Centre City Development Corporation

REPORT NO.: CCDC-08-07
CCDC-08-04

DATE: April 9, 2008

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of April 15, 2008

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Centre City Redevelopment Project Tax Allocation Housing Bonds, Series 2008A – Centre City Redevelopment Project

COUNCIL DISTRICTS: Districts 2 and 8

STAFF CONTACT: Frank Alessi, Vice President and Chief Financial Officer, 619-533-7130

REQUESTED ACTION: That the Redevelopment Agency ("Agency") approve the issuance of Centre City Redevelopment Project Tax Allocation Housing Bond, Series 2008A ("Housing Bonds") in an amount not to exceed $69 million producing net proceeds of approximately $60 million for low and moderate income housing activities and that the City Council ("Council") approve the financing of the Centre City Redevelopment Project by the Agency.

STAFF RECOMMENDATION: That the Agency approve the issuance of Housing Bonds in an amount not to exceed $69 million producing net proceeds of approximately $60 million for low and moderate income housing activities and that the Council approve the financing of Housing Bonds by the Agency.

SUMMARY: The Fiscal Year 2008 ("FY08") Budget includes a provision of $50.4 million net proceeds from a Tax Allocation Housing Bond. The sale of Housing Bonds will provide the necessary funds to implement the FY08 Budget by leveraging the 20% Low and Moderate Income Housing Funds tax increment.

FISCAL CONSIDERATIONS: The sale of Housing Bonds will utilize the 20% low and moderate tax increment revenue for debt service of approximately $8.0 million annually over a 12-year period.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On January 30, 2008, the Corporation voted to approve this item as presented. On March 5 and on March 13, 2008, the Disclosure Practices Working Group discussed and approved the Preliminary Official Statement relating to the proposed Housing Bonds.

CENTRE CITY ADVISORY COMMITTEE RECOMMENDATION: None.

OTHER RECOMMENDATIONS: None.

BACKGROUND: The Agency is authorized to issue bonds for the purpose of financing the 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.

The proposed sale of Housing Bonds will have a par value of approximately $69 million. After providing for a reserve fund, cost of issuance and potential insurance premium, proceeds in the approximate amount of $60 million will be deposited to the Agency's Low and Moderate Income Housing Fund at the time of closing. The process includes the approval of various documents including a Preliminary Official Statement, Trust Indenture, Continuing Disclosure Agreement, and a Purchase Contract more fully described below.

The schedule includes the approval by the Disclosure Practices Working Group, Agency, City Council and Public Facilities Financing Authority prior to being marketed on Wall Street in late April 2008 with a closing anticipated in May 2008.

The proceeds by the sale of the bonds will be used for various low and moderate income housing projects including, but not limited to, the Ninth and Broadway development, land acquisition for a permanent homeless shelter, supportive housing, and other projects that may be feasible.

DISCUSSION: In October 2007, staff reported to the Corporation Budget/Finance and Administration Committee ("Committee") a bond issuance producing approximately $50.4 million net bond proceeds. At the Committee's request, staff investigated the issuance of a larger Housing Bond transaction that would produce additional net proceeds to the Agency. By reducing the coverage ratio to 1.57, bond proceeds in the amount of $60 million rather than $50.4 million can be attained.

The proposed structure anticipates the Agency issuing $69 million Housing Bonds, producing net proceeds in the amount of approximately $60.8 million. Interest rates may range from 5.7% to 6.6% depending on whether the Agency attains municipal bond insurance, which would provide an AAA rating, or the bonds are sold with an underlying rating. Annual debt service is expected to range from approximately $7.95 million to $8.5 million. The resolution authorizing the bonds provides authority to sell bonds with up to 7.25% interest rate. Although unlikely, the debt service would be $8.75 million if sold at that level of interest rate.

Staff has reviewed the "with" and "without" insurance scenarios with the financing team along with several other issues. In addition to bond insurance, other factors may impact this bond issuance as bond documents are developed. Factors include the volatility in the credit markets, the availability of the Agency's audited financial statements and the re-instatement of Standard & Poors rating. It is the hope of staff and the financing team that the current volatility in the credit markets will subside by early April when the Agency sells the Housing Bonds.

In analyzing the structure for the bonds, various long-term scenarios were reviewed regarding future projections of tax increment and the 20% set-aside for the Low and Moderate Income Housing Fund. The results produced a conservative 12-year amortization period for the bond structure to protect the bondholders and satisfy the rating services when analyzing this transaction.

The following tables reflects a preliminary three-year cash flow of the Centre City Redevelopment Project using the housing tax increment revenue excluding growth from new development and deducting existing and the proposed debt service, illustrating the Agency's ability to pay debt service on the proposed bond issuance.

(In Millions)

	FY 2008	FY 2009	FY 2010
HOUSING TAX INCREMENT[1)]	$21.5	$21.3	$21.7
Less: Existing Debt Service	$ 5.6	$ 5.6	$ 5.6
Proposed Debt Service Series 2008A	$ 1.3	$ 8.0	$ 8.0
Remaining Balance after Existing and Proposed Debt Service	$ 14.6	$ 7.7	$ 8.1

1) Per Katz Hollis Report dated March 2008. Based on current assessed values and a 2% escalation.

The proposed bond sale requires approval of various documents by CCDC, the Agency and City Council. The actions required include the adoption of resolutions approving the issuance of Housing Bonds and approval of the following preliminary documents:

1. Preliminary Official Statement – A detailed offering circular informing potential bonds purchasers of all relevant information as to the nature of the obligations, the project to be financed, and the security of the bonds.

2. Trust Indenture – Trust Indentures between the Agency and trustee (Deutsche Bank National Trust Company) providing for the terms and conditions of the Centre City Redevelopment Project Tax Allocation Housing Bonds, Series 2008A.

3. Continuing Disclosure Agreement – An Agreement 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 (Appendix F of the Preliminary Official Statement).

4. Purchase Contract – Bond Purchase Agreements between the Agency, the Public Facilities Financing Authority, and E. J. De La Rosa & Co., Inc., and RBC Capital Markets ("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 it recommended that the proposed tax allocation bonds be issued.

The City Council, in a companion item, is required to adopt a resolution authorizing the Agency to issue bonds. The current schedule anticipates this item to be heard by Public Facilities Financing Authority in late April, a sale of bonds in May, and a closing in late May.

ENVIRONMENTAL IMPACT: This activity is not a project, and therefore not subject to CEQA Guidelines Section 15060(c)(3).

CONCLUSION: The sale of Housing Bonds will provide the funds anticipated in the FY08 Budget facilitating the production of affordable housing. The cost of the bond will be determined on a variety of factors, including the situation in the credit markets at the time of sale, the availability of municipal insurance, and the rating on the bonds.

Respectfully submitted,

Frank J. Alessi
Vice President and Chief Financial Officer

Concurred by:

Nancy C. Graham
President

Attachments: A - Preliminary Official Statement ("POS")
B - Trust Indenture (Appendix C of POS)
C - Continuing Disclosure Agreements (Appendix F of POS)
D - Purchase Contract

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