



REPORT TO COUNCIL

City of Sacramento

23

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

STAFF
September 7, 2010

Honorable Mayor and
Members of the City Council

Title: Ratify Amendments to Agreements that Relate to 1997 Lease Revenue Bonds (Arco Arena Acquisition)

Location/Council District: Citywide

Recommendation: Adopt both a City Council **Resolution** and a Sacramento City Financing Authority **Resolution**, each ratifying (1) the 2003 Subordination Agreement between the Sacramento City Financing Authority and U.S. Bank National Association; and (2) the 2003 Letter Agreement between the National Basketball Association, the City, Sacramento City Financing Authority, U.S. Bank National Association, and the Sacramento Kings Limited Partnership.

Contacts: Russell T. Fehr, City Treasurer, 808-5168

Presenters: Russell T. Fehr

Department: Treasurer

Division: Debt

Organization No: 05001011

Description/Analysis:

Issue: In 1997, the Sacramento City Financing Authority ("the Authority") issued lease-revenue bonds that the City used to acquire ARCO Arena from Sacramento Kings Limited Partnership ("the Kings Partnership"). In December 2002, the Kings Partnership asked the City to amend the Subordination Agreement executed in 1997 as part of the ARCO Arena financing, so it could take advantage of the NBA's efficient credit facility for NBA franchises. Specifically, the Kings Partnership and the NBA asked the City and the Authority to sign the following two documents:

1. A revised Subordination Agreement dated May 5, 2003, between the Kings Partnership, U.S. Bank National Association (“U.S. Bank”), and the Authority.
2. A letter agreement dated April 10, 2003, between the NBA, the Kings Partnership, U.S. Bank, the Authority, and the City. This agreement amends the 1997 letter agreement by which the NBA approved the City’s taking a security interest in the team to secure the Kings Partnership’s payment of the outstanding bonds if the team relocates to another city before the bonds are retired. The security interest was granted by a Security Agreement between the Kings Partnership and the trustee of the bonds, U.S. Bank.

The amendments have two primary provisions: (1) the Kings Partnership agrees to increase the City’s security interest in the team from \$20 million to \$25 million; and (2) the City agrees to subordinate that security interest to the NBA’s \$75 million security interest in the team, which secures payment of loans to the Kings Partnership through the NBA’s new credit facility (previously the City’s \$20 million security interest was subordinated to a \$30 million senior lien).

These documents were approved administratively in early 2003. During a recent review, however, uncertainties arose regarding the approvals. To remove any uncertainty, staff recommends that City Council and the Authority adopt the attached resolutions ratifying the revised subordination agreement and the amendatory letter agreement.

Policy Considerations: The affected parties have incurred obligations consistent with the provisions outlined within the amended agreements.

Committee/Commission Action: Not applicable

Environmental Considerations: Not applicable

California Environmental Quality Act (CEQA): Not applicable

Sustainability Considerations: Not applicable

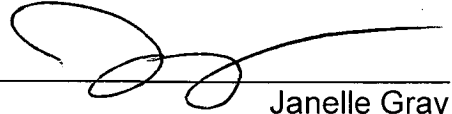
Rationale for Recommendation: Adopting the resolution will ratify, confirm, and approve the two amendments, thus removing any uncertainties regarding the documents and ensuring continued protection of the City’s \$25 million security interest.

Financial Considerations: Ratification does not impact the debt-service obligation on the bonds, which are secured by lease payments from the Kings Partnership for the use of ARCO Arena. Since 1997, the Kings have met all obligations regarding ARCO Arena (i.e., the Kings have paid all lease payments in full and on time) and have willingly

provided all necessary information. We believe that any additional risk to the City from the amended agreements is minimal and thus not material.

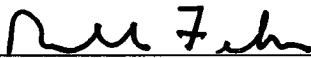
Emerging Small Business Development (ESBD): Not applicable

Respectfully submitted by: _____



Janelle Gray
Debt Manager

Recommendation Approved:



Russell T. Fehr
City Treasurer

Table of Contents:

Report Pg 1

Attachments

- | | | |
|---|---------------------------------------|-------|
| 1 | City Resolution | Pg 4 |
| 2 | Authority Resolution | Pg 6 |
| 3 | Subordination Agreement | Pg 8 |
| 4 | NBA Letter Agreement | Pg 17 |
| 5 | Amendment No. 1 to Security Agreement | Pg 32 |

[Back to Report Table of Contents](#)

Attachment 1

RESOLUTION NO. 2010-XXXX

Adopted by the Sacramento City Council

September 7, 2010

RATIFYING AMENDMENTS TO AGREEMENTS THAT RELATE TO 1997 LEASE REVENUE BONDS (ARCO ARENA)

BACKGROUND

- A. On April 15, 1997, the City Council adopted Resolution No. 97-180, approving several agreements and other documents related to the Sacramento City Financing Authority's issuance, sale, and delivery of bonds in an amount not to exceed \$75 million for the purpose of financing the City's acquisition of certain real property and the facilities thereon constituting a sports arena known as ARCO Arena ("the Acquisition Bonds").
- B. By approving Resolution No. 97-180, the City Council authorized and directed the officers, agents, and employees of the City, jointly and severally, to do any and all things and to execute and deliver any and all documents they deemed necessary or advisable to carry out, give effect to, and comply with the resolution.
- C. In May 2003, relying on the above-stated provision of Resolution No. 97-180, the City executed the following agreements:
 - (1) A letter agreement dated April 10, 2003, between the City, Sacramento Kings Limited Partnership ("the Kings Partnership"); the National Basketball Association ("the NBA"); and U.S. Bank National Association ("U.S. Bank"), successor to First Trust of California, N.A. ("First Trust") as trustee for the Acquisition Bonds. This letter agreement amended a letter agreement dated July 30, 1997, between the City, the Kings Partnership, the NBA, and First Trust, by which the NBA approved a Team Owner's Relocation Assurance Agreement dated July 1, 1997, between the City and the Kings Partnership. The Team Owner's Relocation Assurance Agreement obligates the Kings Partnership to pay the City an amount equal to the outstanding principal and interest on the Acquisition Bonds if the Sacramento Kings NBA franchise relocates to another city before the Acquisition Bonds have been retired. To secure the performance of this obligation, the Kings Partnership and First Trust entered into a Security Agreement that granted First Trust, as trustee for the Acquisition Bonds, a security interest of \$20 million in the Sacramento Kings NBA franchise. With the amended letter agreement, the NBA approved an increase in the security interest from \$20 million to \$25 million. The Security Agreement was also amended to reflect this increase.

- (2) A revised Subordination Agreement, dated May 5, 2003, between the Sacramento City Financing Authority and U.S. Bank, successor to First Trust as trustee of the Acquisition Bonds. Under the original Subordination Agreement, the Sacramento City Financing Authority and the trustee of the Acquisition Bonds, which by assignment is the holder of the City's rights under the Team Owner's Relocation Assurance Agreement, agreed to subordinate the security interest created by the Security Agreement to a senior lien of \$30 million. The revised Subordination Agreement increased that amount of the senior lien (which secures the NBA's loans to the Kings Partnership under the credit facility) to \$75 million.
- D. In 2010, during a review of the legal documents associated with the Acquisition Bonds, staff determined that Resolution No. 97-180 did not clearly grant administrative authority to amend terms and documents once the bonds had been issued.
- E. Because it has been determined that Resolution No. 97-180 does not clearly reflect an intent by the City Council to grant staff on-going administrative authority to amend the documents after bonds have been issued, and because all involved parties have relied upon the 2003 amendments, the City Council desires to ratify the letter agreement dated April 10, 2003, and the revised Subordination Agreement dated May 5, 2003.

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

Section 1. The City Council hereby ratifies (a) the revised Subordination Agreement dated May 5, 2003, described in paragraph C(1) above; and (b) the letter agreement dated April 10, 2003, described in paragraph C(2) above.

Section 2. In accordance with California law, the City Council intends that this ratification relate back to the 2003 date of each document.

[Back to Report Table of Contents](#)

Attachment 2

RESOLUTION NO. 2010-XXXX

Adopted by the Sacramento City Financing Authority

September 7, 2010

RATIFYING AMENDMENTS TO AGREEMENTS THAT RELATE TO 1997 LEASE REVENUE BONDS (ARCO ARENA)

BACKGROUND

- A. On April 15, 1997, the Sacramento City Financing Authority (“the Authority”) adopted Resolution No. 97-001, thereby authorizing the issuance, sale, and delivery of bonds in an amount not to exceed \$75 million for the purpose of financing the acquisition of certain real property and the facilities thereon constituting a sports arena known as ARCO Arena (“the Acquisition Bonds”).
- B. By approving Resolution No. 97-001, the Authority authorized and directed its officers and agents, jointly and severally, to do any and all things and to execute and deliver any and all documents they deemed necessary or advisable to in order to carry out, give effect to, and comply with the resolution.
- C. In May 2003, relying on the above-stated provision of Resolution No. 97-001, staff executed the following documents:
 - (1) A letter agreement dated April 10, 2003, between the City, Sacramento Kings Limited Partnership (“the Kings Partnership”); the National Basketball Association (“the NBA”); and U.S. Bank National Association (“U.S. Bank”), successor to First Trust of California, N.A. (“First Trust”) as trustee for the Acquisition Bonds. This letter agreement amended a letter agreement dated July 30, 1997, between the City, the Kings Partnership, the NBA, and First Trust, by which the NBA approved a Team Owner’s Relocation Assurance Agreement dated July 1, 1997, between the City and the Kings Partnership. The Team Owner’s Relocation Assurance Agreement obligates the Kings Partnership to pay the City an amount equal to the outstanding principal and interest on the Acquisition Bonds if the Sacramento Kings NBA franchise relocates to another city before the Acquisition Bonds have been retired. To secure the performance of this obligation, the Kings Partnership and First Trust entered into a Security Agreement that granted First Trust, as trustee for the Acquisition Bonds, a security interest of \$20 million in the Sacramento Kings NBA franchise. With the amended letter agreement, the NBA approved an increase in the security interest from \$20 million to \$25 million. The Security Agreement was also amended to reflect this increase.

- (2) A revised Subordination Agreement, dated May 5, 2003, between the Authority and U.S. Bank successor to First Trust as trustee of the Acquisition Bonds. Under the original Subordination Agreement, the Authority and the trustee of the Acquisition Bonds, which by assignment is the holder of the City's rights under the Team Owner's Relocation Assurance Agreement, agreed to subordinate the security interest created by the Security Agreement to a senior lien of \$30 million. The revised Subordination Agreement increased that amount of the senior lien (which secures the NBA's loans to the Kings Partnership under the credit facility) to \$75 million.
- D. In 2010, during a review of the legal documents associated with the ARCO Arena bonds, staff determined that Resolution No. 97-001 did not clearly grant administrative authority to amend terms and documents once the bonds had been issued.
- E. Because it has been determined that Resolution No. 97-001 does not clearly reflect an intent by the Authority to grant staff on-going administrative authority to amend the documents after the bonds have been issued, and because all involved parties have relied upon the 2003 amendments, the Authority desires to ratify the letter agreement dated April 10, 2003, and the revised Subordination Agreement dated May 5, 2003.

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

Section 1. The Authority hereby ratifies (a) the revised Subordination Agreement dated May 5, 2003, described in paragraph C(1) above; and (b) the letter agreement dated April 10, 2003, described in paragraph C(2) above.

Section 2. In accordance with California law, the Authority intends that this ratification relate back to the 2003 date of each document.