

DATE ISSUED: September 27, 2000

REPORT NO. 00-192

ATTENTION: Honorable Mayor & City Council  
Docket of October 2, 2000

SUBJECT: City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings)

### SUMMARY

Issues - 1) Should the City Council approve an ordinance to amend the applicable lease agreement relating to the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings) to facilitate the substitution of the Southern Division Police Station for the Police Heavy Vehicle Maintenance Facility under the lease agreement? 2) Should the City Council authorize the conveyance of the Southern Division Police Station from the City to the City of San Diego/MTDB Authority, and the reconveyance of the Police Heavy Vehicle Maintenance Facility from the City of San Diego/MTDB Authority back to the City? 3) Should the City Council direct the City Manager to take the necessary steps to execute the substitution of property under the applicable lease agreement?

Manager's Recommendations - 1) Amend the applicable lease agreement relating to the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings) to facilitate the substitution of the Southern Division Police Station for the Police Heavy Vehicle Maintenance Facility under the lease agreement. 2) Authorize the conveyance of the Southern Division Police Station from the City to the City of San Diego/MTDB Authority, and the reconveyance of the Police Heavy Vehicle Maintenance Facility from the City of San Diego/MTDB Authority back to the City. 3) Direct the City Manager to take the necessary steps to execute the substitution of property under the applicable lease agreement.

Other Recommendations - None

Fiscal Impact - None

### BACKGROUND

On June 5, 2000, the City Council selected the Park to Bay site for the location of a proposed New Main Library. This site, which is located between 11<sup>th</sup> and 12<sup>th</sup> Avenues and J and K

Streets, is the current location of the Police Heavy Vehicle Maintenance Facility (the “Police Garage”). The Police Garage is encumbered under a financing lease pertaining to the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings) (the “Refunding Bonds”).

The Refunding Bonds were issued to advance refund portions of the City of San Diego Refunding Certificates of Participation (Police Capital Improvements Projects) (the “1986 Obligations”) and the City of San Diego/MTDB Authority 1989 Lease Revenue Bonds (San Diego Bayside Light Rail Transit Extension) to achieve lease payment savings resulting from lower interest rates. The properties are covered by leases under which the City is the lessee, including the Police Garage. The Refunding Bonds are payable from the lease payments made by the City, as the lessee, to the City of San Diego/MTDB Authority (the “Authority”) as the lessor. The Authority was established in 1987 through a joint exercise of powers agreement between the City and the Metropolitan Transit Development Board.

## DISCUSSION

To utilize the site of the Police Garage for an alternate purpose, it is necessary to amend the applicable financing lease (the “Lease Agreement”) under the Refunding Bonds to exclude the Police Garage and substitute in a replacement property. The Lease Agreement for the Refunding Bonds can be amended to substitute in a replacement property under the lease if certain criteria are satisfied. The criteria include:

- 1) the substituted property must have an appraised value of at least 120% of the outstanding principal payments attributable to the Police Garage;
- 2) the replacement property must be of equal or greater essentiality to the City;
- 3) the seismic condition of the replacement facility must be equal to or better than that of the Police Garage;
- 4) the remaining properties under the 1986 Obligations must have a current appraised value equal to or greater than the respective outstanding principal components under the Lease Agreement;
- 5) the financial advisor must advise the City by letter that the substitution of the replacement facility would not adversely affect the owners of the Refunding Bonds; and
- 6) the rating agencies must reaffirm their respective ratings and advise the City that the substitution, in and of itself, will not result in a downgrade to the credit ratings on the Refunding Bonds.

It is proposed that the Southern Division Police Station (the “Southern Station”) be utilized as the replacement property. The Southern Station satisfies the appraised value, essentiality, and seismic condition requirements outlined above (criteria #1 - #3). A police station facility, such as the Southern Station, would reasonably be viewed as a facility that is at least as essential to the City as a police maintenance facility. The Real Estate Assets Department (READ) has determined that the current appraised value of the Southern Station is \$4.3 million, which is greater than 120% of the outstanding principal payments attributable to the Police Garage under the Refunding Bonds. In addition, Public Buildings and Parks Division has determined that the seismic condition of the Southern Station is greater than that of the Police Garage.

READ has appraised the remaining properties under the 1986 Obligations and determined that the current values of these properties exceed the respective principal components under the

Refunding Bonds. Municipal Capital Management, Inc., the financial advisor, has advised the City that the substitution of the Southern Station would not adversely affect the owners of the Refunding Bonds. In addition, both Standard & Poor's and Moody's have reaffirmed the existing ratings of A+ and Aa, respectively, and have advised City staff that the substitution of the Police Garage with the Southern Station would not, in and of itself, result in a downgrade to the credit rating on the Refunding Bonds.

Under the Lease Agreement, title to the leased property is vested in the Authority. Therefore, execution of the proposed substitution would require the conveyance of the Southern Station from the City to the Authority. Conversely, when the substitution is executed, the Police Garage would be reconveyed from the Authority back to the City. It is recommended that the City Council approve such conveyance and reconveyance. Upon expiration of the term of the Lease Agreement, title to the Southern Station would automatically vest in the City. The term of the Lease Agreement is expected to end on September 1, 2005 when the lease payments payable under the lease are paid in full.

#### CONCLUSION

It is recommended that the City Council approve the amendment to the Lease Agreement to remove the Police Garage and substitute in the Southern Station as the replacement property. This will enable the City to utilize the Police Garage site for an alternate purpose.

#### ALTERNATIVE

Do not approve the amendment to allow for the substitution of property under the Refunding Bonds. If the amendment is not approved, the Police Garage could not be utilized for an alternate purpose until the term of the Lease Agreement expires.

Respectfully submitted,

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MARY E. VATTIMO  
Deputy Director  
Financing Services

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Approved: PATRICIA T. FRAZIER  
Deputy City Manager

FRAZIER/MEV/ELK/JSW