



THE CITY OF SAN DIEGO

DATE ISSUED: June 10, 2009

REPORT NO. RA-09-22
RTC-09-085

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of June 23, 2009

SUBJECT: Tax Allocation Bond Issue for the North Park Redevelopment Project Area

REQUESTED ACTION: That the Redevelopment Agency:

1. Authorize the issuance of North Park Redevelopment Project Subordinate Tax Allocation Bonds, Series 2009A in an amount not to exceed \$16 million and approve necessary financing documents.
2. Authorize the City Attorney to appoint Stradling Yocca Carlson & Rauth as Bond Counsel in connection with the issuance of the North Park Subordinate Tax Allocation Bonds, Series 2009A ("2009A Bonds") with total compensation not to exceed \$65,000. The fees payable to Bond Counsel shall be contingent upon closing of the 2009A Bonds and paid out of the proceeds from the 2009A Bonds.
3. Authorize the City Attorney to appoint Quint & Thimmig as Disclosure Counsel for the Agency in connection with the issuance of the 2009A Bonds with total compensation not to exceed \$30,000. The fees payable to Disclosure Counsel shall be contingent upon closing of the 2009A Bonds and paid out of the proceeds from the 2009A Bonds.
4. Amend the Fiscal Year 2010 Redevelopment Agency budget:
 - a) to authorize the appropriation and expenditure of \$7, 534,377 from the 2009A Bonds proceeds for the repayment to Bank of America, N.A. of the tax-exempt portion of the North Park line of credit and \$995,556 from available North Park Project Area funds for the repayment to Bank of America, N.A. of the taxable portion of the North Park line of credit; and
 - b) to authorize the City Comptroller to appropriate and transfer funds as necessary from available North Park Project Area funds for the Fiscal Year 2010 debt service on the 2009A Bonds once established in the Debt Service Schedule of the final Official Statement.



Redevelopment Agency

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City Planning & Community Investment



That the City Council authorize the Agency to issue North Park Redevelopment Project Subordinate Tax Allocation Bonds, Series 2009A in an amount not to exceed \$16 million.

STAFF RECOMMENDATION: Approve the requested actions.

BACKGROUND: The Agency is authorized to issue bonds for the purpose of financing the costs of a redevelopment project pursuant to Part I of Division 24 of the California Health and Safety Code. In October 2000, the Agency issued North Park Tax Allocation Bonds, Series 2000 in the principal amount of \$7.0 million. In December 2003, the Agency issued North Park Tax Allocation Bonds, Series A (Taxable) in the principal amount of \$7.1 million and Series B (Tax-Exempt) of \$5.4 million for a total aggregate principal amount of \$12.5 million. Bond proceeds from the 2000 and 2003 issues were used to finance the rehabilitation and construction of the North Park Theatre, property acquisition for and construction of the parking lot adjacent to the Theatre and the North Park parking structure, and the Renaissance mixed use project. Total annual debt service on the 2000 and 2003 Bonds is approximately \$1.3 million, and all debt service is secured by 100% of the North Park Project Area's tax increment revenues.

In October 2006, the Agency obtained a \$10,000,000 bank line of credit from the Bank of America secured by a pledge of the North Park Project Area's non-housing tax increment revenues. The line of credit had a term of two-years and required quarterly interest payments beginning in January 2007. In November 2008, the expiration date for the line of credit was extended to July 31, 2009, and the amount of the line of credit was reduced from \$10,000,000 to the total amount outstanding of \$8,530,333. Proceeds from the line of credit were used to repay developer loans associated with the North Park Theatre project and developer loans and land acquisition costs associated with the North Park parking structure.

DISCUSSION

Although the Agency customarily has sold bonds on a competitive basis, due to the difficulty in selling tax allocation bonds, in particular taxable tax allocation bonds, in today's market the 2009A Bonds will be tax-exempt only and sold as a negotiated sale to the underwriting team of De La Rosa & Company and Sutter Securities Inc. ("Underwriters"), who were selected from among ten responses to a March 2009 Request for Proposals. The Bond issuance process includes the approval of various documents, including a Preliminary Official Statement ("POS", Attachment 1), Trust Indenture (Attachment 2), Continuing Disclosure Certificate (Exhibit F of the POS), and a Purchase Contract (Attachment 3) more fully described below.

The proposed 2009A Bonds are estimated in today's market to have a par value of approximately \$14.2 million. Assuming a bond rating of A- and a true interest cost of about 6.60%, net proceeds in the amount of approximately \$11.4 million would be available for the Agency's existing obligations and future projects. The resolution authorizing the bonds provides authority to sell bonds with a true interest cost not to exceed 8.5%. After providing for a reserve fund (approximately \$1.4 million), cost of issuance (approximately \$200,000), capitalized interest (approximately \$700,000), and underwriter's discount (approximately \$95,000), \$7,534,377 of the net proceeds will be available to repay the tax-exempt portion of the Bank of America line of credit; \$900,000 will be used to repay the La Boheme Mixed Use Project developer loan

(pursuant to a 2004 Disposition and Development Agreement with Western Pacific Housing); and the remaining \$3 million will be available for public improvements in the North Park Redevelopment Project Area. Requests to fund such public improvement projects would require additional action by the Agency. The tax-exempt nature of the proposed 2009A Bonds require that the Agency have a reasonable expectation that all borrowed funds will be expended within a three year period as required by Federal tax law. Due to the abundance of project needs, it is expected that additional actions will be brought forward within the three year period to request the expenditure of all available funds.

The above bonding scenario assumes a Standard & Poor’s (S&P) rating of A-; a rating request for these bonds will be submitted to S&P the week of June 9. The bonds cannot be priced until all the documents have been approved and the bonds have been rated.

The following table reflects a preliminary three-year cash flow of the North Park Project Area using the non-housing tax increment revenue including adjustments for property assessment appeals and foreclosure activity, and deducting existing and proposed debt service, illustrating the Agency’s ability to pay debt service on the proposed bond issuance.

	(In Millions)		
	<u>FY 2010</u>	<u>FY2011</u>	<u>FY2012</u>
Non-Housing Tax Increment	\$ 3.826	\$ 3.740	\$ 3.737
Less:			
Existing Debt Service	\$.948	\$.951	\$.945
Proposed Average Debt Service	\$.594	\$.594	\$.901
Remaining Balance after Existing And Proposed Debt Service	\$ 2.284	\$ 2.195	\$ 1.891

The proposed 2009A Bonds sale includes the approval of various documents by the Disclosure Practices Working Group, the Agency, the City Council and the Public Facilities Financing Authority of the City of San Diego prior to the closing in July 2009.

The actions requested include the adoption of resolutions approving the issuance of the North Park Subordinate Tax Allocation Bonds 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 financial capacity of the North Park Redevelopment Project Area, the nature of the Project Area’s obligations, the projects to be financed, and the security of the bonds.
2. Trust Indenture – Trust Indenture between the Agency and Trustee (Wells Fargo Bank, N.A.) providing for the terms and conditions of the Agency’s relationship with the Bond

Trustee, providing instructions to the Trustee for the establishment of the necessary accounts and for payments to the bond holders.

3. Continuing Disclosure Certificate – The Agency certifies 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). These annual reports will be made available on the City’s website, as well as distributed as required to the Municipal Securities Rulemaking Board (MSRB) and the Nationally Recognized Municipal Securities Information Repositories (NRMSIR).
4. Purchase Contract – Bond Purchase Agreement among the Agency, the Public Facilities Financing Authority (PFFA), and E.J. De La Rosa & Co., and Sutter Securities Inc. (Underwriters) setting the terms and conditions according to which the bonds will be sold to the Underwriters. The bonds will be sold by the Agency to the PFFA for concurrent resale to the Underwriters (Attachment 4). The Underwriters will market and sell the bonds as a public offering.

The Bond issuance documents are scheduled to be reviewed by the Disclosure Practices Working Group the week of June 1. The tentative financing schedule is as follows:

Receive S&P bond rating	Week of June 22
Request for Agency/Council approval	June 23
PFFA approval of financing resolution	June 24
Print and Mail POS	June 25
Price Bonds	Week of July 6
Bond closing, funds available	July 22
Expiration of Bank of America Line of Credit	July 31

FISCAL CONSIDERATIONS: The principal amount of the 2009 Bonds is not to exceed \$16 million. The resolution authorizing the bonds provides authority to sell bonds with a true interest cost not to exceed 8.5%. Assuming a bond rating of A- from Standard & Poor’s and 6.60% true interest cost, available tax increment revenue is estimated to cover the annual debt service payments by a minimum ratio of 1.6 to 1. Payments will be made from non-housing tax increment revenue generated by the North Park Redevelopment Project Area. An independent fiscal consultant report (Appendix D of the POS) has been prepared which concludes that sufficient incremental revenue is currently and will continue to be generated on an annual basis to support annual debt service payments. The bonds are solely a debt obligation of the Agency and shall not be payable out of any funds other than those of the Agency.

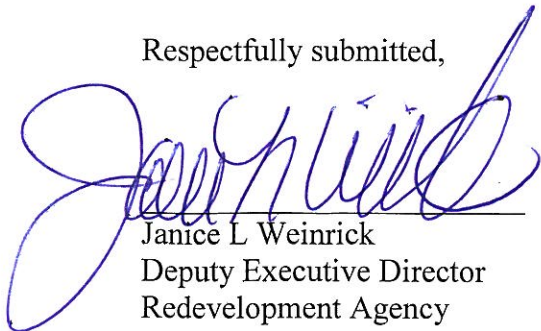
PREVIOUS AGENCY, and/or COMMITTEE ACTION: None.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS: The North Park Project Area Committee was advised of the proposed action at their regular April meeting, and there were no objections.

KEY STAKEHOLDERS and PROJECTED IMPACTS: Business entities engaged in the

proposed 2009A Bonds transaction are Kitahata & Company (Financial Advisor), David Taussig & Associates (Fiscal Consultant), Stradling Yocca Carlson & Rauth (Bond Counsel), Quint & Thimmig (Disclosure Counsel), Wells Fargo, N.A. (Bond Trustee), De La Rosa & Company and Sutter Securities Inc. (Underwriters). This activity is not a “project” within the meaning of the California Environment Quality Act (“CEQA”), specifically CEQA Guidelines section 15378, and thus is not subject to CEQA pursuant to CEQA Guidelines section 15060(c)(3).

Respectfully submitted,



Janice L. Weinrick
Deputy Executive Director
Redevelopment Agency



William Anderson
Assistant Executive Director
Redevelopment Agency

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Attachments:

1. Preliminary Official Statement Dated June ___, 2009
2. Indenture of Trust by and between Redevelopment Agency of the City of San Diego and Wells Fargo Bank, National Association
3. Purchase Contract - Redevelopment Agency of the City of San Diego North Park Redevelopment Project Subordinate Tax Allocation Bonds, Series 2009A
4. Resolution of the Board of Directors of the Public Facilities Financing Authority of the City of San Diego Authorizing Purchase and Sale of Redevelopment Agency of the City of San Diego, North Park Redevelopment Project, Subordinate Tax Allocation Bonds, Series 2009A, and Approving Certain Related Documents and Authorizing Certain Other Actions
5. June 3, 2009 Correspondence re: Information to be Inserted into Preliminary Official Statement