

RESOLUTION NUMBER R- 106734
DATE OF FINAL PASSAGE APR 01 2011

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO (I) MAKING CERTAIN DETERMINATIONS RELATED TO THE USE OF TAX INCREMENT PROCEEDS FROM THE CENTRE CITY REDEVELOPMENT PROJECT AREA (PROJECT AREA) TO PAY COSTS FOR DEBT SERVICE PAYMENTS ON THE FINANCING OF CONSTRUCTION OF THE PHASE II EXPANSION OF THE SAN DIEGO CONVENTION CENTER LOCATED IN THE PROJECT AREA, (II) APPROVING THE COOPERATION AGREEMENT FOR REIMBURSEMENT OF COSTS ASSOCIATED WITH THE EXPANSION OF THE SAN DIEGO CONVENTION CENTER (REIMBURSEMENT AGREEMENT), AND (III) APPROVING OTHER ACTIONS RELATED TO THE REIMBURSEMENT AGREEMENT.

WHEREAS, the Redevelopment Agency of the City of San Diego (Agency) is engaged in activities necessary to carry out and implement the Redevelopment Plan for the Centre City Redevelopment Project Area (Project Area); and

WHEREAS, in order to carry out and implement the Redevelopment Plan, on June 19, 2009, the Agency approved the Fourth Implementation Plan for the period of July 2009 thru June 2014 for the Centre City and Horton Plaza Redevelopment Projects (Implementation Plan); and

WHEREAS, among other things, the Implementation Plan contemplates the support and development of a Sports/Entertainment District around the Petco Park Major League Baseball stadium (Ballpark) and adjacent to the San Diego Convention Center (Convention Center) and the creative implementation of catalyst projects to spur reinvestment in the area surrounding the Ballpark; and

WHEREAS, in 1998, the City of San Diego (City) caused the Convention Center Expansion Financing Authority (Authority) to issue Lease Revenue Bonds, Series 1998A (Convention Center Bonds) to finance the cost of the Phase II expansion of the Convention

Center (Phase II Improvements) on land within the Project Area and owned by the Port of San Diego (Port); and

WHEREAS, as of April 1, 2011, approximately \$156.8 million of the Convention Center Bonds remains outstanding; and

WHEREAS, the Convention Center Bonds are legal obligations of the City, and the Port is required to make partial annual contributions to the City toward such obligations through Fiscal Year 2014; and

WHEREAS, the Port has determined that it is not financially feasible for the Port to make additional contributions to help finance the costs associated with the debt service on the Convention Center Bonds; and

WHEREAS, the total debt service on the Convention Center Bonds, including accrued interest, to be paid by the City during the period from Fiscal Years 2011 through 2028 will be \$239,725,168; and

WHEREAS, the Agency and the City now desire to enter into that certain Cooperation Agreement for Reimbursement of Costs Associated with the Expansion of the San Diego Convention Center (Reimbursement Agreement), by which the Agency will pay a total of \$228,570,688 during Fiscal Years 2012 through 2043 to reimburse the City for costs associated with the debt service on the Convention Center Bonds, in accordance with a schedule of annual payments attached as Exhibit A to the Reimbursement Agreement; and

WHEREAS, the Agency will expend tax increment proceeds generated from the Project Area (Agency Funds) in order to make the payments owed to the City under the Reimbursement Agreement; and

WHEREAS, pursuant to California Health and Safety Code Section 33445, which is part of the California Community Redevelopment Law, the Agency may, with the consent of the City Council of the City of San Diego (Council), pay for all or part of the land for and/or the installation and construction of any building, facility, or other improvement that is publicly owned either within or contiguous to the Project Area so long as certain determinations set forth in California Health and Safety Code Section 33445 (33445 Determinations) are made; and

WHEREAS, pursuant to California Health and Safety Code Section 33679, the Agency and Council held a joint public hearing on March 29, 2011, regarding the proposed expenditure of Agency Funds to pay for cost of the Phase II Improvements in accordance with the Reimbursement Agreement, after publishing notice of the public hearing for at least two successive weeks prior to the public hearing, and after making available, for public inspection and copying, that certain "Summary Pertaining to the Use of Tax Increment for the Convention Center Expansion, Phase II" (Summary), on file in the office of the Agency Secretary as Document No. RR- 306734-1, and incorporated fully into this Resolution by this reference; and

WHEREAS, the Summary includes all of the following elements: (a) estimates of the amount of tax increment proposed to be used to pay for the Phase II Improvements; (b) the facts supporting the 33445 Determinations; and (c) the redevelopment purpose for which tax increment proceeds are being used to pay for the Phase II Improvements; and

WHEREAS, the Summary was made available to the public no later than the time of the first publication of the notice of the public hearing; and

WHEREAS, pursuant to California Health and Safety Code Section 33445, the Council considered the information in the Summary and in the administrative record regarding: (1) the

manner in which the Phase II Improvements will benefit the Project Area by helping to eliminate blight, including the information contained in Section III of the Summary; (2) the unavailability of other reasonable means of financing the Phase II Improvements by the City, including the information contained in Section IV of the Summary; and (3) the consistency of the Phase II Improvements with the Implementation Plan adopted pursuant to California Health and Safety Code Section 33490, including the information contained in Section V of the Summary; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, as follows:

1. The Council received and heard any and all oral and written objections relating to the proposed expenditure of Agency Funds in accordance with the Reimbursement Agreement, and to other matters pertaining to this transaction, and all such oral and written objections are overruled.

2. The Council hereby adopts the determinations and recommendations set forth in the Summary and more specifically determines as follows:

a. The Phase II Improvements for which the Agency proposes to pay the City under the Reimbursement Agreement are of benefit to the Project Area in which the Phase II Improvements are located by helping to eliminate blight within the Project Area, in that:

(1) The Project Area will continue to see a steady infusion of convention attendees, supporting new development and providing amenities that increase the residential desirability of the area.

(2) Convention Center attendees spent approximately \$567 million in Fiscal Year 2010, and much of that spending supported businesses in and around the Project Area.

(3) The Convention Center provides complementary uses to the Ballpark, encouraging development there and in adjacent areas helping to eliminate vacant lots, deteriorated and dilapidated buildings that exist and have existed in the Project Area, and which have contributed or continue to contribute to its blighted condition.

(4) The Convention Center lies at the southern edge of the Project Area, stimulating growth in the surrounding area and causing an acceleration of the elimination of nearby blighted conditions.

(5) The Convention Center provides access from the Project Area to San Diego Bay and Embarcadero Marina Park South. This access will be further enhanced with the completion of the Harbor Drive Pedestrian Bridge, which will connect the Ballpark area and the Convention Center.

b. There are no other reasonable means available to the City for financing the Phase II Improvements, in that:

(1) The Convention Center Bonds were issued in 1998 and are an obligation of the City's General Fund. When the Convention Center Bonds were issued, the General Fund had total revenues of approximately \$558 million and expenditures of approximately \$547 million, leaving a surplus of approximately \$11 million. In the Fiscal Year 2012-2016 Five Year Financial Outlook, the City projects total Fiscal Year 2012 General Fund revenues of approximately \$1.0767 billion and expenditures of approximately \$1.1334 billion, resulting in a deficit of approximately \$56.7 million. The economic conditions underlying the City's revenue situation are discussed below. The City's increased expenditures over the 14-year period from 1998 to present are substantially caused by the City's pension situation, which has greatly exacerbated the City's fiscal difficulties. In 1998, the City's pension plan was 93.6 percent

funded with an unfunded actuarial liability of \$125.5 million. As of June 30, 2010, the City's pension plan was 67.1 percent funded with an unfunded actuarial liability of \$2.1 billion. The City's annual pension contribution has grown from approximately \$30.7 million in 1998 to a projected \$231.2 million for Fiscal Year 2012 (contribution numbers are Citywide—the General Fund's 2012 contribution is expected to be approximately \$179.2 million).

(2) The City experienced declining revenues in the General Fund of approximately \$55 million from Fiscal Years 2008 through 2010 as a result of the recession. In order to comply with the City Charter requirement to maintain a balanced budget, significant expenditure reductions affecting City services have been made in Fiscal Years 2008 through 2011 and are expected to continue. The City's Fiscal Year 2011 Adopted Budget includes revenue projections that remain below Fiscal Year 2008 levels. The City's Fiscal Year 2011 Adopted Budget incorporated a further decline in General Fund revenues of \$33.5 million from the Fiscal Year 2010 Adopted Budget, for a total loss of revenue since Fiscal Year 2008 of over \$88 million. These revenue declines resulted in a reduction in funding for City services and contributed to an elimination of 1,422 city employee positions over the past four years.

(3) As a result, services provided by the City have been reduced and include: critical services such as brownouts in the Fire Department; reduced lifeguard positions; reduced positions in the Police Department; reduced library hours; a reduction in park maintenance and graffiti removal; reduction in Park and Recreation Center hours of operation and services; the closure of all customer service centers; and the elimination of the Balboa Park police equestrian patrol and the Harbor Patrol.

(4) The projected budget deficit for Fiscal Year 2012 has been estimated to be \$56.7 million according to the City's Fiscal Year 2012-2016 Five-Year Financial Outlook released in

February 2011. The projected deficit will place a considerable strain on the General Fund and will be addressed in Fiscal Year 2012 through several means, including additional reductions to City expenditures. City services will be further affected in Fiscal Year 2012, compounding the prior years' service reductions.

(5) Beyond Fiscal Year 2012, the City forecasts continued economic uncertainty due to the persistently high unemployment rate, the depressed housing market, and low consumer confidence, all of which affect consumer discretionary spending. Consumer discretionary spending drives revenues from sales tax, tourism tax, and property tax, which are the three largest sources of revenue for the City's General Fund. The economic recovery is projected to be slow and prolonged. For the City's revenues to improve, the local economy will need to generate thousands of jobs to return to pre-recession levels of employment. Economists project a slow growth in jobs and personal income as well as a slow recovery in the housing market. The local travel industry has been significantly affected in the past few years due to the economic downturn, and it is not expected to experience a quick recovery in returning to pre-recession levels in tourism. All of these economic factors directly affect the City's major revenue sources over the short and long terms.

(6) The City faces structural budget deficits in Fiscal Year 2012 and beyond. Solutions to the budget deficit will result in a further reduction in City services. In addition, these deficit forecasts do not factor in a restoration of services to pre-recession levels nor account for normal wage adjustments. General Fund expenditures for City operations are projected to exceed projected General Fund revenues even after the significant reductions in personnel and core service reductions that have been taken. The City faces structural funding challenges with an unfunded pension liability of \$2.1 billion; an unfunded retiree health liability of \$1.1 billion; and

a deferred capital projects backlog of \$800 to \$900 million. These funding pressures are long term and do not incorporate the restoration of City services that were reduced in prior years to balance the budget.

(7) In addition, as of June 30, 2010, City's unfunded actuarial accrued liability for Other Post-Employment Benefits (OPEB) is \$1.1 billion, and the Fiscal Year 2011 OPEB annual required contribution (ARC) is \$96 million. The City is currently partially funding the OPEB ARC due to fiscal pressures. Without substantial reform in retiree health care benefits, the City's payments for retiree health care benefits are projected to increase annually, reaching \$130 million in Fiscal Year 2032. This \$130 million annual amount projected for Fiscal Year 2032 is an increase of 128% over the Fiscal Year 2011 payment of \$57 million.

(8) The City must also address deferred capital project needs that have been backlogged due to past underfunding and are proceeding as the City can afford project funding. These deferred capital projects include needed repairs to City facilities and infrastructure, including roof replacement, heating and cooling system upgrades, structural repairs, as well as repairs and improvements to storm drains and streets. It is estimated that the City's deferred capital project needs may be at least \$800 to \$900 million and will continue over many years, resulting in additional fiscal demands on the City.

(9) The City's annual pension ARC payment is projected by the actuary to grow considerably from current levels, peaking at \$468 million in Fiscal Year 2025, and exceeding the Fiscal Year 2012 ARC payment of \$231.2 million each year for the next 16 years. The magnitude of annual increases in pension and OPEB ARC will continue to consume resources that are not available for City services and other obligations, including the Convention Center

Bonds. The City's revenues are not projected to grow at the same rates as the current growth of the pension and OPEC ARC obligations.

(10) Given the economic uncertainty, the City's limited resources with low revenue growth, including the voters' rejection of a local sales tax increase in 2010, the significant ongoing long term obligations for capital projects, and the growing pension and retiree health care payments, the City does not have the capacity to fund the debt service payments on the Convention Center Bonds. Such payments will crowd out the City's ability to support essential City services. As described above, the City does not have the resources to support the payments for the financing of the Phase II Improvements in the Project Area over the life of the Convention Center Bonds.

c. The payment of Agency Funds toward the cost of the Phase II Improvements under the Reimbursement Agreement is consistent with the Implementation Plan adopted pursuant to California Health and Safety Code Section 33490, in that:

(1) The Implementation Plan contemplates the support and development of a Sports/Entertainment District around the Ballpark and adjacent to the Convention Center and the creative implementation of catalyst projects to spur reinvestment in the area surrounding the Ballpark.

(2) The Convention Center provides significant transient occupancy tax revenue and increases patronage at local retail businesses.

(3) The Convention Center provides for event and non-event parking and is conveniently located near access to the San Diego Trolley and other mass transit infrastructure.

(4) The Convention Center provides access to parks and open space for existing and future downtown residents.

(5) The Convention Center is a component of the park-to-bay linkage currently being implemented.

3. The Council hereby consents to the Agency's payment for the cost of the Phase II Improvements in accordance with the Reimbursement Agreement, using tax increment proceeds generated from the Project Area.

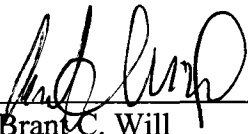
4. The Council hereby approves the Reimbursement Agreement between the City and the Agency providing the terms for the Agency's payment of a total amount of \$228,570,688 during Fiscal Years 2012 through 2043 to reimburse the City for costs associated with the debt service on the Convention Center Bonds. A copy of the Reimbursement Agreement, when executed by the City and the Agency, shall be placed on file in the City Clerk's office as Document No. RR- 306734 - 2.

5. The Mayor, or designee, is hereby authorized, on behalf of the City, to execute the Reimbursement Agreement and any other documents necessary and appropriate to carry out and implement the Reimbursement Agreement, and to administer the City's obligations, responsibilities and duties to be performed under the Reimbursement Agreement.

6. All payments made pursuant to the Reimbursement Agreement and any other obligations and indebtedness of the Agency to the City created by the Reimbursement Agreement shall be subordinate to rights of the holder or holders of any existing bonds, notes or other instruments of indebtedness of the Agency incurred or issued to finance projects in the

Project Area, including without limitation any pledge of tax increment revenues from the Project Area to pay any portion of the principal (and otherwise comply with the obligations and covenants) of any bond or bonds issued or sold by the Agency with respect to the Project Area.

APPROVED: JAN I. GOLDSMITH, City Attorney

By 
Brant C. Will
Deputy City Attorney


KR/BCW:nja
3/24/2011
Or.Dept:CCDC
R-2011-803
PL#2011-05673
Comp. RA-2011-119

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of 3/29/11.

ELIZABETH S. MALAND
City Clerk

By 
Deputy City Clerk

Approved: 4-1-11
(date)


JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor