



## THE CITY OF SAN DIEGO

DATE ISSUED: February 23, 2011 REPORT NO. RA-11-09  
RTC-11-27

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Council President and City Council  
Docket of February 28, 2011

SUBJECT: Redevelopment Agency Debt to the City and associated Loan  
Agreements

REFERENCE: Redevelopment Agency Report RA-10-23 and Report to Council  
RTC-10-062 issued June 16, 2010  
Redevelopment Agency Report RA-10-20, issued April 13, 2010  
Redevelopment Agency Report RA-10-11 and Report To Council  
RTC-10-015 issued February 17, 2010

### REQUESTED ACTIONS:

That the Redevelopment Agency authorize the Executive Director or designee to:

1. Execute Loan Agreement with the City and associated Promissory Note to memorialize certain existing loan by the City of United States Department of Housing and Urban Development (HUD) Section 108 funds to the Naval Training Center Redevelopment Project Area and establish the terms of repayment thereof;
2. Execute Loan Agreement with the City and associated Promissory Note to memorialize certain existing loan by the City of HUD Section 108 funds to the City Heights Redevelopment Project Area and establish the terms of repayment thereof;
3. Execute Loan Agreement with the City and associated Promissory Note to memorialize certain existing Redevelopment Agency debt to the City not otherwise established by Promissory Note, Repayment Agreement, Cooperation Agreement, or similar agreement.

That the City Council:

1. Execute Loan Agreement with the Redevelopment Agency to memorialize certain existing loan by the City of United States Department of Housing and Urban Development (HUD) Section 108 funds to the Naval Training Center Redevelopment Project Area and establish the terms of repayment thereof;
2. Execute Loan Agreement with the Redevelopment Agency to memorialize certain existing loan by the City of HUD Section 108 funds to the City Heights Redevelopment Project Area and establish the terms of repayment thereof;



3. Execute Loan Agreement with the Redevelopment Agency to memorialize certain existing Redevelopment Agency debt to the City not otherwise established by Promissory Note, Repayment Agreement, Cooperation Agreement, or similar agreement.
4. Adopt a resolution to cease the accrual of interest on all Agency debt owed to the City after June 30, 2010 unless interest is otherwise specified in Loan Agreements, Cooperation Agreements, Repayment Agreements, or similar agreements.

STAFF RECOMMENDATION: Take the requested actions.

BACKGROUND: The Redevelopment Agency's debt (cumulative principal and interest) to the City is \$285.8 Million as of June 30, 2010. There have been extensive presentations to the Agency Board and the City Council on the Agency's debt to the City over the past year. (Refer to previous staff reports, RA-10-23, RA-10-20, RA-10-11). This report does not provide detail of the debt by Project Area or by Funding Source as this aspect of the debt has previously been covered extensively in the aforementioned reports

The most recent action taken by the Agency Board and the City Council with respect to Agency debt to the City was the execution of the Community Development Block Grant (CDBG) Repayment Agreement on June 30, 2010. This agreement committed the Agency to repay \$78.8 Million of CDBG debt over a 10 year period (FY 2010 – FY 2019). Payments against this obligation have already begun and future payments will continue to occur per the established repayment schedule.

At the time the CDBG Repayment Agreement was executed, the Agency Board and City Council expressed an interest in receiving information and taking action on the status and potential repayment of the remainder of the Agency's debt to the City. No specific action was taken at the time. In the interim, interest accrual and debt payments have continued pursuant to the specific terms of the various debt elements. Most of the Agency's debt to the City does not have specific repayment terms. The actions discussed in this Report are intended to resolve this and to provide clarity with respect to the terms of the Agency's debt to the City. The three Loan Agreements and associated Promissory Notes proposed under this action also serve to memorialize the terms of the respective debt.

DISCUSSION: With regards to repayment terms, the Agency's debt to the City is divided into five categories, as follows:

Category	Description	Year Authorized	Original Principal	Principal Balance <sup>1</sup>	Interest Balance <sup>1,2</sup>	Total Outstanding P&I <sup>1</sup>	Note Payable in Full
1	General Debt	Various years	Various, multiple issuances	\$65.8 M	\$122.4 M	\$188.2 M	When practical
2	NTC HUD Section 108 Loan	2003	\$5.91 M	\$4.8 M	\$2.2 M	\$7.0 M	2024
3	City Heights Regional Transportation Center (RTC) HUD Section 108 Loan	2000	\$2.25 M	\$1.6M	\$0.5 M	\$2.1 M	2020
4	CDBG Repayment Agreement	2010	\$45.31 M	\$41.9 M	\$33.3 M	\$75.2 M	2019
5	NTC Cooperation Agreement	2000	\$8.30 M	\$8.3 M	\$7.3 M	\$15.6 M	When project area implementation activities are complete.
<b>Total</b>				<b>\$122.4 M</b>	<b>\$165.7 M</b>	<b>\$288.1 M</b>	

1. Balances are as of 6/30/10 for Loans 1, 4, and 5. Balances are as of 2/10/11 for Loans 2 & 3.

2. Interest Balance on the NTC and City Heights Section 108 Loans and the CDBG Repayment Agreement includes all future interest per the respective amortization schedules. Interest Balance on the General Debt and NTC Cooperation Agreement loans is interest accrued through 6/30/10.

A detailed discussion of these debt categories follows below:

**Category 1**  
**General Debt**  
**P&I as of 6/30/10: \$188.2 Million**  
**Loan Agreement – Attachment 1**

This category represents the largest portion of Agency debt to the City. The majority of these loans were made to the Agency during the initial years of the respective redevelopment project areas and was used to establish the respective project areas and to fund initial projects. This debt is owed by multiple project areas and to various City funds. About 78% of this debt or \$146.9 Million is owed to either the City’s CDBG pooled income fund or HUD Section 108 Funds. Only approximately 6.8% of this debt or \$12.9 Million is owed to the City’s General Fund<sup>1</sup>. The remaining 15% of this debt is owed to variety of other City Funds as reported in previous staff reports. (Refer to Redevelopment Agency Staff Report No. RA-10-23). Interest on this debt accrues annually at the United States Prime Rate + 2% as established by City Resolution R-282415. This debt does not have a specific repayment schedule, rather is payable “when practical to do so” as stated in the various city resolutions that established the debt over the years.

<sup>1</sup> Figure includes Sales Tax and General Fund debt as of 6/30/10. The vast majority of the Sales Tax and General Fund debt is from Project Areas with little or no capacity to repay in the near term.

Staff is recommending that a Loan Agreement between the City and the Agency be established to memorialize this debt and that a Promissory Note for this debt be executed by the Redevelopment Agency. The terms of the proposed Loan Agreement and associated Promissory Note include:

- The cessation of interest accrual as of June 30, 2010, i.e. 0% interest going forward.
- Annual debt service payments to be determined annually by the Redevelopment Agency and approved annually during the budget process. This Loan is subordinate to all bonded indebtedness of the Agency and all other third party debt.
- This Loan is subordinate to the certain Cooperation Agreement with the City for Payment of Costs Associated with Certain Redevelopment Agency Funded Projects.

These terms provide:

- Annual monitoring and evaluation of the debt by both the Agency and the City;
- Maximum flexibility of the Agency and City to develop annual debt service based on the collective best interests of both entities, enabling an annual optimized balance between Agency and City needs;
- Consistency with existing resolutions stating that debt repayment will be made when practical to do so; and
- Clarification on the terms of the debt.

Staff also recommends that the City Council:

Adopt a resolution to cease the accrual of interest on all Agency debt owed to the City after June 30, 2010 unless interest is otherwise specified in Loan Agreements, Cooperation Agreements, Repayment Agreements, or otherwise evidence of debt owed to the Agency by the City.

## **Category 2**

### **NTC HUD Section 108 Loan**

**Current P&I: \$7.0 Million**

### **Loan Agreement – Attachment 2**

This category represents a transfer in 2003 by the City of HUD Section 108 monies to the Agency for the rehabilitation of historic buildings at the former Naval Training Center. The terms of the transfer included the Agency's acceptance of the obligation to fund the debt service on the associated Section 108 Loan. While the Section 108 Loan is technically an obligation of the City, the Agency annually provides funding for the debt service to the City, and the City in turn remits annual debt service to HUD.

While these terms are well-understood from examination of the various documents associated with this Project, staff is recommending that a Loan Agreement between the City and the Agency be established to memorialize this debt and that a Promissory Note for this debt be executed by the Redevelopment Agency. Consistent with the historical

documents associated with this Project, the terms of the proposed Loan Agreement and Promissory Note include:

- Agency remits debt service for City HUD Section 108 debt service pursuant to the City's payment and amortization schedule.

The execution of this Loan Agreement and associated Promissory Note will memorialize in single document the terms already defined in the project's supporting documents.

### **Category 3**

#### **City Heights RTC HUD Section 108 Loan**

**Current P&I: \$2.1 Million**

#### **Loan Agreement – Attachment 3**

This category represents a contribution of HUD Section 108 monies made by the City in 2001 for the Regional Transportation Center project in City Heights. The City made this contribution to the Agency, enabling the Agency to enter into a Disposition and Development Agreement (DDA) with a private developer to create the project. While the City is technically obligated to make the debt service on the Section 108 Loan, the Agency's DDA requires the developer to provide the monies for the debt service. This obligation of the Developer is memorialized via a Promissory Note by the Developer to the Agency. The Agency essentially serves as a pass-through entity whereby the developer pays the Agency, the Agency pays the City, and the City pays HUD. In the event of default by the developer, the City is obligated to satisfy the HUD Loan repayment utilizing CDBG funds.

While these terms are well understood from examination of the various documents associated with this Project, staff is recommending that a Loan Agreement between the City and the Agency be established to memorialize this debt and that a Promissory Note for this debt be executed by the Redevelopment Agency. Consistent with the historical documents associated with this Project, the terms of the proposed Loan Agreement and associated Promissory Note include:

- Agency remits debt service for City HUD Section 108 debt service with funds provided by the developer.
- If the developer defaults, the Agency has no obligation to the City.
- Payments to be made pursuant to the existing amortization schedule

The execution of this Loan Agreement and associated Promissory Note will memorialize in single document the terms already defined in the project's supporting documents.

**Category 4**  
**CDBG Repayment Agreement**  
**Current P&I: \$75.2 Million**  
**Attachment 4**

This category represents the repayment of \$78.8 Million of CDBG debt to the City's CDBG Pooled Income Fund over the 10 year period FY 10 – FY 19. This Agreement between the Agency and the City was executed on June 30, 2010. The Agreement Document provides specific detail on the terms of the Loan and no further documentation is required.

**Category 5**  
**NTC Cooperation Agreement**  
**Current P&I: \$15.6 Million**  
**Attachment 5**

This Cooperation Agreement between the City and the Agency was executed on June 26, 2000 and pertains to the sale of the former Naval Training Center site by the City to the Agency. The City had just acquired the site from the Federal Government for \$0 and sold the site to the Agency to enable the Agency to enter into a DDA with a private developer to redevelop the site. The purchase price from the City to the Agency of the site was determined by the City's Real Estate Assets Department as \$8,300,000 and the purchase price was considered a loan to the Agency under the NTC Cooperation Agreement. Interest accrues on the Loan at 8% per year, and is compounded, with the current P&I obligation being \$15.6 Million. Under the Agreement, the Note is **not payable** as long as any of the following conditions are present:

- The Agency's resources are needed to carry out the NTC Redevelopment Plan, as approved by the City Council
- The Agency's resources are needed to carry out the certain Reuse Plan for the site, as adopted by the City Council
- The Agency's resources are needed to carry out obligations under the DDA

The Agreement Document provides specific detail on the terms of the Loan and no further documentation is required.

**FISCAL CONSIDERATIONS:** There is no fiscal impact to debt service currently budgeted as existing debt service obligations are already budgeted pursuant to existing repayment schedules. The proposed Promissory Notes for the City Heights and NTC Section 108 loans serve only to memorialize debt service obligations that are already budgeted. Future debt service by the Agency to the City pertaining to Category 1 Debt (General Debt) would be determined during the development of future Agency Budgets and would be approved by the Agency and City Council concurrently via respective resolutions. The proposed Repayment Agreement for existing general (Category 1) debt permanently terminates the accrual of interest on July 1, 2010. This action will cap interest on existing general debt at levels accrued on June 30, 2010.

PREVIOUS AGENCY AND COMMITTEE ACTION:

The Redevelopment Agency and City Council approved the CDBG Repayment Agreement at a public hearing on June 21, 2010.

The Redevelopment Agency was presented information on Redevelopment Agency Debt and Debt Capacity at a public hearing on April 13, 2010.

The Redevelopment Agency and City Council was presented information on Redevelopment Agency debt to the City at a public hearing on February 23, 2010.

ENVIRONMENTAL REVIEW: This activity will not result in a direct or reasonably foreseeable indirect physical change in the environment, and is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(2).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

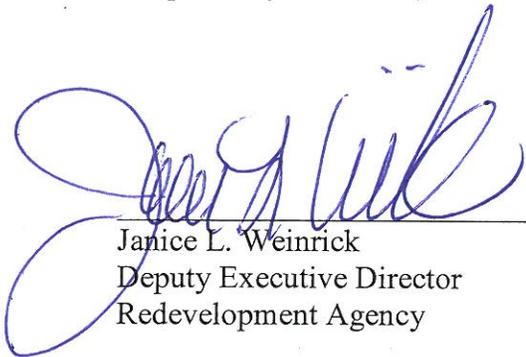
None for these actions. Past outreach on the Agency's debt occurred prior to the approval of the 2010 CDBG Repayment Agreement.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The primary purpose of this action is to execute formal loan agreements for existing City Loans to the Agency that have already been approved through resolutions of the City and the Agency and that are documented in various reports to the Agency and the City Council. This action provides definition and clarity to the terms of these pre-existing agreements and accordingly provides an enhanced public record of these obligations.

Respectfully submitted,

Approved,



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Janice L. Weinrick  
Deputy Executive Director  
Redevelopment Agency



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Jay M. Goldstone  
Assistant Executive Director  
Redevelopment Agency

Attachments:

1. Loan Agreement – General Loan (2011)
2. Loan Agreement – NTC HUD Section 108 Loan (2011)
3. Loan Agreement – City Heights RTC Section 108 Loan (2011)
4. CDBG Repayment Agreement (2010)
5. NTC Cooperation Agreement (2000)