64AD.
- Section 2.** The appropriations, as outlined on Exhibit A to this Resolution, herein incorporated, will be supported by revenue from the sale of Mello-Roos Bonds.
- Section 3.** The City Treasurer is hereby authorized to modify the budget as may be required after final pricing and sale of the bonds and as thereafter required to carry-out the terms and intent of the financing in accordance with law and city policy.
- Section 4.** All Cost of Issuance expenditures must have written approval from the Office of the City Treasurer prior to final payment.

**North Natomas CFD No. 4, Series D
Projected Revenue & Expenditure Budget**

Item	Account Number	Amount
PAR		\$26,270,000
Revenue Budget	859-ASD-63/64AD-3713	\$26,270,000
Expenditure Budget		\$26,270,000
Underwriter's Discount		-\$394,050
Total		\$25,875,950
 Cost of Issuance		
City Treasurer	688-ASD-63/64AD-4880	\$12,500
City Attorney	688-ASD-63/64AD-4880	\$11,500
Real Estate	688-ASD-63/64AD-4880	\$30,000
Public Improvement & Finance	688-ASD-63/64AD-4880	\$10,000
Utilities	688-ASD-63/64AD-4882	\$2,000
Bond Counsel	688-ASD-63/64AD-4802	\$95,675
Tax Consultant	688-ASD-63/64AD-4802	\$30,000
Trustee Fee / Counsel	688-ASD-63/64AD-4802	\$6,000
District Appraiser	688-ASD-63/64AD-4812	\$50,000
OS Printing	688-ASD-63/64AD-4258	\$10,000
Bond Administration	688-ASD-63/64AD-4880	\$5,200
SDIRS	688-ASD-63/64AD-4287	\$64,270
Contingency	688-ASD-63/64AD-4414	\$7,855
Subtotal		\$335,000
 Other Funds		
Capitalized Interest	859-ASD-63/64AD-4852	\$1,028,371
Reserve Fund	859-xxx-xxxx-xxxx	\$2,410,429
Subtotal		\$3,438,801
 Construction Funds Available		 \$22,005,502
 Acquisition / Construction Fund		
Improvements	688-ASD-63/64AD-4820	\$22,082,149
Utilities Staff	688-ASD-63/64AD-4882	\$10,000
Real Estate Staff	688-ASD-63/64AD-4880	\$10,000
Subtotal		\$22,005,502
TOTAL		\$26,270,000.00