



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: January 18, 2006 REPORT NO. RA-06-03

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of January 24, 2006

SUBJECT: Request for Proposals for Line of Credit for North Park Redevelopment
Project Area

REFERENCE: Redevelopment Agency Report No. RA-05-37, dated December 2, 2005

SUMMARY

Issue - Should the Redevelopment Agency authorize the issuance of a Request for Proposals to explore opportunities to secure a bank line of credit in an estimated amount of \$10 million to provide funding for the North Park Redevelopment Project Area?

Staff Recommendation – That the Redevelopment Agency should authorize the issuance of a Request for Proposals to explore opportunities to secure a bank line of credit in an estimated amount of \$10 million to provide funding for the North Park Redevelopment Project Area.

Other Recommendations – At its regular meeting on November 8, 2005, the North Park Project Area Committee (PAC) was informed that the Redevelopment Agency was considering the issuance of a Request for Proposals for a line of credit to fund project needs within the North Park project area. More information will be provided to the North Park PAC as it becomes available, and a recommendation will be sought once terms and conditions have been identified, and specific information regarding amounts to be borrowed and related costs is available, following the receipt of proposals from responding banks.

Fiscal Impact – It is expected that a line of credit will require an origination fee, in addition to annual interest payments, estimated to range from 5.00% to 6.50% depending on the amount of the line of credit, and the term. Payments required each fiscal year will depend on the timing and amount of funds actually drawn down. Funding for initial costs and annual payments will come from tax increment generated by the North Park project area. It is proposed that the line of credit would ultimately be paid off with a permanent long-term bond issuance. An independent fiscal consultant report is currently being prepared and will show that sufficient tax increment revenue is currently available and will continue to be generated on an annual basis to support the annual payments on the line of credit, other current bond and developer obligations, and could support future

bond issuances to ultimately pay off the line of credit. Review of the most recent assessed valuation reports and estimates of tax increment revenues from the County Auditor and Controller indicate sufficient funds are available in the North Park project area to support the proposed line of credit.

Final sizing of the line of credit will depend on the proposals received. Based on currently identified project needs and estimated project area capacity, it is anticipated that a line of credit in the amount of \$10 million could be borrowed for the North Park project area. At this level of borrowing, and assuming an interest rate of 6%, annual interest payments could approximate \$600,000, and would be funded from the North Park redevelopment project area tax increment revenues. There is no fiscal impact to the City or the City's General Fund by this action, or subsequent actions to implement a line of credit borrowing for the Redevelopment Agency.

BACKGROUND

At its meeting on December 6, 2005, the Redevelopment Agency considered the request to authorize the issuance of a Request for Proposals to explore opportunities to secure a bank line of credit to provide funding for affordable housing and priority redevelopment projects in the City Redevelopment project areas. At that meeting, direction was given to return to the Redevelopment Agency at its first meeting in January 2006 to provide more specific information regarding the estimated amounts to be borrowed. Based on the immediate need for funds in the North Park area, it was determined that the line of credit should initially be limited to North Park at this time. Further discussion related to the borrowing of funds for affordable housing, and for the treatment of the borrowed funds as a funding pool, is needed. These items will return to the Redevelopment Agency at a future meeting.

DISCUSSION

Since April 2002, the Agency has entered into various agreements related to the rehabilitation of the North Park Theatre, and the construction of the North Park Public Parking Facility. In December 2003, the Redevelopment Agency issued bonds for the North Park redevelopment project area. Two series of bonds were sold, with true interest costs of 4.94% for the tax-exempt series, and 5.86% for the taxable series. A total of \$8.1 million was generated for general redevelopment purposes and \$2.7 million was raised for housing projects, by borrowing to the project area's maximum capacity at that time. The North Park Theatre and related parking projects utilized the majority of the borrowed funds from the 2003 bond issuance, as well as remaining bond funds from the previous Series 2000 issuance. Due to increased construction and land acquisition costs, additional funding was needed to complete these projects.

In October 2004, the Third Implementation Agreement for the North Park Theatre was approved and provided additional project funding in the form of a developer loan totaling \$3,335,000. The loan requires quarterly interest-only payments on the outstanding balance, and allows for an escalating interest rate on the outstanding balance after project completion. Interest on the outstanding balance of the loan is calculated at prime plus 2% for the first two years following project completion, and increases by one-half percentage point each year thereafter, not to exceed prime plus 4% or the maximum permitted by law. The prime rate is currently 7%.

Construction of the parking facility near the Theatre will be completed in January 2006. Development cost overruns, including increased land acquisition costs, on the parking facility are to be financed by the developer at a rate calculated as prime plus two percent (2%), not to exceed twelve percent (12%) per year, and the Agency is obligated to repay the developer's loan to the Agency within twelve months of completion of construction. These costs are currently estimated at \$4.3 million. The original repayment plan contemplated the sale of Agency-owned property, which was purchased to provide temporary parking behind the Theatre. The proceeds of the land sale were to be dedicated to the Theatre loan repayment. However, the disposition of this property is now being reconsidered, and may be unavailable for this use. The cost overruns related to the parking facility were planned to be repaid using available tax increment in the project area on an annual basis. It was expected that a long-term bond issuance could be completed in the near future to repay any remaining balance, once additional borrowing capacity was generated in the project area, as reflected in continued growth in the area's assessed valuation.

PLAN OF FINANCE

Under normal circumstances, the plan of finance would include securing underlying ratings, seeking bond insurance, and structuring a competitive sale of long-term fixed-rate tax allocation bonds. However, the rating suspension in September 2004 by Standard and Poor's affected the Redevelopment Agency's outstanding debt, along with the City's General Fund debt. This suspension significantly impacts the Agency's ability to obtain ratings on future issuances and to secure bond insurance until the audited financial statements are released. Discussions with each of the rating agencies and bond insurers indicate that the City's current financial situation impacts the Redevelopment Agency, and clearly a relationship exists between the two entities that cannot be terminated. Because of this, a request for ratings and for bond insurance for a Redevelopment Agency bond issuance would also require a thorough review of the City's finances. Given this environment and the impact this may have on the disclosure process and pricing for long-term debt, it is recommended to instead structure an interim financing that would be taken out within the next three to five year period by a long-term fixed rate issuance of tax allocation bonds. Utilizing a line of credit will allow the Agency to complete the repayment plans as required by the various agreements at a financing rate considerably lower than developer financing in the North Park area.

It is proposed that a Request for Proposals be issued to explore opportunities to secure a bank line of credit for the North Park Redevelopment project area. Security for the proposed line of credit would be a pledge of general tax increment funds from the North Park redevelopment project area. The line of credit could be structured to allow for both taxable and tax-exempt purposes, depending on the uses of funds. No City funds would be pledged to the repayment of the line of credit.

Informal queries have been made by the Agency's financial advisor to determine the initial feasibility of a line of credit for this purpose. All institutions contacted indicated an interest in providing a line of credit to the Redevelopment Agency. Because of this, it is recommended that a Request for Proposals be issued to initiate a process to solicit complete terms and conditions, and to secure the most competitive pricing for a bank line of credit.

LINE OF CREDIT TIMELINE

Provided that approval to issue the Request for Proposals is obtained, it is anticipated that the RFP could be issued within a few days, with submissions requested by early February. Review of the proposals by the Agency's financial advisor, and representatives of the Redevelopment Agency, the City Auditor, the City Treasurer, and the City Attorney could be accomplished in the next few weeks that follow. A recommendation for a specific line of credit provider, along with detailed information about amounts to be borrowed, the timing, and related costs could be brought forward to the North Park PAC and then to the Redevelopment Agency in early March 2006. Based on this timeline, it is expected that borrowed funds could be available to the Redevelopment Agency by the end of March 2006.

CONCLUSION

Given the current financial situation facing the City, and the suspension of the City's and the Redevelopment Agency's ratings by Standard and Poor's, it is recommended that the Redevelopment Agency authorize the issuance of a Request for Proposals to explore opportunities to secure a bank line of credit to provide funding for the North Park Redevelopment project area.

Respectfully submitted,

Maureen Ostrye
Deputy Executive Director

Approved: Debra Fischle Faulk
Assistant Executive Director