



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: September 20, 2006

REPORT NO.: RA-06-43
RTC-06-126

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of September 26, 2006

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

REQUESTED ACTION: Approve the Redevelopment Agency Execution of a Credit Agreement to establish a Line of Credit with Bank of America, N.A. in an amount not to exceed \$10,000,000 for the North Park Redevelopment Project Area

That the Redevelopment Agency:

1. Authorize the Executive Director or designee to enter into a Credit Agreement for a Line of Credit between the Redevelopment Agency of the City of San Diego ("Agency") and Bank of America, N.A. ("BofA") in an amount not to exceed \$10 million for the North Park Redevelopment Project Area.
2. Amend the Fiscal Year 2007 Redevelopment Agency Budget for the North Park Redevelopment Project Area, contingent on the execution of the Credit Agreement with Bank of America, N.A., to increase appropriations and authorize expenditures in the amount not exceeding:
 - (a) \$3,435,000 for the repayment of the North Park Theatre developer loan;
 - (b) \$2,845,000 for the repayment of the North Park Parking Structure developer loan, including accrued interest until payment is made; and
 - (c) \$1,950,000 for increased costs related to the property acquisition for the North Park Parking Structure.
3. Authorize the City Attorney to enter into an agreement with Best Best & Kreiger to provide bond counsel services for the \$10 million line of credit for the North Park Redevelopment Project Area, in an amount not to exceed \$10,000.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

Since April 2002, the Agency has entered into various agreements related to the rehabilitation of the North Park Theatre, and the construction of the North Park Public Parking Structure. In December 2003, the Redevelopment Agency issued two series of bonds for the North Park Redevelopment Project Area. A total of \$8.1 million was generated for general redevelopment projects, and \$2.7 million was raised for housing projects. The North Park Theatre and related parking projects utilized the majority of the borrowed funds from the 2003 bond issue, as well as bond funds remaining from the previous Series 2000 issuance. However, due to increased construction and land acquisition costs, additional funding was needed to complete these projects.

In October 2004, the Third Implementation Agreement for the North Park Theatre was approved which provided additional project funding in the form of a developer loan totaling \$3,335,000. In June 2006, the Fourth Implementation Agreement was approved increasing the developer loan by \$100,000 to \$3,435,000. The North Park Theatre was completed and opened in October 2005.

Construction of the Parking Structure near the Theatre was completed in January 2006. Development cost overruns, including increased land acquisition costs, on the Parking Structure were financed by the developer as a loan to the Agency, which is to be repaid by the Agency within twelve months of completion of construction. It was expected that a long-term bond issuance would be completed in the near future to repay the outstanding loans, once additional borrowing capacity was generated in the project area. In the meantime, available tax increment funds are pledged for the loan repayment, and are unavailable for commitment to other projects.

In March 2006, the Agency commissioned a study by Navigant Consulting regarding the cost of construction and related costs associated with the North Park Theatre and the Parking Structure. The results of these reviews (each dated June 26, 2006) are provided in Attachments 1 and 2.

Line of Credit Structure and Financing Terms

On February 15, 2006, a Request for Proposals for a \$10 million line of credit or private placement for the North Park Redevelopment Project Area was distributed to 19 commercial and investment banks. Three proposals were received from investment banks and two were received from commercial banks, Bank of America and Union Bank. After review of the proposals, the Agency's financial advisor, Kitahata & Company, recommended the line of credit with a commercial bank as the preferred financing structure, in terms of lower costs and ease to implement, given the current rating suspension, the unavailability of audited financial statements, and lack of interest by bond insurers to provide a proposal for North Park long-term tax allocation bonds. The terms and conditions submitted by Bank of America and Union Bank were substantially the same, but Union Bank withdrew its submission during the evaluation process, leaving Bank of America as the only line of credit proposal.

The Summary of Terms and Conditions as negotiated with Bank of America N.A. is provided as Attachment 3, together with the proposed form of final Credit Agreement reflecting this information provided as Attachment 4. In summary, the \$10 million non-revolving line of credit

carries a term of two years, and is secured by a subordinate pledge of the tax increment revenues generated within and received by the North Park Redevelopment Project Area, excluding those revenues required by law to be set-aside for housing and tax-sharing purposes, and the amounts needed to service the outstanding Series 2000 and Series 2003 tax allocation bonds. Interest-only payments are required on a quarterly basis, in arrears, and are expected to begin in January 2007. In addition, the Agency must use the proceeds of any future bond issuance for the North Park Project Area to first repay the line of credit.

Because of the project activities to be funded, the line of credit will be available as both a taxable and tax-exempt borrowing. The interest cost for the taxable portion is LIBOR¹ plus 120 basis points, with the interest cost for the tax-exempt portion to be 62.347% of LIBOR plus 90 basis points. Based on the one-year LIBOR rate as of September 7, 2006, the taxable rate would be 6.60%, with the tax-exempt portion at 4.27%. These rates have increased slightly since discussions began with Bank of America back in June 2006, as reflected in the Summary of Terms and Conditions. Approximately 75% of the line of credit is expected to be funded on a tax-exempt basis, in an amount totaling \$7,534,337, with the balance of \$2,465,663 to be funded on a taxable basis. A review of all project activities to be funded by the line of credit, including other sources of funding, has been undertaken by outside bond counsel to ensure the appropriate use of tax-exempt funds.

An independent fiscal consultant report was prepared (Attachment 5) and shows that sufficient tax increment revenue is available and is expected to be generated on an annual basis to support payments on the line of credit and existing bond obligations, and could support future bond issuances to ultimately pay off the line of credit. This report was provided to the banks as part of the Request for Proposal process for their evaluation to determine the ability of the Agency to commit funds for this purpose.

Uses of the Line of Credit Funds

The Agency expects to draw \$8.2 million immediately from the line of credit to fully repay the developer advances related to the North Park Theatre and to fund the increased costs of the land acquired for the Parking Structure project, as shown in the chart below.

| PROJECT | First Draw | | Future Draws | | TOTAL |
|------------------------------|--------------------|------------------|------------------|--------------------|---------------------|
| | Tax-Exempt | Taxable | Tax-Exempt | Taxable | |
| North Park Theatre | \$3,435,000 | \$0 | \$0 | \$0 | \$3,435,000 |
| North Park Parking Structure | \$3,766,668 | \$995,556 | \$0 | \$0 | \$4,762,224 |
| New Projects | \$0 | \$0 | \$332,669 | \$1,470,107 | \$1,802,776 |
| TOTAL | \$7,201,668 | \$995,556 | \$332,669 | \$1,470,107 | \$10,000,000 |

Potential future activities that may be funded with proceeds of the proposed line of credit include acquisition of property for the development of a public library and acquisition of a retail condominium for the purpose of facilitating community services and providing a community meeting facility. The Agency also anticipates the need to undertake various public improvements within the Project Area. The cumulative cost of these activities, although subject

¹ 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.

to refinement, is expected to substantially exceed the remaining amount of the proposed line of credit. Contingent on available funding, the property acquisition activities described would be undertaken within six months of approval of the line of credit.

Requests to fund new projects would require additional action by the Redevelopment Agency. To the extent that additional funds are not utilized, an unused commitment fee of 0.45% would be calculated on an annual basis on the unused balance. Due to the abundance of project needs, it is expected that additional actions will be brought forward to request the expenditure of all available funds.

Financing Team

The engagement of BofA as the lender for this transaction was made through a competitive process. Bank of America was selected based on the most competitive bid and flexible structuring options offered. Kitahata & Company has served as the Agency's financial advisor since October 2002 and has proposed a fee not-to-exceed \$15,000 plus \$1,000 for out of pocket expenses for this transaction. 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 Agency's Series 2003 bond issuance, which primarily funded the same project activities and required a thorough tax analysis due to the private uses and funding sources related to the Parking Structure project. BB&K has proposed to provide such services for a fee in an amount not to exceed \$10,000.

FISCAL CONSIDERATIONS:

There is no fiscal impact to the City or the City's General Fund by this action to implement a line of credit borrowing for the Redevelopment Agency. All payments will be made from tax increment generated by the North Park Redevelopment Project Area.

Based on the projected uses of funds, and relative immediate use of the majority of the maximum line of credit, estimated maximum debt service on the line of credit is approximately \$40,000 per month, or \$485,000 for a twelve-month period. Assuming the entire \$10 million line of credit is drawn down, the effective annual rate of borrowing is estimated at 4.84%, based on LIBOR rates as of September 7, 2006. The fees related to consultants for this transaction will be paid from the North Park Redevelopment Project Area. These fees include (i) the bond counsel fees in an amount not to exceed \$10,000; (ii) the financial advisory services in an amount not to exceed \$15,000; and (iii) the BofA counsel fees of approximately \$15,000.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: At its meeting of January 24, 2006, the Redevelopment Agency authorized the issuance of an RFP to secure a bank line of credit in the amount of \$10 million to provide funding for the North Park Redevelopment Project Area, for non-housing purposes, due to funding needs for projects under construction.

On May 23, 2006, the Agency authorized CCDC to issue \$79 million in tax allocation bonds and \$35 million in tax allocation housing bonds secured by tax increment revenue from the Centre City Redevelopment Project Area. CCDC was able to obtain bond insurance and issue the bonds on a public basis, given the continued strength of the Centre City Project Area's economic growth and its corresponding tax revenues. Unfortunately, these same characteristics do not exist throughout all of the Agency's project areas, including the North Park Project Area. Accordingly it would be very difficult for the Agency to issue long-term bonds within the City's Redevelopment Division Project Areas at this time. Because of this, it is recommended that a short-term line of credit be obtained to provide needed funds to meet these commitments, until a long-term bond issuance can be successfully completed. The Agency intends to fully repay and terminate the line of credit with a public offering of long-term tax allocation bonds within one year. Should the Agency be unable to issue such debt when the line of credit expires in two years, the Agency would have to renew the line of credit, or negotiate with a bank for a new line of credit, or repay the line with a private placement.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS: At its regular meeting 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 for the North Park Project Area to refinance the Redevelopment 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 on the status of the effort to secure a 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,

Maureen Ostrye
Deputy Executive Director

Approved: James T. Waring
Assistant Executive Director/
Deputy Chief Operating Officer –
Land Use & Economic Development

Attachments

- [1. Outside Audit – North Park Theatre](#)
- [2. Outside Audit – North Park Parking Structure](#)
- [3. Bank of America Line of Credit Term Sheet](#)
- [4. Bank of America Credit Agreement](#)
- [5. North Park Fiscal Consultant Report](#)