

**Centre City
Development
Corporation**

MEMORANDUM

DATE ISSUED: May 28, 2003

REPORT NO. CCDC-03-12

ATTENTION : Chair and Members of the Redevelopment Agency
Docket of June 3, 2003

SUBJECT: HORTON PLAZA TAX ALLOCATION BONDS, SERIES 2003 - PUBLIC
HEARING

REFERENCE Balboa Theatre Financing and Low and Moderate Income Housing
Fund Financing for the Notice of Funding Availability ("NOFA").
See Separate Item on City Council Agenda Authorizing the Agency
to Issue Horton Plaza Tax Allocation Bonds

STAFF CONTACT: Frank Alessi, Vice President and Chief Financial Officer

SUMMARY

Issue - Should the Agency authorize the issuance of Horton Plaza
Redevelopment Project Tax Allocation Bonds, Series 2003A; Junior Lien Tax
Allocation Bonds, Series 2003B and Tax Allocation Housing Bonds, Series
2003C ("TA Bonds") in a total amount not to exceed \$20 million and authorize
certain other matters pertaining to the proposed sale of bonds.

Staff Recommendation - Authorize the issuance of Horton Plaza Redevelopment
Project Tax Allocation Bonds, Series 2003A; Junior Lien Tax Allocation Bonds,
Series 2003B and Tax Allocation Housing Bonds, Series 2003C ("TA Bonds") in
a total amount not to exceed \$20 million and authorize certain other matters
pertaining to the proposed sale of bonds.

Centre City Development Corporation Recommendation - On April 30, 2003, the
Budget/Finance Committee approved the proposed Horton Plaza Tax Allocation
Bonds, Series 2003. The Corporation Board approved this item at its May 14,
2003 meeting.

Other Recommendations - None.

Fiscal Impact - Utilization of tax increment for debt service payments of
approximately \$2.0 million annually for a period of 18 years.

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BACKGROUND

The Agency is authorized to issue Bonds for the purpose of financing to costs of a Redevelopment Project pursuant to Part I (commencing with section 33000) of Division 24 of the California Health and Safety Code of the State of California.

In October 2002, the Budget/Finance and Project Committees authorized CCDC staff to proceed with the rehabilitation of the Balboa Theatre as a public initiative. Subsequently, in November 2002, the Land Use and Housing Committee concurred with the historic rehabilitation of the Balboa Theatre as a public facility. On May 14, 2003, the CCDC approved an exclusive negotiation agreement with the San Diego Convention Center Corporation to operate and manage the Balboa Theatre. To facilitate the rehabilitation of the Balboa Theatre as a public asset, financing with a tax-exempt tax allocation bonds is necessary.

On August 6, 2002, the City Council approved the concept of leveraging the Agency's 20% low and moderate income housing funds to create up to \$55 million in affordable housing financing to fund the NOFA. CCDC's commitment is to fund a total of \$40 million toward this program. In January 2003, the Agency approved the NOFA to seek proposals to develop new affordable housing units within the City of San Diego. Several responses have been received and the appropriate review is in process.

DISCUSSION

The proposed TA Bonds consists of two elements:

The first element will provide funds for the rehabilitation of the historic Balboa Theatre and consists of two series of bonds - Subordinate (Series 2003A) and Junior Lien (Series 2003B), both of which are tax-exempt and secured with tax increment.

The second element is a housing tax allocation bonds (Series 2003C) secured from the 20% low and moderate income housing fund tax increment and will be a taxable bond issue.

The par value of the Series 2003A and 2003B bonds are estimated at \$6.2 and \$4.8 million, respectively, which will produce total net proceeds on the order of \$9.5 million. This amount combined with existing resources in Horton Plaza Redevelopment Project will provide funding for the rehabilitation of the Balboa Theatre. Interest rates on the bonds will range from 5.3% to 5.8% on Series 2003A and 3.5% to 6.2% on the Series 2003B. Although interest rates are favorable it is anticipated that Series 2003A will be rated at the lower end of the rating scale and Series 2003B will be a non-rated issue.

The Series 2003C is estimated at \$7.6 million producing net proceeds of \$6.7 million to fund a portion of the NOFA for the Comprehensive Affordable Housing Strategy. This component of the TA Bonds is anticipated to be taxable, non-rated, and therefore will

carry higher interest rates ranging from 5.9% to 9.5%.

The following table reflects a preliminary three-year cash flow of the Horton Plaza Redevelopment Project using tax increment revenue without growth from new development, deducting existing and proposed debt service, illustrating the Agency’s ability to pay debt service on the proposed bond issuance.

(In Millions)

	FY 2004	FY 2005	FY 2006
Non-Housing Tax Increment	\$4.3	\$4.4	\$4.5
Housing Tax Increment	1.1	1.1	1.1
Total Tax Increment	\$5.4	\$5.5	\$5.6
Less:			
Existing Debt Service	\$2.5	\$2.5	\$2.5
Proposed Debt Service			
Series 2003A and 2003B	.6	.6	.6
Series 2003C	.9	.9	.9
Total Debt Service	\$4.0	\$4.0	\$4.0
Remaining Balance after Existing and Proposed Debt Service	\$1.4	\$1.5	\$1.6

The proposed bond sales require approval of various documents by CCDC, the Agency and City Council. The actions required include the adoption of resolutions approving the issuance TA Bonds, a public hearing (TEFRA) regarding Series 2003A and Series 2003B, and approval of the following preliminary documents:

1. Preliminary Official Statement - A detailed offering circular informing potential bond purchasers of all relevant information as to the nature of the obligations, the project to be financed, and the security of the bonds for each bond issue.
2. Trust Indentures - Trust Indentures between the Agency and Wells Fargo Bank, N.A., as trustee providing for the terms and conditions of the Horton Plaza Subordinate Tax Allocation Bonds, Series 2003A, Junior Lien Tax Allocation Bonds, Series 2003B, and Tax Allocation Housing Bonds, Series 2003C.
3. Continuing Disclosure Agreements - Agreements by the Agency for the benefit of the bondholders to disclose certain financial and operating data each year pursuant to Rule 15c2-12(b)(5) of the Securities and Exchange Act for each bond issue.
4. Purchase Contracts - Bond Purchase Agreements between the Agency, the Public Facilities Financing Authority, and Stone & Youngberg and Backstrom McCarley Berry & Co., LLC (“Underwriters”) setting forth the terms and conditions in which the bonds will be sold to the Underwriters for each bond issue.

Presently, interest rates are favorable and the time frame in which Horton Plaza Redevelopment Project bonds can be amortized is becoming shorter with the redevelopment plan expiring in the near term. The Horton Plaza Redevelopment Plan ("Plan") has a final date to incur debt of January 1, 2004, a final date for implementation of July 25, 2012, and a final date to receive tax increment of July 25, 2022. However, there is a provision in the law which allows for the elimination of the sunset date of January 1, 2004 for incurring debt but, if this date were to be eliminated from the Plan, tax sharing with the various taxing entities including the County, San Diego Unified School District, Community College District, and the County Office of Education would be required. Therefore, with the all of the considerations relating to long term financing in Horton Plaza Redevelopment Project, it recommended that tax allocation bonds be issued as soon as practicably feasible for the Balboa Theatre rehabilitation and the NOFA funding.

The current schedule anticipates this item to be heard by the full Board at its May 14, 2003 meeting, the City Council and Agency at its June 3, 2003 meeting, a sale of bonds in late June and closing in early July.

Respectfully submitted,

Concurred by,

Frank J. Alessi
Vice President and Chief Financial Officer

Peter J. Hall
President