



Southeastern  
Economic  
Development  
Corporation

## Memorandum

DATE ISSUED: May 8, 2007

Report No. SEDC 07-004

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ATTENTION: Council President and Members of the City Council  
Honorable Chair and Members of the Redevelopment Agency  
Docket of May 15, 2007

SUBJECT: Approval of the Financing and Refinancing of Improvements for the Southcrest Redevelopment Project, the Central Imperial Redevelopment Project and the Mount Hope Redevelopment Project; approving and authorizing the execution of related documents and agreements and authorizing certain other actions in connection with issuance of Series A (Taxable) and B (Tax Exempt) 2007 Tax Allocation Bonds.

REFERENCE: Approval of the FY2007 Series Tax Allocation Bond by the SEDC Board of Directors – July 26, 2006 and November 29, 2006

### REQUESTED ACTION:

1. Should the Redevelopment Agency (Agency) approve the financing and refinancing of improvements for the Southcrest Redevelopment Project, the Central Imperial Redevelopment Project and the Mount Hope Redevelopment Project in an amount not to exceed \$ 21.0 million for 2007 Series A (Taxable) and \$ 21.0 million for 2007 Series B (Tax-Exempt); approving and authorizing the execution of related documents and agreements and authorizing certain other actions in connection with issuance of tax allocation bonds?
2. Should the City Council of the City of San Diego approve the issuance and sale by the Redevelopment Agency of the City of San Diego tax allocation bonds, note or loans in one or more series to finance and refinance portions of the costs for Southcrest Redevelopment Project, the Central Imperial Redevelopment Project and the Mount Hope Redevelopment Project; subordinating certain payments and approving certain related matters?

### STAFF RECOMMENDATION TO THE REDEVELOPMENT AGENCY:

That the Redevelopment Agency approve the financing and refinancing of improvements for the Southcrest Redevelopment Project, the Central Imperial Redevelopment Project and the Mount Hope Redevelopment Project in an amount not to exceed \$ 21.0 million for 2007 Series A (Taxable) and \$21.0 million for 2007 Series B (Tax-Exempt); approving and authorizing the execution of related documents and agreements and authorizing certain other actions in connection with issuance of the Series 2007 Tax Allocation Bond.

### STAFF RECOMMENDATION TO THE CITY COUNCIL:

That the City Council approve the issuance and sale by the Redevelopment Agency of the City of San Diego tax allocation bonds, note or loans in one or more series to finance and refinance portions of the costs for Southcrest Redevelopment Project, the Central Imperial Redevelopment Project and the Mount Hope Redevelopment Project; subordinating certain payments and approving certain related matters.

SUMMARY:  
BACKGROUND

At its meeting of November 29, 2006, the SEDC Board of Directors recommended approval of a bond issuance estimated at \$43.5 million in refunding and new money tax allocation bonds. The SEDC bond financing team has refined the number which resulted to a revised estimated par amount of \$35.4 million. All aspects of this bond issuance have been prepared in consultation with the City Attorney's office and the city's Financing Services Department. In addition, all of the documents related to this issuance were submitted to the city's Bond Disclosure team on April 26, 2007 for their review.

DISCUSSION

The redevelopment activities undertaken by SEDC have resulted in significant improvements throughout the four adopted redevelopment areas. The commercial, industrial and residential developments are part of the implementation of the goals of the adopted redevelopment plans. Many of the developments have been in partnership with the private sector and have required the use of funds leveraged through the issuance of tax allocation bonds.

The Agency has previously issued six series of tax allocation bonds (collectively the "Prior Agency Bonds") for the purpose of financing and refinancing redevelopment activities in the Project Areas and is of the opinion that refunding four series of the Prior Agency Bonds will provide significant economic benefits to the Agency resulting to an annual cost savings of approximately \$44,000.

**Issuing Entity** - A joint power authority organized and existing under and pursuant to a Joint Exercise of Power Agreement (Authority) dated May 14, 1991 (amended and restated on October 29, 2002), by and between the Agency and the City of San Diego, the Public Facilities Financing Authority of the City of San Diego will issue the following Pooled Financing Bonds (the Bonds):

- Pooled Financing Bonds 2007 Series A (Taxable) (Southcrest, Central Imperial and Mount Hope Redevelopment Projects); and
- Pooled Financing Bonds 2007 Series B (Tax Exempt) (Southcrest, Central Imperial and Mount Hope Redevelopment Projects).

**Insurance** – The par value of Series 2007 (A Taxable) and Series 2007 B (Tax-Exempt) is estimated at \$17.1 million and \$18.2 million respectively. These series of the Bonds will produce net proceeds of approximately \$12.537 million for 2007 Series A (Taxable) and \$9.218 million for 2007 Series B (Tax Exempt). Interest rates on the bonds will range from 5.50% to 6.50% on Series 2007 A and 4.50% to 5.50% on Series 2007 B. The interest rates assume the Agency's ability to obtain bond insurance which will provide for an AAA or AA rating.

**Underwriter/Trustees**-The Authority intends to sell the Bonds to RBC Capital Markets and Backstrom McCarley Berry & Co., LLC (the "Underwriters") in a negotiated transaction pursuant to and under one or more Bond Purchase Contracts by and among the Authority, the Agency and the Underwriters in accordance with the California Redevelopment Law and Bond Act.

The Taxable and Tax-Exempt Bonds will be issued pursuant to an Indenture of Trust by and between the Authority and The Bank of New York Trust Company, as the Trustee. The scheduled payments of principal and interest on the Taxable Bonds and the Tax-Exempt Bonds when due, will be insured by separate financial guaranty insurance policies which will be issued concurrently with the delivery of the Taxable Bonds and the Tax Exempt Bonds.

The following documents are being submitted in form for approval:

- A. Loan Agreement and Third Supplemental Trust Agreement (Southcrest Redevelopment Project), among the Agency, the Authority and the Trustee;
- B. Loan Agreement and Second Supplemental Trust Agreement (Central Imperial Redevelopment Project), among the Agency, the Authority and the Trustee;
- C. Loan Agreement and Fourth Supplemental Trust Agreement (Mount Hope Redevelopment Project), among the Agency, the Authority and the Trustee;
- D. Bond Purchase Contract, by and among the Agency, the Authority and the Underwriters;
- E. Continuing Disclosure Agreement for the Authority Bonds; and
- F. Preliminary Official Statement for the Authority Bonds.

The City Council, in a companion item, is required to adopt a resolution authorizing the issuance and sale by the Agency of the tax allocation bonds. Presently, interest rates are favorable and it is recommended that the proposed tax allocation bonds be issued. The current schedule anticipates a sale of bonds in May and a closing in early June.

#### The Proposed Development Projects

These series of the Bonds will be issued to make loans to the Redevelopment Agency to be used for financing and refinancing redevelopment activities in the following redevelopment project areas: the Central Imperial Redevelopment Project Area, the Southcrest Redevelopment Project Area and the Mount Hope Redevelopment Project Area. Bond proceeds will also be utilized to pay for the cost of issuing the bonds and funding the debt service reserve surety bonds for the Bonds.

California Redevelopment Law requires that the proposed redevelopment activities must be consistent with the source of the proceeds. There are two basic categories, General Proceeds and Housing Set-Aside Funds. The general proceeds have a broader application than the housing set-aside funds which must be utilized in the production and/or support of low/moderate housing. Attachment No. 1 to this report contains the list of projects being proposed for the new money funding in an estimated total of \$24.4 million (gross bond proceeds). It is important to note that none of the revenue sources identified to repay the bonds are city funds.

#### CONCLUSION

The redevelopment undertaken by SEDC has resulted in the installation of public improvements, 1.4 million square feet of new industrial space, three new retail centers, over 600 new residential units as well as the rehabilitation of hundreds of existing homes.

The tax increment funds will assist in continuing the redevelopment contemplated in the respective implementation plans including but not limited to the acquisition necessary for implementing the Imperial Avenue Master Plan the completion of Phase II of the 252 Corridor Park, public improvements (sidewalk, curbs, gutters, alley paving, and street lights) streetscape and other improvements.

The projects proposed for funding will continue our ability to implement the redevelopment activities contained in the approved Redevelopment and Implementation Plans for the Central Imperial, Mount Hope and Southcrest Redevelopment Projects.

ALTERNATIVE

Do not approve the issuance of the Series A and B 2007 Tax Allocation Bonds. This alternative will not allow the Agency and SEDC to continue to implement the redevelopment activities in the SEDC Area of Influence.

FISCAL CONSIDERATIONS

The approval of the issuance of the Series A and B 2007 Tax Allocation Bonds will enable SEDC to continue to implement the redevelopment activities within the SEDC Area of Influence. The following is the breakdown of the financing plan:

Summary of Project Area Bonds

		Refunding	New Money	Total
Southcrest	<i>Tax Exempt</i>	4,250,000	5,545,000	9,795,000
	<i>Taxable</i>		7,520,000	7,520,000
Mount Hope	<i>Tax Exempt</i>			0
	<i>Taxable</i>	3,145,000		3,145,000
Central Imperial	<i>Tax Exempt</i>	3,460,000	4,990,000	8,450,000
	<i>Taxable</i>		6,440,000	6,440,000
<b>Total</b>		<b>10,855,000</b>	<b>24,495,000</b>	<b>35,350,000</b>
<b>Series A - Taxable:</b>				<b>17,105,000</b>
<b>Series B - Tax Exempt:</b>				<b>18,245,000</b>

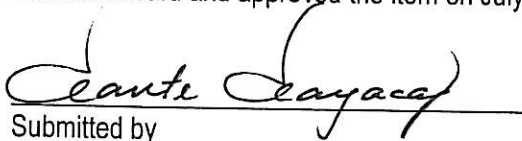
New Money Net Proceeds			
	Southcrest	Central Imperial	
Tax Exempt	4,686,000	4,532,000	
Taxable	6,741,000	5,796,000	
<b>TOTAL</b>	<b>11,427,000</b>	<b>10,328,000</b>	

On the average, approximately \$1.89 million annually over a 30-year period will be used to pay for debt service from the non-housing tax increment revenue; and approximately \$0.47 million annually over a 30-year will be used to pay for debt service from the 20% low-and moderate-income housing funds. It is important to note that no city funds are being used to repay this debt.

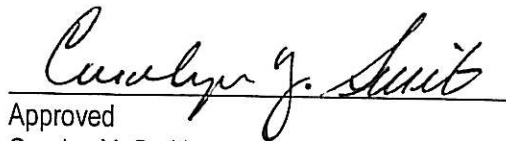
PREVIOUS COUNCIL ACTIONS:  
None

COMMUNITY PARTICIPATION 7 PUBLIC OUTREACH EFFORTS:

The public outreach is conducted through the SEDC Board of Directors meetings. The SEDC Board of Directors heard and approved the item on July 26, 2006 and on November 29, 2006.



Submitted by  
Dante Dayacap  
Director of Finance



Approved  
Carolyn Y. Smith  
President

CYS:kk  
Attachments