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CITY OF SACRAMENTO

OFFICE OF THE TREASURER
800 · 10th STREET
SUITE 1
SACRAMENTO, CA 95814
TELEPHONE (916) 449-5318 (Operations)
(916) 449-5168 (Investments)

THOMAS P. FRIERY
TREASURER
DONALD E. SPERLING
ASST. TREASURER

July 19, 1984

APPROVED BY THE CITY COUNCIL
JUL 24 1984
OFFICE OF THE CITY CLERK

A G 84012

Sacramento City Council
Sacramento, California 95814

Honorable Members in Session:

SUBJECT: Investment Banking Agreement for Proposed 1984/85 Tax and Revenue Anticipation Notes (TRANs)

SUMMARY

Authorize the City Manager to finalize the Investment Banking Agreement (Attachment I) with Paine Webber, Inc. to execute a negotiated sale for the proposed $15.9 million 1984/85 City Tax and Revenue Anticipation Notes (TRANs) financing as provided in the current budget.

BACKGROUND

I met with Bob Leland on May 24, 1984 on financing considerations and it was estimated that $15.9 million would still be needed for the upcoming fiscal year cash flow needs, as addressed in the proposed budget. For the past 3 fiscal years the City of Sacramento has issued TRANs to meet cash flow deficits.

I contacted Paine Webber, Inc. (1981/82 and 1982/83 TRAN Underwriter) and Bank of America (1983/1984 TRAN Underwriter) to discuss costs as well as strategy for a TRAN financing.

The following conclusions are offered:

--The majority of TRAN financings are being accomplished on a negotiated basis.

--The sale would be early to mid-September, 1984.

--It is advisable to present our debt management policy and meet rating agencies in New York regarding not only the proposed TRAN but any possible financing the City is considering over the next three to five years.

Both firms submitted bids on a competitive and negotiated basis for $15 million (to be $15.9) TRAN financing.

Their response (see Attachments 2 and 3) reveals that Paine Webber's bid is approximately $1,750 less than Bank of America. Neither bid reflects expenses associated with a trip to New York City by appropriate staff and City Councilpersons to meet with the rating agencies. However, such costs would be a part of the normal financing costs. It should be noted that many Cities, Counties and the State routinely go to New York City for such meetings. This will be the first time that City of Sacramento representatives have done so.

Based on market conditions I recommend a negotiated sale. Based on the bid and knowledge of the City, I recommend execution of the TRAN through Paine Webber. Based on a $15.9 million isssue the total cost will not exceed 4.5% or $71,550.00. I have estimated the net interest income earned from the proposed $15.9 million TRAN to be $100,000. The only expense not included in this amount is fiscal and paying agent fees estimated to be $2,000.

RECOMMENDATION

The City Council to authorize the City Manager to finalize the Investment Banking Agreement with Paine Webber, Inc. for the $15.9 million 1984/85 TRANs and authorize the City Treasurer to arrange a New York meeting of appropriate City Council members and staff with Municipal Credit Rating staff of both Moody's Investors and Standard & Poors (rating agencies).

Respectfully submitted,

Donald E. Sperling

for THOMAS P. FRIERY
City Treasurer

TPF/DES/lv
Attachments

RECOMMENDATION APPROVED:

Walter J. Slipe

WALTER J. SLIPE, City Manager

July 24, 1984
All Districts

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RESOLUTION NO. 84-641

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

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.

MAYOR

ATTEST:

CITY CLERK

APPROVED
BY THE CITY COUNCIL

JUL 24 1984

OFFICE OF THE
CITY CLERK

ATTACHMENT II

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BLYTH EASTMAN PAINE WEBBER
INCORPORATED
555 CALIFORNIA STREET
SAN FRANCISCO, CALIFORNIA 94104

415-362-8000

May 23, 1984

Mr. Tom Friery
City Treasurer
City of Sacramento
City Hall
915 "T" Street
Sacramento, CA 95814

Dear Tom:

Pursuant to our phone conversation of this morning, I am enclosing two alternative samples of a proposed investment banking agreement or financial advisory contract relating to your plans to issue approximately $15,000,000 of tax and revenue anticipation notes.

We are prepared to undertake this commitment on either a competitive or negotiated sale. In either case our fee will be $15,000 for setting up this note issue. If the issue is negotiated the additional cost (i.e. spread) would consist of the takedown (sales commission and underwriter's fee) which we estimate will total approximately 1/4 point per note or $37,500. By printing the Official Statement on our word processor we are hopeful that we can hold total expenses to $15,000. Such expenses would include bond counsel, underwriter's counsel (hopefully both would be the same law firm), note printing and note rating charges as well as other miscellaneous statistical charges.

Most note issues in the State are currently negotiated and there would be time saving in preparing documents in about 15 days in a negotiated versus competitive sale. We estimate 30 days lead time to prepare a negotiated issue and 45 days lead time to prepare a competitive issue.

Please let me know whether you wish to sell at competitive or negotiated sale. Also if you have any questions, re: the enclosed sample contracts give me a call. I have enclosed a copy of the Official Statement for Merced Union High School District which we prepared on our word processing machine. The savings in printing costs versus a formal printed document is approximately $15,000.

We will need your assistance as well as that of Jack Crist in preparing tables one through seven. We would also like your preliminary budget for the upcoming year, I believe Carlo Fowler would need the same documentation so please forward the same to him.

I look forward to hearing from you as to the method of financing you wish to use and your time schedule. Please keep in touch. I will be out of the country from June 15 to July 6 and will ask Steve Melikian of our San Francisco office to oversee this financing during the time of my absence.

Very truly yours,

Ashford D. Wood
Vice President

ADW:bac

Enclosure

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BLYTH EASTMAN PAINE WEBBER
INCORPORATED
555 CALIFORNIA STREET
SAN FRANCISCO, CALIFORNIA 94104

415-362-8000

June 12, 1984

Mr. Thomas P. Friery,
Treasurer
City of Sacramento
800 10th Street
Suite 1
Sacramento, CA 95814

Dear Tom:

With respect to our letter bid dated May 23, 1984 to serve the City of Sacramento as underwriter on a $15,000,000 Tax and Revenue Anticipation Note issue, my bid totalling $67,500 includes an amount of $7,500 for bond counsel/underwriter's counsel fees, but excludes paying agency fee estimated at $2,000.

I trust this is the information you need in order to make an award relative to the preparation of your Tax and Revenue Anticipation Note issue.

Very truly yours,

Ashford D. Wood
Vice President

ADW:bac

Attachment III 19

BANK OF AMERICA

PUBLIC FINANCE DEPARTMENT

TILFORD PATTERSON
Financial Consultant

June 12, 1984

Mr. Thomas Friery
Treasurer
City of Sacramento
800 Tenth Street, Suite 1
Sacramento, California 95814

Dear Tom,

As promised in our conversation last week, attached is the written description of our variable rate note program. We are always pleased to respond to opportunities to "show the flag" in Sacramento, but this time we are particularly excited. The program described herein is truly a unique investment banking product and one we feel best meets the needs of the City of Sacramento.

Historically, Bank of America has had an excellent working relationship with the City. Last year, the Bank negotiated one of the lowest interest rates for a like credit for the City's 1983 TANS. This year, given the time constraints and the expected volume of the note market at the time the City hopes to issue, we propose to serve as manager and negotiate the sale of the notes. Currently, the Bank serves as manager for over 62% of all the tax-exempt short-term notes offered in the State of California and, as a result, can offer the City the lowest possible market rate.

The attached proposal fully describes our variable rate note program. However, as we discussed last week, if the City chooses to sell a fixed rate note, Bank of America proposes a financing similar to last year's successful note issue. For the proposed $15 million fixed rate issue, the Bank would be delighted to serve as a manager for a total cost to the City of $63,750. This fee includes all printing costs, CDAC fees, rating agency and fiscal and paying agent fees as well as miscellaneous expenses. It shall also include our underwriter's fee of $2.25 per note. We are equally willing to be compensated by purchasing the notes at a discount or from the spread and purchase the notes from the City at par. The City should note that if these securities were sold competitively we would anticipate an underwriter's discount of about $3.00 per note given the volatility of the short-term market at the expected date of sale. We have chosen not to use underwriter's counsel as an additional savings to the City. Bond Counsel fees are the only expense item paid directly by the City and we estimate those to be $7500.00. Should the City elect to issue our variable rate note program, anticipate a remarketing fee equal to 1/10th of 1% of the notes put back to the remarketing agent up to a maximum fee of $10,000.00.

Once again, thank you for the opportunity to present our most innovative short-term financing vehicle. As is always the case, if you have any questions, feel free to give me a call. We look forward to discussing this program with you in greater detail.

Sincerely,

Tilford Patterson

Tilford L. Patterson
(415) 622-2529

TP:jc/0151p

Attachments