

DATE ISSUED: April 16, 2003

REPORT NO. 03-069

ATTENTION: Honorable Mayor and City Council
Agenda of April 22, 2003

SUBJECT: Proposed Consolidated Refunding of three 1915 Act Bonds issued by the City on behalf of property owners within three City of San Diego 1915 Act Special Assessment Districts and the creation of City of San Diego Reassessment District No. 2003-1.

REFERENCE: None

SUMMARY

Issues: Should the City Council:

- 1) Adopt a resolution declaring the City Council's intention to: (a) establish Reassessment District No. 2003-1; (b) reassess the properties within the City's 1915 Act Special Assessment District Numbers 4011, 4021, and 4036; (c) issue refunding bonds supported by reassessments; and (d) order the preparation of an Engineer's Report?
- 2) Adopt a resolution (a) preliminarily approving the Engineer's Report; (b) setting the time and place for a public hearing on the proposed reassessments and refunding; and (c) directing the City Clerk to provide for the mailing of a Notice of Public Hearing to the record owners of property proposed to be reassessed, together with reassessment ballot materials?
- 3) Adopt a resolution, in accordance with the Closed Session meeting of March 25, 2003, authorizing the transfer of \$154,815.77 from Fund No. 79900 to Fund No. 79626 to pay certain delinquent special assessments on assessor's parcel numbers 646-120-30, 646-120-39, 646-261-01 through 05, and 646-261-07, within Assessment District No. 4021, and authorizing waiver of interest and penalties thereon?

Manager's Recommendation: Adopt the resolutions.

Other Recommendations: None.

Fiscal Impact: There would be no fiscal impact to the City's General Fund as a result of these actions. All costs related to the creation of the Reassessment District and the issuance of the refunding bonds would be reimbursed from bond proceeds. Certain costs related to the creation of the Reassessment District (e.g., financial advisor, reassessment engineer, bond counsel, disclosure counsel, and City staff costs) have been interim funded by the City's Special Assessment District Delinquency Fund (the "Delinquency Fund"), and the Delinquency Fund would be subsequently reimbursed for these expenditures if the refunding bonds are sold (the Delinquency Fund is funded by penalties paid on delinquent assessments for bond financed special assessment districts). In accordance with the Closed Session meeting of March 25, 2003, \$154,815.77 would be transferred from the Delinquency Fund to pay certain delinquent special assessments, and this amount would not be reimbursed from bond proceeds.

BACKGROUND

At the request of property owners, and in accordance with the Improvement Bond Act of 1915 (the "1915 Act"), the City previously has issued 1915 Act bonds to finance the acquisition of public improvements (street, water, sewer and drainage improvements) providing special benefit to property owners within Assessment District Numbers 4011, 4021, and 4036 (the "Original Districts"). The City typically issues 1915 Act bonds for a period of 25 years. Annual principal and interest payments on the 1915 Act bonds are paid with annual special assessments collected from property owners within the special assessment districts. Special assessments are billed in equal installments with the County property tax bills, which are due in December and April of each year. Assessment liens against property within the special assessment districts secure the annual payment of principal and interest over the life of the 1915 Act bonds. Once collected, special assessments are forwarded through the City to a paying agent or trustee who, in turn, makes scheduled principal and interest payments annually to the owners of the bonds.

If adopted, the resolutions will begin the formal legislative proceedings to enable the City to reduce annual special assessments for property owners within the Original Districts by cost-effectively consolidating the three outstanding 1915 Act bond issues (the "Original Bonds") into a single, less expensive bond issuance. Assessments for the Original Districts would be replaced with reduced reassessments for a new consolidated City of San Diego Reassessment District No. 2003-1 (the "Reassessment District").

DISCUSSION

Interest rates in the municipal bond market have fallen from the levels that existed when the Original Bonds were issued. Additionally, properties within the Original Districts have been appreciably improved (developed) since the Original Bonds were issued. As property is developed and sold to new owners (thereby raising the value of the land and diversifying the concentration of ownership), buyers of municipal bonds recognize that the credit quality (the likelihood of receiving timely principal and interest payments) of special assessment bonds improves significantly. Buyers of municipal bonds require lower rates of interest on bonds

secured by developed property with diversified ownership than they require for bonds secured by unimproved property (raw land) or undiversified ownership (one, or a few, major property owners).

On behalf of certain property owners within the Original Districts, City staff began analyzing the financial feasibility of cost-effectively refunding certain of the Original Bonds. A financial advisory team was selected to assist City staff in evaluating all refunding options. As the potential viability of a cost-effective refunding became apparent, other independent consultants were engaged to assist City staff in structuring and marketing a refunding bond issuance.

The finance team specifically evaluated the financial feasibility of refunding each of the City's four outstanding 1915 Act assessment districts in the Otay Mesa area. The evaluation criteria included the current status of development, historical assessment delinquency rates, assessed value of parcels within each district, value-to-lien ratios, and analysis of net present value debt service savings attributable to a refunding of the current outstanding debt. After a thorough evaluation, the finance team determined that refinancing the outstanding debt was potentially feasible for three of the four districts. The remaining 1915 Act bond issue was not selected due to the relatively small amount of outstanding bonds.

The following three 1915 Act districts were selected to participate in the proposed refunding:

<u>District Number</u>	<u>District Name</u>	<u>Bond Issue Date</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds as of July 1, 2003</u>
4011	De La Fuente Business Park – Ph 1	April 1989	\$4,896,711	\$2,800,000
4021	De La Fuente Business Park – Ph 2	July 1992	\$5,987,154	\$4,335,000
4036	International Business Center	August 1990	\$4,171,930	\$2,495,000

The Refunding Act of 1984 for 1915 Improvement Act Bonds, being Division 11.5 of the California Streets and Highways Code (the “Refunding Act”), allows two or more issues of bonds issued under the 1915 Act to be refunded in one proceeding, with one new issue of refunding bonds secured by reassessments levied in lieu of the original assessments. This type of consolidated structure, referred to as a pooled issue, results in reduced fixed financing costs as a percentage of the total bond issue. In addition, the recommended pooled financing structure enhances the credit quality of the issuance by reducing the credit risk associated with concentrated property ownership, which should result in lower interest rates on the refunding bonds. Under this refunding plan, all remaining property owners subject to assessments from the Original Districts would benefit from the assessment savings on a proportional basis.

The Refunding Act provides a mechanism to streamline the refunding process and eliminate the requirement to conduct a ballot process and associated public hearing. This process is known as a “summary refunding.” However, in order to undertake a summary refunding, three basic tests must be met. First, the amount of the unamortized assessment lien may not rise above the existing, pre-refunding level. Second, the annual debt service may not rise above the existing debt service level. Finally, the maturity of the bonds may not be extended beyond the original, stated maturity of the bonds. If the refunding does not meet all of these tests, a ballot process and public hearing involving the affected property owners must be conducted. Due to the

particular structural attributes of the Original Bonds to be refunded, the financing team has eliminated the summary refunding process as a viable option for accomplishing the refunding. Therefore, a ballot process and public hearing will be required to implement the refunding.

Once the Reassessment District is established, the Original Districts cease to exist as separate legal districts. Further, the annual levies placed on Reassessment District properties are referred to as "reassessments" as opposed to "special assessments."

Under the recommended financing structure, the refunding bonds would be issued as "Limited Obligation Refunding Bonds," and would not constitute either a debt or liability of the City. Neither the faith and credit, nor the taxing power of the City or any of its political subdivisions, would be pledged to payment of the principal of or the interest on the refunding bonds.

SCHEDULE

Adoption of the proposed resolutions would begin the formal legislative proceedings for formation of the proposed Reassessment District and provide for a public hearing on June 10, 2003, regarding the proposed reassessment and refunding. Also, upon adoption of the proposed resolutions, ballots related to the proposed levy of reassessments would be mailed to each of the property owners of record. At the public hearing, the City Council would receive public testimony and the City Clerk would tabulate the returned ballots. If a majority of the returned ballots are cast in favor of the proposed levy of reassessments, the City Council may adopt a resolution confirming the proposed reassessments. At a later date, additional documents would be brought forward for City Council consideration, including, but not limited to, a bond indenture, bond purchase agreement, preliminary official statement, and other related financing documents.

ALTERNATIVE

Do not adopt the three resolutions necessary to proceed with the proposed reassessment and refunding.

Respectfully submitted,

MARY E. VATTIMO
City Treasurer

Approved: PATRICIA T. FRAZIER
Deputy City Manager

VATTIMO/CW