



THE CITY OF SAN DIEGO

DATE ISSUED: July 13, 2010

REPORT NO. RA-10-35
RTC-10-099

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of July 27, 2010

SUBJECT: Housing Set-Aside Tax Allocation Bonds and Four Series of Tax Allocation
Bonds for the City Heights, Crossroads, Naval Training Center, and San
Ysidro Redevelopment Project Areas

REQUESTED ACTION: That the Redevelopment Agency:

1. Approve the issuance of Housing Set-Aside Tax Allocation Bonds, 2010 Series A Taxable, approve necessary financing documents and authorize the Executive Director or designee to set the final terms of the sale of the bonds, and make certain findings and determinations relating thereto.
2. Make certain findings of benefit related to the use of Agency Low and Moderate Income Housing Funds outside of the City Heights, Crossroads, Naval Training Center, North Bay, North Park and San Ysidro Project Areas for debt service on the Agency's Housing Set-Aside Tax Allocation Bonds, 2010 Series.
3. Approve the issuance of four series of Tax Allocation Bonds for the Crossroads, San Ysidro, Naval Training Center and City Heights Redevelopment Projects, approve necessary financing documents and authorize the Executive Director or designee to set the final terms of the sale of the bonds and approve other matters relating thereto.
4. Authorize the City Attorney to appoint Best Best & Kreiger as Bond and Disclosure Counsel in connection with the issuance of the Tax Allocation Bonds, Series 2010 ("2010 Bonds") with total compensation not to exceed \$294,809. The fees payable to Bond and Disclosure Counsel shall be contingent upon closing of the 2010 Bonds and paid out of the proceeds from the 2010 Bonds.
5. Amend the Fiscal Year 2011 Redevelopment Agency budget:
 - a) To authorize the City Chief Financial Officer, as delegated to appropriate and expend the following amounts for the repayment to U.S. Bank N.A:

Redevelopment Agency

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City Planning & Community Investment



- i. \$12,211,076.12 from the Naval Training Center Tax Allocation Bonds Series 2010A proceeds for the Naval Training Center Project Non-Housing line of credit;
 - ii. \$2,011,123.24 from the City Heights Tax Allocation Bonds Series 2010B (Taxable) for the City Heights Project Non-Housing line of credit;
 - iii. \$5,600,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the Naval Training Center Project housing line of credit;
 - iv. \$4,153,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the City Heights Project housing line of credit;
 - v. \$8,580,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the North Bay Project housing line of credit;
 - vi. \$7,300,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the North Park Project housing line of credit.
- b) To authorize the City Chief Financial Officer, as delegated to appropriate and expend the following:
- i. \$1,694,410.82 from the City Heights Tax Allocation Bonds Series 2010B (Taxable) for repayment of the developer loan for the City Heights Square project in the City Heights Project Area;
 - ii. \$2,979,381.84 from the San Ysidro Tax Allocation Bonds Series 2010B (Taxable) for repayment of two developer loans for the Las Americas project in the San Ysidro Project Area;
 - iii. \$1,128,121 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for repayment of the developer loan for the La Boheme project in the North Park Project Area;
 - iv. \$1,606,715.34 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for repayment of the developer loan for the City Heights Office and Townhomes project in the City Height Project Area;
 - v. \$2,925,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the Florida Street Apartments project in the North Park Project Area;
 - vi. \$1,900,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the Home in the Heights Program in the City Heights Project Area;
 - vii. \$315,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the Housing Enhancement Loan Program in the City Heights Project Area;
 - viii. \$3,015,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the Fairmount 26 project in the City Heights Project Area;
 - ix. \$5,104,000 from the Housing Set-Aside Tax Allocation Bonds Series 2010A for the Mercado del Estrella project in Barrio Logan
- c) To authorize the City Chief Financial Officer, as delegated to appropriate and transfer funds as necessary from available Housing Set-Aside funds in the City Heights, Crossroads, Naval Training Center, North Bay, North Park and San Ysidro Project Area funds for the Debt Service Supplemental Reserve Fund and the Fiscal Year 2011 debt service on the Housing Set-Aside 2010A Bonds once established in the Debt Service Schedule of the final Official Statement.
- d) To authorize the City Chief Financial Officer, as delegated to appropriate and transfer funds as necessary from available City Heights Project Area funds for the Fiscal Year

- 2011 debt service on the 2010A and 2010B Bonds once established in the Debt Service Schedule of the final Official Statement;
- e) To authorize the City Chief Financial Officer, as delegated to appropriate and transfer funds as necessary from available Crossroads Project Area funds for the Fiscal Year 2011 debt service on the 2010A Bonds once established in the Debt Service Schedule of the final Official Statement;
 - f) To authorize the City Chief Financial Officer, as delegated to appropriate and transfer funds as necessary from available Naval Training Center Project Area funds for the Fiscal Year 2011 debt service on the 2010A Bonds once established in the Debt Service Schedule of the final Official Statement;
 - g) To authorize the City Chief Financial Officer, as delegated to appropriate and transfer funds as necessary from available San Ysidro Project Area funds for the Fiscal Year 2011 debt service on the 2010A and 2010B Bonds once established in the Debt Service Schedule of the final Official Statement.
 - h) To authorize the City Chief Financial Officer, as delegated to appropriate and transfer remaining bond proceeds as necessary.

That the City Council:

1. Authorize the issuance by the Redevelopment Agency of the City of San Diego of Housing Set-Aside Tax Allocation Bonds, 2010 Series A Taxable.
2. Make certain findings of benefit related to the use of Agency Low and Moderate Income Housing Funds outside of the City Heights, Crossroads, Naval Training Center, North Bay, North Park and San Ysidro Project Areas for debt service on the Agency's Housing Set-Aside Tax Allocation Bonds, 2010 Series A.
3. Authorize the issuance by the Redevelopment Agency of the City of San Diego of Tax Allocation Bonds for the Crossroads, San Ysidro, Naval Training Center and City Heights Redevelopment Projects.

STAFF RECOMMENDATION: Approve the requested actions.

BACKGROUND: The Agency is authorized to issue bonds for the purpose of financing the costs of redevelopment projects pursuant to Part I of Division 24 of the California Health and Safety Code.

In July 2007, the Agency obtained six separate non-revolving lines of credit from San Diego National Bank (now U.S. Bank) in an aggregate amount of \$70 million for the City Heights, Naval Training Center, North Bay, and North Park Redevelopment Project Areas. The aggregate amount drawn on all six lines of credit was \$39.85 million (\$25.63 million for housing projects; \$14.22 million for non-housing projects). The lines of credit were supported by either 20% low and moderate income housing set-aside funds ("Housing Set-aside") or 80% discretionary ("Non-Housing") tax increment ("TI") revenue from each of the four project areas in the following amounts:

Table 1
Line of Credit – Available Funds

Project Area	Housing	Non-Housing	Total
City Heights	\$11.0 million	\$20 million	
Naval Training Center	\$7.1 million	\$16 million	
North Bay	\$8.6 million		
North Park	\$7.3 million		
Total	\$34.0 million	\$36 million	\$70 million

Table 2
Line of Credit – Funds Drawn

Project Area	Housing	Non-Housing	Total
City Heights	\$4.15 million	\$2.01 million	
Naval Training Center	\$5.60 million	\$12.21 million	
North Bay	\$8.58 million		
North Park	\$7.30 million		
Total	\$25.63 million	\$14.22 million	\$39.85 million

The lines of credit were interim financing to be repaid by the proceeds of future tax allocation bonds issued for the four project areas. The agreements with San Diego National Bank, now part of US Bank, matured on July 5, 2010. On June 29, the Agency approved an extension of the lines of credit to November 1, 2010.

Affordable Housing Collaborative Opportunity Fund

In August 2002, the Comprehensive Affordable Housing Strategy was approved by the Redevelopment Agency, the Housing Authority and the City Council. The strategy was to leverage and aggregate the Redevelopment Agency’s Housing Set-aside funds to create up to \$55 million in affordable housing financing to fund the Affordable Housing Collaborative Program (“Affordable Housing Program”). Of the \$55 million, \$40 million was provided by proceeds from Centre City and Horton Plaza tax allocation bonds; the remaining \$15 million was provided by the Housing Set-aside funds of project areas managed by the Redevelopment Division. Since that time, the Redevelopment Division, the Centre City Development Corporation (“CCDC”), the Southeastern Economic Development Corporation (“SEDC”) and the San Diego Housing Commission have been working together as the Affordable Housing Collaborative to review and recommend projects for funding.

The demand for affordable housing funding assistance exceeded the original \$55 million Program funding by \$37 million. In July 2006, the Agency authorized the issuance of a Request for

Proposals to secure a bank line of credit to provide funding for an Affordable Housing Collaborative Opportunity Program (“Housing Opportunity Program”). In addition, the Agency approved the treatment of the Housing Set-aside funds from the Redevelopment Division’s project areas as a revenue pool for the Housing Opportunity Program.

Uses of Lines of Credit

The Housing LOCs were pooled pursuant to the Agency’s authorization to fund the Housing Opportunity Fund. Table 3 describes the projects that received funding and the project areas that provided funding to the Housing Opportunity Fund.

**Table 3
Uses of Housing Line of Credit**

Housing Project	City Heights	NTC	North Bay	North Park	Total
Los Vientos (Barrio Logan)	\$1,298,000		\$3,500,000	\$3,500,000	\$8,298,000
El Pedregal (San Ysidro)		\$2,635,000		\$571,000	\$3,206,000
Verbena (San Ysidro)	\$1,355,000	\$2,965,000	\$1,280,000	\$284,000	\$5,884,000
Boulevard Apts. (North Park)				\$2,400,000	\$2,400,000
HELP (North Park)				\$470,000	\$470,000
Village Green (Crossroads)	\$1,500,000		\$1,500,000		\$3,000,000
Fairmount 26 (City Heights)*				\$75,000	\$75,000
Estrella del Mercado (Barrio Logan)			\$2,300,000		\$2,300,000
Total	\$4,153,000	\$5,600,000	\$8,580,000	\$7,300,000	\$25,633,000

Two Non-Housing lines of credit were obtained for the City Heights and NTC Project Areas. Table 4 describes the uses of the Non-Housing lines of credit.

**Table 4
Uses of Non-Housing Line of Credit**

Project	City Heights	NTC	Total
Payment of Promissory Note for acquisition of University Ave property	\$2,011,123		
Repayment of Developer Loan for public improvements.		\$5,453,723	
NTC Foundation Rehabilitation Grant Agreement		\$6,000,000	
NTC Park Phase II improvements		\$757,353	
Total	\$2,011,123	\$12,211,076	\$14,222,199

Outstanding Bonded Indebtedness

The City Heights Project Area currently has outstanding bonded indebtedness of approximately

\$27.18 million. In 1999, the Agency issued the City Heights Series 1999A and 1999B Tax Allocation Bonds (“TABs”) of which \$4.9 million and \$8.59 million principal (plus \$8.39 million accreted interest), respectively are outstanding. The 1999 bonds proceeds were used for property acquisition and relocation costs for the City Heights Urban Village Project. In 2003, the Agency issued City Heights Series 2003A and 2003B Housing Set-Aside TABs, of which \$4.96 million and \$335,000, respectively, are outstanding. The Agency used 100% of the 2003 bonds proceeds for the Ken-Tal Senior Housing Project, the Metro Villas affordable housing project, and the City Heights Home in the Heights first-time homebuyer program.

The North Bay Project Area currently has outstanding bonded indebtedness of approximately \$10.9 million for the North Bay Series 2000 TABs issued in October 2000. The 2000 bond proceeds were used for the Morena Vista mixed use project, the Veteran’s Village project, and the Point Loma Branch Library.

The North Park Project Area currently has outstanding bonded indebtedness of approximately \$31.03 million. In 2000, the Agency issued the North Park Series 2000 TABs of which approximately \$5.89 million is outstanding. In 2003, the Agency issued the North Park Series 2003A & 2003B TABs of which approximately \$5.85 million and \$5.36 million, respectively, are outstanding. Bond proceeds from the 2000 and 2003 issues were used for the North Park Theatre rehabilitation, property acquisition for and construction of parking facilities adjacent to the theatre, and the Renaissance mixed use project. In 2009, the Agency issued the North Park Series 2009 TABs of which \$13.9 million is outstanding. Bond proceeds were used to repay a Bank of America line of credit and for public improvements.

The Crossroads, NTC, and San Ysidro Project Areas have no outstanding bonded indebtedness.

DISCUSSION

Based on current market conditions, the 2010 Bonds will be sold as negotiated sales to the underwriting team of De La Rosa & Co. and Piper Jaffray & Co. (“Underwriters”). The Underwriters were selected from among four underwriting firms from whom the Agency solicited proposals in March 2010. The list of underwriting firms was created from a request for qualifications process in 2009 conducted prior to the issuance of the North Park Series 2009 TABs.

The Agency is proposing to issue five series of tax allocation bonds as follows:

1. Housing Set-Aside Tax Allocation Bonds, 2010A (Taxable)
2. City Heights Redevelopment Project Tax Allocation Bonds, 2010 Series A (Tax-Exempt) and Series B (Taxable)
3. Crossroads Redevelopment Project Tax Allocation Bonds 2010 Series A (Tax-Exempt)
4. Naval Training Center Redevelopment Project Tax Allocation Bonds 2010 Series A (Tax-Exempt)
5. San Ysidro Redevelopment Project Tax Allocation Bonds 2010 Series A (Tax-Exempt) and Series B (Taxable)

The Bond issuance process includes the approval of various documents, including a Preliminary Official Statement for each issuance (“POS”, Attachments 1 through 5), a Trust Indenture for each issuance (Attachments 6 through 10), a Continuing Disclosure Certificate for each issuance (Appendix F of each POS), and a Purchase Contract for each issuance (Attachments 11 through 15). The nature of the documents is more fully described below.

Housing Set-Aside TABs

The proposed 2010 Housing Set-Aside TABs (Taxable) are estimated in today’s market to have an aggregate par value of approximately \$57.3 million and will be secured by the housing set-aside tax increment from six project areas on a proportional basis. The project areas are: City Heights, Crossroads, NTC, North Bay, North Park, and San Ysidro. Such a common pledge of revenue enhances the prospects for a higher bond rating and a lower interest cost. Assuming a bond rating of A and an all-in true interest cost of about 7.9%, net proceeds in the amount of approximately \$51.0 million would be available for the Agency’s existing obligations and future projects. After providing for a reserve fund of approximately \$5.73 million and cost of issuance of approximately \$525,000, net bond proceeds of approximately \$51 million will be available to pay existing obligations and fund projects.

The Housing Set-Aside bond proceeds will be used to repay the six housing lines of credit in an aggregate amount of \$25,633,000 and for the following housing projects:

- City Heights Home in the Heights [First Time Homebuyer] Program - \$1,900,000
- City Heights Housing Enhancement Loan Program - \$315,000
- Repayment of City Heights Urban Village Office and Townhomes Project promissory note - \$1,606,715
- Fairmount 26 Mixed-use project in City Heights - \$3,015,000
- Florida Street Apartments in North Park - \$2,925,000
- Repayment of North Park’s La Boheme developer loan - \$1,128,121
- Estrella Del Mercado Housing Project – \$5,104,000
- Affordable Housing Opportunity Program - \$9,405,677

Table 5 provides a preliminary three-year cash flow of the Project Areas’ Housing tax increment revenue including adjustments for property assessment appeals and foreclosure activity, as well as existing and proposed debt service, illustrating the Agency’s ability to pay debt service on the proposed bond issuance.

The tax increment projections provided in Table 5 are from the Fiscal Consultant’s Report, included as Appendix A to the Housing Set-Aside POS (Attachment 1) and are based on information from the County Assessor’s office and conversations with the County Assessor’s staff. The projections are conservative numbers assuming substantial reductions in assessed values due to pending appeals of property tax valuations. Such conservative assumptions create debt coverage constraints in the initial years which impede the Agency’s ability to fund all of the housing projects in the Affordable Housing Collaborative pipeline. Based on current taxable rates, as well as an assumed Standard & Poor (“S&P”) rating of A, the Agency would be under

its anticipated funding needs.

To meet this shortfall, the Housing Set-Aside bonds have been structured for the Agency to set aside sufficient funds in a Supplemental Reserve fund at the time of issuance which when added to the revenue received in each year, will provide the Agency with at least 125% debt service coverage assuming the Fiscal Consultant's projections. Assuming current market conditions and an A rating, the Agency would set aside approximately \$163,000 in the Supplemental Reserve Fund from existing housing set-aside funds to be used for future debt service coverage. It is anticipated that actual revenues in future years will be sufficient to maintain at least 125% coverage, such that the funds in the Supplemental Reserve would be released within two to three years. Tax increment from the six project areas would be allocated and released on a proportional basis. With this adjustment in the financing structure, the Agency will be able to realize the full \$51 million for housing projects.

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Table 5
Housing Set-Aside 3-Year Cash Flow
(in Millions)

Fiscal Year 2011				
Project Area	Housing Tax Increment	Less:		Balance Housing Tax Increment
		Existing Housing Bond Debt Service	Proposed Housing Bond Debt Service	
City Heights	\$1.816	\$.406	.995	\$.415
Crossroads	\$.520	\$0	.330	\$.190
NTC	\$.891	\$0	.767	\$.124
North Bay	\$1.647	\$.222	1.005	\$.420
North Park	\$1.294	\$.345	.829	\$.120
San Ysidro	\$.883	\$0	.624	\$.259
Total Proposed Housing Bond Debt Service	\$7.051	\$.973	\$4.550	\$1.528

Fiscal Year 2012				
Project Area	Housing Tax Increment	Less:		Balance Housing Tax Increment
		Existing Housing Bond Debt Service	Proposed Housing Bond Debt Service	
City Heights	\$1.705	\$.408	.981	\$.316
Crossroads	\$.461	\$0	.325	\$.136
NTC	\$.883	\$0	.756	\$.127
North Bay	\$1.618	\$.221	.992	\$.405
North Park	\$1.243	\$.342	.818	\$.083
San Ysidro	\$.834	\$0	.616	\$.218
Total Proposed Housing Bond Debt Service	\$6.744	\$.971	\$4.488	\$1.285

Fiscal Year 2013				
Project Area	Housing Tax Increment	Less:		Balance Housing Tax Increment
		Existing Housing Bond Debt Service	Proposed Housing Bond Debt Service	
City Heights	\$1.703	\$.409	.981	\$.313
Crossroads	\$.461	\$0	.325	\$.136
NTC	\$.883	\$0	.756	\$.127
North Bay	\$1.618	\$.222	.992	\$.404
North Park	\$1.243	\$.343	.818	\$.082
San Ysidro	\$.834	\$0	.616	\$.218
Total Proposed Housing Bond Debt Service	\$6.742	\$.974	\$4.488	\$1.280

City Heights Non-Housing TABs

The proposed City Heights Non-Housing TABs will be issued in two series: 2010 Series A (Tax-Exempt) estimated in today's market to have an aggregate par value of approximately \$5.8 million and 2010 Series B (Taxable) estimated to have an aggregate par value of approximately \$9.3 million. Assuming a bond rating of A- and an all-in true interest cost of about 6.1% for Series A and 8.2% for Series B, and after providing for original issue discount of \$115,000 for Series A, combined reserves of approximately \$1.5 million and combined cost of issuance of approximately \$213,000, net proceeds in the amount of approximately \$5.0 million for Series A and \$8.2 million for Series B would be available for the Agency's existing obligations and future projects.

The City Heights 2010 Series A (Tax-Exempt) bond proceeds will be used for public improvements in the City Heights Project Area. The Series B (Taxable) bond proceeds will be used to repay the City Heights Non-Housing line of credit in the amount of \$2.01 million and the City Heights Square developer loan in the amount of \$1.69 million with the remaining \$4.5 million available for property acquisition and rehabilitation projects. The tax-exempt nature of the proposed 2010 Series A bonds require that the Agency have a reasonable expectation that all borrowed funds will be expended within a three year period as required by Federal tax law. Due to the abundance of project needs in City Heights, it is expected that additional actions will be brought forward within the three year period to request the expenditure of all available funds.

The above bonding scenario assumes an S&P rating of A-. A rating request for the bonds will be submitted to the rating agencies the week of July 19. The bonds cannot be priced until all the documents have been approved and the bonds have been rated. In May 2010, S&P reinstated its ratings for the City Heights 2003 Housing Bonds which had been suspended in 2004 due to the investigation of the City's practices by the Securities and Exchange Commission. However, the reinstatement resulted in a downgrade of the bonds from A- to BBB+ due in large part to the Project Area's high volatility ratio of 46.3%. (The volatility ratio, the project area's base year assessed value to its total current assessed value, is a measure of the potential fluctuation in project area incremental growth.)

In order to achieve an A- rating, the 2010 TABs are being structured to increase the City Heights' additional bonds test ("ABT") to 140% from 125%. In doing so the Agency would covenant that for future City Heights tax allocation bond issues non-housing revenues generated each year must have: 1) at least 140% debt service coverage following issuance of parity bonds, or 2) 125% debt service coverage once 85% of the total assessed valuation in the Project Area can provide 100% debt service coverage following issuance of parity bonds.

Table 6 provides a preliminary three-year cash flow of the City Heights Project Area's non-housing tax increment revenue including adjustments for property assessment appeals and foreclosure activity, deductions for tax-sharing payments as well as existing and proposed debt service, illustrating the Agency's ability to pay debt service on the proposed bond issuance.

Table 6
City Heights 3-Year Cash Flow
(In Millions)

	<u>FY 2011</u>	<u>FY2012</u>	<u>FY2013</u>
Non-Housing Tax Increment	\$ 4.553	\$ 4.314	\$ 4.322
Less:			
Existing Non-Housing Debt Service	\$ 1.251	\$ 1.391	\$ 1.526
Proposed Non-Housing Debt Service	\$ 1.103	\$ 1.088	\$ 1.088
Remaining Non-Housing Balance after Existing & Proposed Non-Housing Debt Service	\$ 2.199	\$ 1.835	\$ 1.708

The tax increment projections shown in Table 6 are taken from the Fiscal Consultant’s Report, included as Appendix A to the City Heights POS (Attachment 2) and are based on information from the County Assessor’s office and conversations with the County Assessor’s staff. The projections are conservative numbers assuming substantial reductions in assessed values due to pending appeals of property tax valuations. Fiscal Year (“FY”) 2009/10 property valuation is assumed to decline by a total of \$48 million due to pending assessment appeals, changes to exemptions and appeals resolved after the final FY 2009/10 Assessor’s Roll. In FY 2010/11 and FY 2011/12, property values are assumed to decline by 8% and 3%, respectively. Zero growth is assumed for FY 2012/13, and values are assumed to grow annually at a rate of 1% in FY 2013/14 through FY 2018/19 and 2% thereafter.

Crossroads Non-Housing TABs

The proposed Crossroads Non-Housing TABs (2010 Series A) will be a tax-exempt issue estimated in today’s market to have an aggregate par value of approximately \$5.0 million. Assuming a bond rating of BBB and an all-in true interest cost of about 6.4%, and after providing for original issue discount of approximately \$102,000, a reserve fund of approximately \$479,000 and cost of issuance of approximately \$138,000, net proceeds in the amount of approximately \$4.3 million would be available for future projects in the Crossroads Project Area.

The Crossroads 2010 Series A bond proceeds will be used to finance design, construction, installation or replacement of public improvements, including street lights, sidewalks, curbs, gutters, and pedestrian ramps within the Crossroads Project Area. The tax-exempt nature of the proposed 2010 Series A bonds require that the Agency have a reasonable expectation that all borrowed funds will be expended within a three year period as required by Federal tax law. Due to the abundance of project needs in Crossroads, it is expected that additional actions will be brought forward within the three year period to request the expenditure of all available funds.

The above bonding scenario assumes an S&P rating of BBB. A rating request for the bonds will be submitted to the rating agencies the week of July 19. The bonds cannot be priced until all the documents have been approved and the bonds have been rated. Due to Crossroad’s high volatility ratio of 59.6%, the 2010 TABs are being structured with an ABT of 150%. In doing so the Agency would covenant that for future Crossroads tax allocation bond issues, non-housing revenues generated each year must have: 1) at least 150% debt service coverage following issuance of parity bonds assuming no growth in current year assessed valuation, or 2) 125% debt

service coverage once 90% of the total assessed valuation in the Project Area provides 100% coverage after issuance of the additional parity bonds.

Table 7 provides a preliminary three-year cash flow of the Crossroads Project Area using the non-housing tax increment revenue including adjustments for property assessment appeals and foreclosure activity, deductions for tax-sharing payments as well as proposed debt service, illustrating the Agency’s ability to pay debt service on the proposed bond issuance.

Table 7
Crossroads 3-Year Cash Flow
(In Millions)

	<u>FY 2011</u>	<u>FY2012</u>	<u>FY2013</u>
Non-Housing Tax Increment	\$ 1.558	\$ 1.379	\$ 1.379
Less:			
Existing Non-Housing Debt Service	\$ 0	\$ 0	\$ 0
Proposed Non-Housing Debt Service	\$.342	\$.341	\$.344
Remaining Non-Housing Balance after Existing & Proposed Non-Housing Debt Service	\$ 1.216	\$ 1.038	\$ 1.035

The tax increment projections shown in Table 7 are taken from the Fiscal Consultant’s Report, included as Appendix A to the Crossroads POS (Attachment 3) and are based on information from the County Assessor’s office and conversations with the County Assessor’s staff. The projections are conservative numbers assuming substantial reductions in assessed values due to pending appeals of property tax valuations. FY 2009/10 property values are assumed to decline by a total of \$32.1 million due to a housing project that became tax exempt, pending appeals and appeals resolved after the final FY 2009/10 Assessor’s Roll. In FY 2010/11 and FY 2011/12, property values are assumed to decline by 6% and 4%, respectively. Zero growth is assumed for FY 2012/13, and values are assumed to grow annually at a rate of 1% in FY 2013/14 through FY 2018/19 and 2% thereafter.

Naval Training Center (“NTC”) Non-Housing TABs

The proposed NTC Non-Housing TABs (2010 Series A) will be a tax-exempt issue estimated in today’s market to have an aggregate par value of approximately \$20.0 million. Assuming a bond rating of A- and an all-in true interest cost of about 5.9%, and after providing for original issue discount of approximately \$183,000, a reserve fund of approximately \$1.4 million and cost of issuance of approximately \$254,000, net proceeds in the amount of approximately \$18.2 million would be available for the Agency’s existing obligations and future projects in the NTC Project Area.

The NTC 2010 Series A bond proceeds will be used for repayment of the NTC Non-Housing line of credit in the amount of \$12,211,076; a proposed \$4.0 million rehabilitation grant to the NTC Foundation, which will be presented to the Agency for consideration at a future date; an amendment to the NTC Park General Development Plan to include the boat channel shoreline design and improvements; and the design, construction, and installation of public improvements

within the NTC Project Area. The tax-exempt nature of the proposed 2010 Series A bonds require that the Agency have a reasonable expectation that all borrowed funds will be expended within a three year period as required by Federal tax law. It is expected that additional actions will be brought forward within the three year period to request the expenditure of all available funds.

The above bonding scenario assumes an S&P rating of A-. A rating request for the bonds will be submitted to the rating agencies the week of July 19. The bonds cannot be priced until all the documents have been approved and the bonds have been rated. NTC's ABT is structured at 125% of debt coverage given that the Project Area has a diverse tax base and could experience a 20% reduction in assessed valuation and still cover 100% of its debt service.

Table 8 provides a preliminary three-year cash flow of the NTC Project Area using the non-housing tax increment revenue including adjustments for property assessment appeals and foreclosure activity, and deductions for tax-sharing payments and proposed debt service, illustrating the Agency's ability to pay debt service on the proposed bond issuance.

Table 8
NTC 3-Year Cash Flow
(In Millions)

	<u>FY 2011</u>	<u>FY2012</u>	<u>FY2013</u>
Non-Housing Tax Increment	\$ 2.667	\$ 2.641	\$ 2.641
Less:			
Existing Non-Housing Debt Service	\$ 0	\$ 0	\$ 0
<u>Proposed Non-Housing Debt Service</u>	<u>\$ 1.410</u>	<u>\$ 1.411</u>	<u>\$ 1.411</u>
Remaining Non-Housing Balance after Existing & Proposed Non-Housing Debt Service	\$ 1.257	\$ 1.230	\$ 1.230

The tax increment projections shown in Table 8 are taken from the Fiscal Consultant's Report, included as Appendix A to the NTC POS (Attachment 4) and are based on information from the County Assessor's office and conversations with the County Assessor's staff. The projections are conservative numbers assuming substantial reductions in assessed values due to pending appeals of property tax valuations. FY 2009/10 property valuation is assumed to decline by a total of \$33.8 million due to pending assessment appeals, representing a reduction equal to 34% of the contested value of FY 2009/10 appeals. In FY 2010/11 and FY 2011/12, property values are assumed to decline by 2% and 1%, respectively. Zero growth is assumed for FY 2012/13, and values are assumed to grow annually at a rate of 1% in FY 2013/14 through FY 2018/19 and 2% thereafter.

San Ysidro Non-Housing TABs

The proposed San Ysidro Non-Housing TABs will be issued two series: 2010 Series A (Tax-Exempt) estimated in today's market to have an aggregate par value of approximately \$2.9 million and 2010 Series B (Taxable) estimated to have an aggregate par value of approximately \$5.0 million. Assuming a bond rating of BBB and an all-in true interest cost of about 6.49% for

Series A and 8.7% for Series B, and after providing for original issue discount of approximately \$75,000 for Series A, combined reserves of approximately \$674,000 and combined cost of issuance of approximately \$166,000, net proceeds in the amount of approximately \$2.5 million for Series A and \$4.5 million for Series B would be available for the Agency's existing obligations and future projects.

The San Ysidro 2010 Series A (Tax-Exempt) bond proceeds are expected to be used for public improvements, such as street, sidewalk and lighting projects in the San Ysidro Project Area. The Series B (Taxable) bond proceeds will be used to repay the two developer loans for the Las Americas project for combined total of \$2,979,382 with the remainder available for land acquisition for development purposes. The tax-exempt nature of the proposed 2010 Series A bonds require that the Agency have a reasonable expectation that all borrowed funds will be expended within a three year period as required by Federal tax law. Due to the abundance of project needs in San Ysidro, it is expected that additional actions will be brought forward within the three year period to request the expenditure of all available funds.

The above bonding scenario assumes an S&P rating of BBB. A rating request for these bonds will be submitted to the rating agencies the week of July 19. The bonds cannot be priced until all the documents have been approved and the bonds have been rated. Because the largest taxpayer in the project area (owner of Las Americas Premium Outlets) accounts for approximately 42% of total net value, the ABT for San Ysidro is structured as a two-pronged test: 1) Non-Housing tax revenues generated in each year must have at least 125% debt service coverage following the issue of parity bonds assuming no growth in current year assessed value; and 2) the Project Area must be able to lose its top taxpayer and have at least 100% debt service coverage after the issuance of additional parity bonds based on current year assessed values.

Table 9 provides a preliminary three-year cash flow of the San Ysidro Project Area using the non-housing tax increment revenue including adjustments for property assessment appeals and foreclosure activity, and deductions for tax-sharing payments and proposed debt service, illustrating the Agency's ability to pay debt service on the proposed bond issuance.

Table 9
San Ysidro 3-Year Cash Flow
(In Millions)

	<u>FY 2011</u>	<u>FY2012</u>	<u>FY2013</u>
Non-Housing Tax Increment	\$ 2.330	\$ 2.226	\$ 2.226
Less:			
Existing Non-Housing Debt Service	\$ 0	\$ 0	\$ 0
<u>Proposed Non-Housing Debt Service</u>	<u>\$.672</u>	<u>\$.669</u>	<u>\$.668</u>
Remaining Non-Housing Balance after Existing & Proposed Non-Housing Debt Service	\$ 1.658	\$ 1.557	\$ 1.558

The tax increment projections shown in Table 9 are taken from the Fiscal Consultant's Report, included as Appendix A to the San Ysidro POS (Attachment 5) and are based on information from the County Assessor's office and conversations with the County Assessor's staff. The

projections are conservative numbers assuming substantial reductions in assessed values due to pending appeals of property tax valuations. FY 2009/10 property valuation is assumed to decline by a total of \$30.5 million due to pending appeal, appeals resolved after the final FY 2009/10 Assessor's Roll, and a reduction due to the Verbena Family Apartments becoming tax-exempt. In FY 2010/11 and FY 2011/12, property values are assumed to decline by 2% and 1%, respectively. Zero growth is assumed for FY 2012/13, and values are assumed to grow annually at a rate of 1% in FY 2013/14 through FY 2018/19 and 2% thereafter.

Bond Issuance Documents

The proposed aggregate 2010 Bonds sale includes the approval of various documents by the Disclosure Practices Working Group, the Agency, the City Council and the Public Facilities Financing Authority of the City of San Diego prior to the closing in August 2010.

The actions requested include the adoption of resolutions approving the issuance of the Housing Set-Aside Tax Allocation Bonds; the five series of Non-Housing Tax Allocation Bonds for the City Heights Project Area, Crossroads Project Area, NTC Project Area, and San Ysidro Project Area and approval of the following preliminary documents for each series of bonds:

1. Preliminary Official Statement – A detailed offering circular informing potential bond purchasers of all relevant information as to the Project Areas; the nature of the Project Areas' obligations, the projects to be financed with bond proceeds, and the security for the bonds. Five Preliminary Official Statements are provided as attachments to this report for the five separate bond issuances: Housing Set-Aside (Attachment 1), City Heights (Attachment 2), Crossroads (Attachment 3), Naval Training Center (Attachment 4), and San Ysidro (Attachment 5). The resolution approving the Bonds also provides authorization for the preparation, execution and delivery of a Final Official Statement once the Bonds have been priced.
2. Trust Indenture – Trust Indenture between the Agency and Trustee (U.S. Bank, National Association) providing the terms and conditions of the Agency's relationship with the Bond Trustee, and instructions to the Trustee for the establishment of the necessary accounts and payments to the bond holders. Five Trust Indentures are provided as attachments to this report for the five separate bond issuances: Housing Set-Aside (Attachment 6), City Heights (Attachment 7), Crossroads (Attachment 8), Naval Training Center (Attachment 9), and San Ysidro (Attachment 10).
3. Continuing Disclosure Certificate – Details the Agency's ongoing obligation to file annual reports and material event notices with the Municipal Securities Rulemaking Board for the benefit of the Series 2010 TABs bondholders.
4. Purchase Contract – Bond Purchase Agreement among the Agency, the Public Facilities Financing Authority of the City of San Diego (PFFA), and E.J. De La Rosa & Co., and Piper Jaffray & Co. (Underwriters) setting the terms and conditions according to which the bonds will be sold to the Underwriters. The bonds will be sold by the Agency to the PFFA for concurrent resale to the Underwriters. The Underwriters will market and sell the bonds as a public offering. Five Purchase Contracts are provided as attachments to this report for

the five separate bond issuances: Housing Set-Aside (Attachment 11), City Heights (Attachment 12), Crossroads (Attachment 13), Naval Training Center (Attachment 14), and San Ysidro (Attachment 15).

The Preliminary Official Statements were reviewed by the Disclosure Practices Working Group on June 16, June 25 and July 9. The tentative financing schedule is as follows:

Receive bond ratings	Week of July 21
Request for Agency/Council approval	July 27
PFFA approval of financing resolutions (Attachments 16 & 17)	July 30
Print and Post POS	August 2
Price Bonds	Week of August 9
Bond closing, funds available	Week of August 23
Expiration of U.S. Bank Lines of Credit	November 1

FISCAL CONSIDERATIONS: The proposed principal amount of the Housing Set-Aside 2010 TABs is \$57.3 million. Assuming an S&P bond rating of A and a 7.94% all-in true interest cost, available housing tax increment revenue is estimated to cover the annual debt service payments by a minimum 125%. Payments will be made from housing tax increment revenue generated by the City Heights, Crossroads, NTC, North Bay, North Park and San Ysidro Redevelopment Project Areas on a proportional basis. An independent Fiscal Consultant Report, Appendix A of the Housing Set-Aside POS (Attachment 1), has been prepared which concludes that sufficient incremental revenue is currently and will continue to be generated on an annual basis to support annual debt service payments on the Housing Set-Aside bonds. A supplemental revenue fund will be established to set aside sufficient funds at the time of issuance which when added to the revenue received in each year, will provide the Agency with at least 125% debt service coverage. It is anticipated that actual revenues in future years will be sufficient to maintain at least 125% coverage, such that the funds will be released within the first four years of issuance. The resolution authorizing the bonds provides authority to sell bonds in a not to exceed par value of \$65 million with a true interest cost not to exceed 8.75%.

The proposed principal amounts of the City Heights 2010 Series A (Tax-Exempt) and 2010 Series B (Taxable) bonds are approximately \$5.8 million and \$9.3 million, respectively. Assuming an S&P bond rating of A- and an all-in true interest cost of 6.1% for Series A and 8.2% for Series B, available non-housing tax increment revenue is estimated to cover the annual debt service payments by a minimum 240%. An independent Fiscal Consultant Report, Appendix A of the City Heights POS (Attachment 2), has been prepared which concludes that sufficient incremental revenue is currently and will continue to be generated on an annual basis to support annual debt service payments on the City Heights Non-Housing bonds. The resolution authorizing the bonds provides authority to sell bonds in a not to exceed par value of \$7.0 million for Series A and \$11.0 million for Series B with a true interest cost not to exceed 7% for Series A and 9% for Series B.

The proposed principal amount of the Crossroads 2010 Series A TABs are approximately \$5.0 million. Assuming a bond rating of BBB and an all-in true interest cost of about 6.4%, available non-housing tax increment revenue is estimated to cover the annual debt service payments by a

minimum 405%. An independent Fiscal Consultant Report, Appendix A of the Crossroads POS (Attachment 3), has been prepared which concludes that sufficient incremental revenue is currently and will continue to be generated on an annual basis to support annual debt service payments on the Crossroads Non-Housing bonds. The resolution authorizing the bonds provides authority to sell bonds in a not to exceed par value of \$6.0 million with a true interest cost not to exceed 7.5%.

The principal amount of the NTC 2010 Series A TABs is not to exceed \$20.0 million. Assuming a bond rating of A- and an all-in true interest cost of about 5.9%, available non-housing tax increment revenue is estimated to cover the annual debt service payments by a minimum 187%. An independent Fiscal Consultant Report, Appendix A of the NTC POS (Attachment 4), has been prepared which concludes that sufficient incremental revenue is currently and will continue to be generated on an annual basis to support annual debt service payments on the NTC Non-Housing bonds. The resolution authorizing the bonds provides authority to sell bonds in a not to exceed par value of \$22.0 million with a true interest cost not to exceed 7.0%.

The proposed principal amounts of the San Ysidro 2010 Series A (Tax-Exempt) and 2010 Series B (Taxable) bonds are not to exceed approximately \$2.9 million and \$5.0 million, respectively. Assuming a bond rating of BBB and an all-in true interest cost of about 6.49% for Series A and 8.7% for Series B, available non-housing tax increment revenue is estimated to cover the annual debt service payments by a minimum 337%. An independent Fiscal Consultant Report, Appendix A of the City Heights POS (Attachment 5), has been prepared which concludes that sufficient incremental revenue is currently and will continue to be generated on an annual basis to support annual debt service payments on the San Ysidro Non-Housing bonds. The resolution authorizing the bonds provides authority to sell bonds in a not to exceed par value of \$4.0 million for Series A and \$7.0 million for Series B with a true interest cost not to exceed 7.25% for Series A and 9% for Series B.

The 2010 Bonds are solely a debt obligation of the Agency and shall not be payable out of any funds other than those of the Agency.

PREVIOUS AGENCY, and/or COMMITTEE ACTION: None.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS:

On June 8, 2010, the Housing Subcommittee of the City Heights Project Area Committee (“PAC”) recommended: 1) approval of the issuance of Housing Set-Aside Bonds; and 2) rejection of the pooling of funds and requested that the funds remain in City Heights if the Fairmount 26 project is not funded. On June 14, 2010, the City Heights PAC voted 11-0-0 to accept the Housing Subcommittee recommendations on the Housing Bonds and voted 11-0-0 to approve the City Heights Non-Housing Bonds (taxable and tax-exempt).

On June 24, 2010 the Crossroads PAC voted 5-2-1 in support of the Housing Bond and the pooling of funds for the development of affordable housing and voted 7-0-1 in support of the Crossroads Non-Housing Bonds.

This information will be provided to the Peninsula Community Planning Board on July 15, 2010.

On June 2, 2010, the North Bay PAC voted 10-0-0, in support of the Housing Bond and the pooling of funds for the development of affordable housing.

On June 8, 2010, the North Park PAC voted 11-0-0 to support the issuance of the Housing Bond and the pooling of funds for the development of affordable housing.

On June 22, 2010 the San Ysidro PAC voted 8-0-0 in support of the pooled Housing Bond for the development of affordable housing and voted 8-0-0 in support of the San Ysidro Non-Housing Bonds (taxable and tax-exempt).

KEY STAKEHOLDERS and PROJECTED IMPACTS: Business entities engaged in the proposed 2010 Bonds transaction are Kitahata & Company (Financial Advisor), David Taussig & Associates (Fiscal Consultant), Best Best & Krieger (Bond and Disclosure Counsel), U.S. Bank, National Association (Bond Trustee), De La Rosa & Company and Piper Jaffray & Co. (Underwriters).

Respectfully submitted,



Janice L. Weinrick
Deputy Executive Director
Redevelopment Agency



William Anderson
Assistant Executive Director
Redevelopment Agency

WEINRICK/MO

Attachments:

1. Housing Set-Aside Tax Allocation Bonds Series 2010 A Preliminary Official Statement
2. City Heights Redevelopment Project Tax Allocation Bonds 2010 Series A (Tax-Exempt) and Series B (Taxable) Preliminary Official Statement
3. Crossroads Redevelopment Project Tax Allocation Bonds 2010 Series A Preliminary Official Statement
4. Naval Training Center Redevelopment Project Tax Allocation Bonds 2010 Series A Preliminary Official Statement
5. San Ysidro Redevelopment Project 2010 Series A (Tax-Exempt) and Series B (Taxable) Preliminary Official Statement
6. Trust Indenture by and between Redevelopment Agency of the City of San Diego and U.S. Bank, National Association Relating to Housing Set-Aside Tax Allocation Bonds
7. Third Supplemental Trust Agreement (City Heights Redevelopment Project) by and between Redevelopment Agency of the City of San Diego and U.S. Bank, National Association
8. Trust Indenture by and between Redevelopment Agency of the City of San Diego and U.S. Bank, National Association Relating to Crossroads Redevelopment Project Tax

Allocation Bonds

9. Trust Indenture by and between Redevelopment Agency of the City of San Diego and U.S. Bank, National Association Relating to Naval Training Center Redevelopment Project Tax Allocation Bonds
10. Trust Indenture by and between Redevelopment Agency of the City of San Diego and U.S. Bank, National Association Relating to San Ysidro Redevelopment Project Tax Allocation Bonds
11. Purchase Contract - Redevelopment Agency of the City of San Diego Housing Set-Aside Tax Allocation Bonds
12. Purchase Contract - Redevelopment Agency of the City of San Diego City Heights Redevelopment Project Tax Allocation Bonds
13. Purchase Contract - Redevelopment Agency of the City of San Diego Crossroads Redevelopment Project Tax Allocation Bonds
14. Purchase Contract - Redevelopment Agency of the City of San Diego Naval Training Center Redevelopment Project Tax Allocation Bonds
15. Purchase Contract - Redevelopment Agency of the City of San Diego San Ysidro Redevelopment Project Tax Allocation Bonds
16. Resolution of the Board of Directors of the Public Facilities Financing Authority of the City of San Diego Approving the Purchase and Resale of Housing Set-Aside Tax Allocation Bonds, Series A Taxable of the Redevelopment Agency of the City of San Diego, Approving a Purchase Contract and Approving Certain Other Matters Relating Thereto
17. Resolution of the Board of Directors of the Public Facilities Financing Authority of the City of San Diego Approving the Purchase and Resale of Tax Allocation Bonds of the Redevelopment Agency of the City of San Diego, for the Crossroads, San Ysidro, Naval Training Center and City Heights Redevelopment Projects, Approving Purchase Contracts and Approving Certain Other Matters Relating Thereto
18. July 12, 2010 Correspondence re: Information to be Inserted into Preliminary Official Statement
19. Findings of Benefit Related to the Use of Agency Low and Moderate Income Housing Funds Outside of the Project Areas