



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: October 23, 2008 REPORT NO: RA-08-31
RTC-08-159

ATTENTION: Honorable Chair and Members of the Redevelopment Agency,
Council President and City Council
Docket of October 28, 2008

SUBJECT: Amendment to Credit Agreement with Bank of America N.A. for
the North Park Redevelopment Project Area

REQUESTED ACTION:

Should the Redevelopment Agency:

1. Approve the form of the proposed First Amendment to Credit Agreement between the Redevelopment Agency and Bank of America, N.A. and authorize the Agency's Deputy Executive Director to execute and deliver the First Amendment to Credit Agreement in substantially the form presented at this meeting?
2. Approve the proposed nine-month extension of the \$8,530,333 Bank Loan that is to be repaid in the manner and on the terms set forth in the First Amendment to Credit Agreement?
3. Authorize and direct the Deputy Executive Director and the Agency Secretary to do any and all things to execute and deliver any and all documents which in consultation with the Financial Advisor, Bond Counsel and the Agency Counsel, they may deem necessary or advisable in order to enter into the Bank Loan and the First Amendment to Credit Agreement?
4. Authorize the City Attorney to enter into an agreement with Best Best & Kreiger to provide bond counsel services?

Should the City Council:

1. Approve the financing of a portion of the costs of the North Park Redevelopment Project by means of the Agency entering into the First Amendment to Credit Agreement for the purpose of extending the existing Credit Agreement and Bank Loan as set forth therein?

STAFF RECOMMENDATION:

It is recommended the Redevelopment Agency adopt a resolution to:

1. Approve the form of the proposed First Amendment to Credit Agreement between the Redevelopment Agency and Bank of America, N.A. and authorize the Agency's Deputy Executive Director to execute and deliver the First Amendment to Credit Agreement in substantially the form presented at this meeting.
2. Approve the proposed nine-month extension of the \$8,530,333 Bank Loan that is to be repaid in the manner and on the terms set forth in the First Amendment to Credit Agreement.
3. Authorize and direct the Deputy Executive Director and the Agency Secretary to do any and all things to execute and deliver any and all documents which in consultation with the Financial Advisor, Bond Counsel and the Agency Counsel, they may deem necessary or advisable in order to enter into the Bank Loan and the First Amendment to Credit Agreement.
4. Authorize the City Attorney to enter into an agreement with Best Best & Kreiger to provide bond counsel services.

It is recommended the City Council adopt a resolution to:

1. Approve the financing of a portion of the costs of the North Park Redevelopment Project by means of the Agency entering into the First Amendment to Credit Agreement for the purpose of extending the existing Credit Agreement and Bank Loan as set forth therein.

SUMMARY :

On October 31, 2006 the Redevelopment Agency (RDA) entered into a Credit Agreement and obtained a \$10,000,000 Line of Credit with Bank of America to finance activities associated with the North Park Theatre and Parking Structure. Of the \$10,000,000 made available under the Credit Agreement, \$8,530,333.00 was drawn and the projects have been completed.^{1,2} The Credit Agreement was entered into with the understanding the Agency would refinance the loan through a bond issuance at or before the end of the two-year term that expires on November 1, 2008. While the Agency is making preparations to reenter the bond market, timing factors and current market volatility necessitate the Agency to extend the term of the loan for a period of nine months. The proposed First Amendment to Credit Agreement enables the Agency to extend the loan for a time period sufficient for the Agency to refinance the debt via a long-term bond issuance.

¹ Refer to Redevelopment Agency Staff Report # 06-43 (RTC -06-126) issued September 20, 2006 for additional background information.

² \$198,559 of the principal remains unspent as of the date of this report.

STRUCTURE AND FINANCING TERMS:

This table provides a summary of the key financing terms and compares the terms of the original Credit Agreement to the proposed First Amendment.

	Original Credit Agreement	Proposed First Amendment
Effective Date	10/31/06	10/31/08
Commitment Amount (Principal)	Up to \$10,000,000; \$8,530,333 was drawn	\$8,530,333 No further advances are allowed.
Tax Exempt portion of Principal	\$7,537,337 @ 62.347% of the 12-month LIBOR ³ Rate plus 0.90% <i>1st Year rate was 4.248%; 2nd Year rate is 3.800%</i>	\$7,534,337 @ 62.347% of the 9-month LIBOR ³ Rate plus 1.20% FIXED RATE <i>Assuming LIBOR of 4.000%, new rate will be 3.694%</i>
Taxable Portion of Principal	Up to \$2,435,663; \$995,996 was drawn @ 12-month LIBOR ³ Rate plus 1.20% <i>1st Year rate was 6.570%; 2nd Year rate is 5.850%</i>	\$995,996 @ the 9-month LIBOR ³ Rate plus 1.50% FIXED RATE <i>Assuming LIBOR of 4.000%, new rate will be 5.500%</i>
Interest Payable	Quarterly	Quarterly
Term & Expiration	2 years, expires 11/1/08	9 months, expires 8/1/09
Unused Commitment Fee	0.45% per annum on uncommitted funds	n/a. All funds are already drawn.

³ London Interbank Offered Rate. The rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. A standard financial index used in U.S. capital markets to set the cost of various variable-rate loans.

USES OF THE FUNDS:

The funds from the line of credit were utilized as follows:

North Park Theatre– The loan enabled the Agency to repay \$3,435,000 in developer loans associated with the North Park Theatre project. These payments were made in 2006.

North Park Parking Structure – The loan enabled the Agency to repay \$4,896,774 in developer loans and land acquisition costs associated with the Parking Structure project. These payments were made in 2006.

North Park Mini Park & Streetscape Improvements – The unspent commitment balance of 198,559 will be applied to the future North Park ‘Mini Park’ planned for the property behind the Theatre and for streetscape improvements along North Park Way.

The table below summarizes the uses of the funds:

Project	Tax Exempt	Taxable	Total	Expended to Date
North Park Theatre	\$3,435,000	\$0	\$3,435,000	Yes, 11/2/06
North Park Parking Structure	\$3,900,778	\$995,996	\$4,896,774	Yes, 11/2/06
North Park Mini Park & Streetscape Improvements	\$ 198,559 ⁴	\$0	\$ 198,559	No
Total	\$7,534,337	\$995,996	\$8,530,333	

⁴ Principal only. Interest of \$15,229 has accrued on these funds as of 10/21/08.

FINANCING TEAM:

Bank of America (bank) is the lender for the Credit Agreement and for the proposed nine month extension thereof (First Amendment to Credit Agreement). The bank was selected for the 2006 transaction through a competitive process. Kitahata & Company is the Agency’s financial advisor and was selected earlier this year as the result of a competitive process. The City Attorney’s Office has selected Best Best & Kreiger (BB&K) to serve as bond counsel on this transaction due to their previous experience serving in the same capacity on the original Credit Agreement and the requirement for tax analysis services.

FISCAL CONSIDERATIONS:

There is no fiscal impact to the City or the City's General Fund by this action to extend the Credit Agreement for nine months. All payments will be made from tax increment generated by the North Park Redevelopment Project Area.

Based on the 9-month LIBOR⁵ (which is the index used to fix the interest rate) as of October 20, 2008, the quarterly interest payment on the loan is estimated to be approximately \$83,457 and the total interest payment through maturity (August 1, 2009) is estimated to be approximately \$250,371. The actual interest rate will be set on October 31, 2008, and it would be fixed for the 9-month period. Breakdown of the taxable and tax-exempt portions of the loan are as illustrated in the table below:

	Outstanding Loan Amounts	Estimated Quarterly Interest Payment*
Tax Exempt	\$ 7,534,337	\$13,695
Taxable	\$ 995,996	\$69,762
Total	\$ 8,530,333	\$ 83,457

*Actual interest rate to be fixed on October 31, 2008.

Transaction Fees

The fees associated with this transaction are anticipated as follows. The fees will be paid out of tax increment generated by the North Park Redevelopment Project Area.

Bank attorney fees: \$5,000
Fiscal consultant fee: \$2,500
Bond Counsel: \$11,000

PREVIOUS AGENCY, COUNCIL and/or COMMITTEE ACTION:

On October 4, 2006 the City Council passed resolution R-301944 authorizing the Redevelopment Agency to execute the original credit agreement with Bank of America, N.A. On October 11, 2006 the Redevelopment Agency passed resolution R-04078 authorizing the execution of the same credit agreement.

⁵ 9-Month LIBOR on 10/20/08 was 4.00%

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COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On September 13, 2005 the North Park Project Area Committee (PAC) adopted a motion (6/1/1/) to support the pledge of tax increment funds from the North Park Project Area to refinance the Agency's obligations for the completion of the North Park Theatre and North Park Parking Facility. On November 8, 2005, January 10, 2006, and August 14, 2006 the PAC received reports outlining efforts to secure the line of credit for this purpose.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in this transaction are Bank of America, N.A. (Lender); Kathleen C. Johnson, Attorney at Law (Bank's counsel); Best Best & Kreiger (bond counsel); and Kitahata & Company (financial advisor).

Respectfully submitted:

Janice Weinrick
Deputy Executive Director
Redevelopment Agency/
Assistant Director
City Planning & Community Investment

Approved:

William Anderson
Assistant Executive Director
Redevelopment Agency/
Deputy Chief Operating Officer,
Executive Director of City Planning & Development

Attachments

1. Form of proposed First Amendment to Credit Agreement
2. Original Credit Agreement