THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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City Redevelopment Housing and Non-Housing Tax Allocation Bonds

OVERVIEW

On Tuesday, July 22, the City Council and Redevelopment Agency will be requested to approve a number of actions related to the issuance of housing and non-housing tax allocation bonds (TABs) for project areas managed by the City Redevelopment Division. The requested actions will authorize five separate bond issuances: one issuance of pooled housing TABs, secured by housing set-aside funds from six different project areas; and four separate issuances of non-housing TABs, secured by non-housing tax increment funds from respective project areas.

The IBA has reviewed the backup documentation provided for this item, including Preliminary Official Statements and financial consultant reports, and we support both the Housing and Non-Housing TAB issuances. While we have no significant concerns with the proposed issuances, the item before the Agency and Council is somewhat complex as a result of five distinct bond issuances being brought forward for approval at the same time, each with a different set of financial circumstances. As such, this report supplements and clarifies the backup documentation by providing summary information about each of the five bond issuances.

FISCAL/POLICY DISCUSSION

The proposed five bond issuances are estimated to generate approximately $93.7 million in net proceeds for the Redevelopment Agency. The pooled housing TABs are estimated to generate approximatley $51.0 million in net proceeds ($57.3 million par value); while

the four non-housing TABs are estimated to generate an aggregate total of approximately $42.7 million in net proceeds ($48.0 million par value). The sections that follow provide additional detail on each of the five proposed bond issuances.

Housing Tax Allocation Bonds

The proposed Housing Set-Aside TABs is a pooled bond issuance to be secured by housing set-aside funds from the City Heights, Crossroads, NTC, North Bay, North Park and San Ysidro project areas. Consistent with the Agency-approved approach for pooling housing set-aside funds, it is anticipated that a portion of proceeds from the Housing TABs will be used for housing purposes outside of these project areas. As such, the Council and Agency will be asked to make certain findings of benefit related to the use of these funds.

Proceeds from the Housing TABs are anticipated to be used to repay approximately $25.6 million in outstanding housing lines of credit for the City Heights, NTC, North Bay and North Park project areas, and to repay $2.7 million in developer and project loans. In addition, proceeds will fund $13.3 million in housing projects and programs, and provide $9.4 million for the Affordable Housing Opportunity Program.

The table below provides a summary of key information related to the Housing TABs.

2010 Housing Set-Aside Tax Allocation Bonds (Taxable)

Bond Information		Requested Authorization
$ 57,300,000	Estimated Par Amount of Bonds	Not to Exceed $65 Million
$ 525,000	Costs of Issuance	
$ 5,730,000	Debt Service Reserve Fund	
$ 51,045,000	Estimated Net Bond Proceeds	
7.90%	Estimated True Interest Cost	Not to Exceed 8.75%
"A"	Assumed Standard & Poor's Credit Rating	
125%	Initial Minimum Debt Service Coverage Required	
$ 7,052,000	FY 2011 Tax Increment Available for Debt Service	
$ 5,523,000	FY 2011 Existing + Proposed Debt Service	
128%	**FY 2011 Estimated Debt Service Coverage**	

Contributing Project Areas:	
City Heights	North Bay
Crossroads	North Park
NTC	San Ysidro

Anticipated Use of Bond Proceeds:

1) Repay 6 outstanding lines of credit ($25.6M)
2) Provide funding for 5 housing projects/programs ($13.3M)
3) Repay 2 developer/project loans ($2.7M)
4) Fund Affordable Housing Opportunity Program ($9.4M)

City Heights Non-Housing Tax Allocation Bonds

The proposed City Heights Non-Housing TABs will be issued in two series: 2010 Series A (Tax-exempt) and 2010 Series B (Taxable). Proceeds from the 2010 Series A TABs, estimated at $5.0 million, will be used for public improvements in the City Heights project area. Proceeds from the 2010 Series B TABs will be used to repay $2.01 million in an outstanding non-housing line of credit, repay a $1.69 million developer loan related to the City Heights Square project, and provide $4.5 million for future property acquisition and rehabilitation.

The table below provides a summary of key information related to the City Heights Non-Housing TABs.

2010 City Heights Non-Housing Tax Allocation Bonds (Tax-Exempt & Taxable)

Bond Information		Requested Authorization
$ 5,800,000	Series A (Tax-Exempt) Estimated Par Amount	Not to Exceed $7 Million
$ 9,300,000	Series B (Taxable) Estimated Par Amount	Not to Exceed $11 Million
$ 15,100,000	Total Estimated Par Amount of Bonds	
$ 115,000	Original Issue Discount	
$ 213,000	Costs of Issuance	
$ 1,500,000	Debt Service Reserve Fund	
$ 13,272,000	**Total Net Bond Proceeds**	
$ 5,000,000	*Series A Net Proceeds*	
$ 8,272,000	*Series B Net Proceeds*	
6.1% / 8.2%	Series A Estimated True Interest Cost	Not to Exceed 7.0%
8.20%	Series B Estimated True Interest Cost	Not to Exceed 9.0%
"A-"	Assumed Standard & Poor's Credit Rating	
125%	Initial Minimum Debt Service Coverage Required	
$ 7,246,000	FY 2011 Tax Increment Available for Debt Service	**Based on Fiscal Consultant's Report, minimal annual debt service coverage expected to be 238%.**
$ 2,498,000	FY 2011 Existing + Proposed Debt Service	
290%	**FY 2011 Estimated Debt Service Coverage**	

Anticipated Use of Bond Proceeds:

Series A (Tax-Exempt) Proceeds:

1) Public Improvements within the City Heights project area (to be expended within 3 years)

Series B (Taxable) Proceeds:

1) Repay City Heights non-housing line of credit ($2.01M)
2) Repay City Heights Square developer loan ($1.69M)
3) Property acquisition and rehabilitation projects ($4.5M)

San Ysidro Non-Housing Tax Allocation Bonds

As with City Heights, the proposed San Ysidro TABs will be issued in two series: 2010 Series A (Tax-exempt) and 2010 Series B (Taxable). The 2010 Series A TABs are estimated to generate approximately $2.5 million in net proceeds, and will be used for future public improvements in the San Ysidro project area. Proceeds from the 2010 Series B TABs, estimated at $4.5 million, will be used to repay approximately $3.0 million in two developer loans for the Las Americas project, and provide $1.5 million for future land acquisition and development.

The table below provides a summary of key information related to the San Ysidro Non-housing TABs.

2010 San Ysidro Non-Housing Tax Allocation Bonds (Tax-Exempt & Taxable)

Bond Information		Requested Authorization
$ 2,900,000	Series A (Tax-Exempt) Estimated Par Amount	Not to Exceed $4 Million
$ 5,000,000	Series B (Taxable) Estimated Par Amount	Not to Exceed $7 Million
$ 7,900,000	*Total Estimated Par Amount of Bonds*	
$ 75,000	Original Issue Discount	
$ 166,000	Costs of Issuance	
$ 674,000	Debt Service Reserve Fund	
$ 6,985,000	Total Net Bond Proceeds	
$ 2,500,000	*Series A Net Proceeds*	
$ 4,500,000	*Series B Net Proceeds*	
6.49%	Series A Estimated True Interest Cost	Not to Exceed 7.25%
8.70%	Series B Estimated True Interest Cost	Not to Exceed 9.00%
"BBB"	Assumed Standard & Poor's Credit Rating	
125%	Initial Minimum Debt Service Coverage Required	
$ 2,330,000	FY 2011 Tax Increment Available for Debt Service	**Based on Fiscal Consultant's Report, minimal annual debt service coverage expected to be 333%.**
$ 672,000	FY 2011 Proposed Debt Service	
347%	**FY 2011 Estimated Debt Service Coverage**	

Anticipated Use of Bond Proceeds:

Series A (Tax-Exempt) Proceeds:

1) Public Improvements within the San Ysidro project area (to be expended within 3 years)

Series B (Taxable) Proceeds:

1) Repay 2 developer loans for the Las Americas project ($3.0M)
2) Land Acquisition and Development ($1.5 million)

Crossroads Non-Housing Tax Allocation Bonds

The proposed Crossroads Non-Housing TABs are estimated to generate approximately $4.3 million in net proceeds, and will be used for public improvements within the Crossroads project area, including street lights, sidewalks, curbs, gutters and pedestrian ramps. The table below provides a summary of key information related to the Crossroads Non-Housing TABs.

2010 Crossroads Non-Housing Tax Allocation Bonds (Tax-Exempt)

Bond Information		Requested Authorization
$ 5,000,000	Estimated Par Amount of Bonds	Not to Exceed $6 Million
$ 102,000	Original Issue Discount	
$ 138,000	Costs of Issuance	
$ 479,000	Debt Service Reserve Fund	
$ 4,281,000	Estimated Net Bond Proceeds	
6.40%	Estimated True Interest Cost	Not to Exceed 7.50%
"BBB"	Assumed Standard & Poor's Credit Rating	
125%	Initial Minimum Debt Service Coverage Required	
$ 1,558,000	FY 2011 Tax Increment Available for Debt Service	**Based on Fiscal Consultant's Report, minimal annual debt service coverage expected to be 401%.**
$ 342,000	FY 2011 Proposed Debt Service	
456%	**FY 2011 Estimated Debt Service Coverage**	

Anticipated Use of Bond Proceeds:

1) Public improvements within the Crossroads project area (to be expended within 3 years)

Naval Training Center (NTC) Non-Housing Tax Allocation Bonds

The proposed NTC Non-Housing TABs are estimated to generate approximately $18.2 million in net proceeds, which will be used to repay $12.2 million in an outstanding non-housing line of credit, provide a $4.0 million rehabilitation grant to the NTC Foundation, and fund approximately $2.0 million in future projects and public improvements in the NTC project area. The table below provides a summary of key information related to the NTC Non-Housing TABs.

2010 Naval Training Center Non-Housing Tax Allocation Bonds (Tax-Exempt)

Bond Information		Requested Authorization
$ 20,000,000	Estimated Par Amount of Bonds	Not to Exceed $22 Million
$ 183,000	Original Issue Discount	
$ 254,000	Costs of Issuance	
$ 1,400,000	Debt Service Reserve Fund	
$ 18,163,000	Estimated Net Bond Proceeds	
5.90%	Estimated True Interest Cost	Not to Exceed 7.00%
"A-"	Assumed Standard & Poor's Credit Rating	
125%	Initial Minimum Debt Service Coverage Required	
$ 2,667,000	FY 2011 Tax Increment Available for Debt Service	**Based on Fiscal Consultant's Report, minimal annual debt service coverage expected to be 187%.**
$ 1,410,000	FY 2011 Proposed Debt Service	
189%	**FY 2011 Estimated Debt Service Coverage**	

Anticipated Use of Bond Proceeds:

1) Repay NTC Non-Housing line of credit ($12.2M)
2) A proposed rehabilitation grant to the NTC Foundation ($4.0M)
3) Projects and public improvements withing the NTC project area ($2M)

The information provided in each of the above sections was obtained from the staff report, bond documents, and rating agency presentation materials. It should be noted that certain assumed Standard & Poor's credit ratings have changed since the staff report was issued and ratings assignments from Moody's are pending. Estimated borrowing rates in the staff report were based on market conditions as of June 30, 2010.

Financial Projections

The IBA has reviewed the future tax increment projections as detailed in the various financial consultant's reports, and concur that the projections are conservative and of sound methodology. The table below reflects the projected total assessed valuation by project area from FY 2010 to FY 2015.

Total Assessed Valuation by Project Area (in $Millions)

Project Area	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Housing & Non-Housing						
City Heights	$2,099.7	$1,925.9	$1,868.5	$1,867.7	$1,886.2	$1,904.9
% Growth	*-13.1%*	*-8.3%*	*-3.0%*	*0.0%*	*1.0%*	*1.0%*
Crossroads	$832.2	$783.6	$753.1	$753.1	$760.4	$767.8
% Growth	*-12.0%*	*-5.8%*	*-3.9%*	*0.0%*	*1.0%*	*1.0%*
NTC	$458.0	$449.1	$444.8	$444.8	$449.1	$453.4
% Growth	*1.1%*	*-1.9%*	*-1.0%*	*0.0%*	*1.0%*	*1.0%*
San Ysidro	$696.3	$635.2	$610.6	$610.6	$616.5	$622.4
% Growth	*-10.3%*	*-8.8%*	*-3.9%*	*0.0%*	*1.0%*	*1.0%*
Housing Only						
North Bay	$1,525.0	$1,510.5	$1,496.2	$1,496.2	$1,510.4	$1,524.7
% Growth	*-0.5%*	*-1.0%*	*-0.9%*	*0.0%*	*0.9%*	*0.9%*
North Park	$1,109.3	$1,075.3	$1,050.0	$1,050.0	$1,060.3	$1,070.8
% Growth	*-5.1%*	*-3.1%*	*-2.4%*	*0.0%*	*1.0%*	*1.0%*

As this table shows, assessed valuation is projected to decline in all project areas in FY 2011 and FY 2012. These declines are due to the general projected decline in property values, as well as pending and unresolved assessment appeals and reductions due to anticipated new affordable housing projects. In addition, the consultant reports assume conservative growth projections in futures years, and limited increases in valuation due to anticipated new development. Finally, the Redevelopment Agency recently received updated FY 2011 assessed valuation data for from the County which is marginally higher than the valuation assumed in the staff report.

CONCLUSION

On Tuesday, July 22, the City Council and Redevelopment Agency will be requested to approve a number of actions related to the issuance of housing and non-housing tax allocation bonds (TABs) for project areas managed by the City Redevelopment Division. The IBA has no significant concerns, and supports both of the proposed bond issuances.

This report supplements and clarifies the backup documentation by providing summary information about each of the five bond issuances. Having considered the data changes since the staff report was issued, the IBA believes the contemplated 2010 tax allocation bonds are based on reliable estimates and sensibly structured.

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