



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: October 1, 2012 REPORT NO: 12-122

ATTENTION: Budget & Finance Committee

SUBJECT: Proposed \$25 Million Bond Issuance for General Fund Capital Improvements

REFERENCE:

REQUESTED ACTIONS:

Authorize the issuance of lease revenue bonds with net proceeds of \$25 million to fund certain Capital Improvement Projects and direct staff to prepare necessary bond documents for City Council approval as soon as possible.

STAFF RECOMMENDATION:

Approve requested action.

SUMMARY:

Council approved the issuance of the 2012A Deferred Capital Improvement Project Bonds (2012A CIP Bonds) to fund \$75 million of deferred capital projects earlier this year. Originally Public Works anticipated receiving \$100 million for these projects, however, given the efforts to streamline the entire process at the time and concerns over staff and financial capacity, the original proposal was scaled back. Since that time, Council has adopted the streamlining reforms and Public Works has been successfully implementing those reforms. Specifically, consulting and construction public works contracting thresholds have been raised resulting in few trips to City Council and increase capacity. Also, the length of time to award construction public works contracts has been reduced from more than six months to less than three months. Finally, should City Council approve the City's first Multiple Award Construction Contract (MACC) for pipeline replacement, this will result in further increased capacity to execute the City's CIP. Additionally, staff capacity has been alleviated with Council's approval of 6 new positions for CIP in the FY 13 Budget. With interest rates and construction costs still low, staff is recommending that Council approve an additional \$25 million in deferred capital projects to address unfunded needs in General Fund capital projects, as described below:

Skyline Library	\$ 5.0 million
Mission Hills-Hillcrest Library <sup>1</sup>	2.0 million
San Ysidro Library	3.0 million
Mission Valley Fire Station #45	3.7 million
Mission Beach Bulkhead	1.4 million
Streets	<u>9.9 million</u>
<b>Total</b>	<b>\$25.0 million</b>

- The Skyline Library project provides for a 15,000 square-foot library expansion to the existing facility with a total project cost of \$10 million. This project has been allocated \$5 million from the 2012A CIP Bonds; an additional \$5 million is sufficient to fund the remaining unidentified construction costs for this project.
- The Mission Hills-Hillcrest Library<sup>1</sup> project provides for a replacement 15,000 square-foot library (with two story underground parking) with a total project cost of \$18 million. The project has previously received about \$1 million in Uptown Urban Community Funds and is expected to receive \$430,000 from Development Impact Fees; approximately \$2 million is needed to complete the design. An additional \$15M would then be needed to construct the project. Staff has been informed that approximately \$10 million has been pledged for the \$15 million necessary to construct this project, leaving an outstanding funding gap of approximately \$5 million to be identified in the future.
- The San Ysidro Library project provides for a replacement 15,000 square-foot library with a total project cost of between \$9 million and \$11 million. The project has previously received \$1.8 million from the 2012 A CIP Bonds, \$120,000 from San Ysidro Urban Community Fund and the Library Department has made a request for \$900,000 from Development Impact Fees. The San Ysidro School District has indicated an interest in partnering with the City for using a piece of the District's land for the San Ysidro Library. Staff is working on a joint use agreement for the available land to present to the Council soon. Additional funds may be available from land sales and from Redevelopment Agency Funding that, if fully available, would require an additional \$3 million to fully fund the San Ysidro Library project.
- The Mission Valley Fire Station #45 project provides for an updated fire station in Mission Valley to replace the temporary trailer where the firefighters are currently housed and to provide an enclosed structure for the assigned fire apparatus (engine). Significantly improved emergency response times will be achieved as a result of the move from the temporary trailer located in the Qualcomm Stadium parking lot to the new fire station site. Prior bond moneys identified for this project include approximately \$117,000 from 2009A CIP Bonds and \$815,000 from the 2012A CIP Bonds. The \$3.7 million is expected to be sufficient to fully fund the unidentified construction costs for this project.
- The Mission Beach Sea Wall (Boardwalk Bulkhead) project includes replacing the concrete deck, restoring the wall backfill, and replacing the parapet. The project is scheduled to be allocated \$1 million from the 2012A CIP Bonds. An additional \$1.4 million is sufficient to complete Phase 1 of this project.

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<sup>1</sup> Previously named Mission Hills Library in previous Staff Report

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- Streets resurfacing projects have been allocated funds from both the 2009A CIP Bonds (\$46.8 million) and the 2012A CIP Bonds (\$30.6 million). The additional \$9.9 million will be used to continue catching up on our deferred capital citywide needs and will fund approximately 20 additional miles of resurfacing.

Issuance of Lease Revenue Bonds with net proceeds of \$25 million will meet the funding needs identified above. In 2012, the City issued 2012 A Capital Improvement Bonds (“2012 A Bonds”). When the 2012 A Bonds were issued, a Site Lease, Facilities Lease, and an Indenture (together Master Documents) were prepared to allow for future CIP bonds to be issued through supplements to each of these documents. It is expected that the legal framework of the proposed 2013A Bonds will maintain the structure of the 2012A Bonds, and therefore the legal documents would be structured as supplements to the Master Documents.

Similar to the 2012 A Bonds, the City would need to identify unencumbered assets to serve leased properties under lease agreements between the City and the Authority. Essential assets, necessary for core operations of the City or revenue generating, will be considered as strong assets by the rating agencies and investors in a lease revenue bond offering. Debt Management will work with the Real Estate Assets Department (“READ”) to identify unencumbered assets to be included in the leased properties for the bond authorization and will be present a list of properties in conjunction with the financing ordinance.

#### FUNDING ALTERNATIVES

During the September 26 meeting of Budget and Finance Committee, the IBA requested that three funding scenarios be explored:

- Scenario 1 – \$27 million from the 2007 Wildfire Settlement to fund the Public Liability Fund and issue bonds for \$25 million in net proceeds for Capital Improvement Projects. This scenario was presented as part of item #4 at the September 26 Budget and Finance Meeting and will be included in the upcoming FY 14-FY 18 Five Year Outlook.

By issuing bonds and increasing the Public Liability Fund by \$27 million, the City will pay \$1.8 million in annual debt service costs but will reduce the annual contribution to the Public Liability Fund from \$6.1 million to \$1.6 million saving \$4.5 million annually from FY 14 to FY 19. This results in \$2.7 million of net funding gain annually, as reflected in the table below.

**ANNUAL EXPENDITURE IMPACT**  
**FISCAL YEARS 2014-2019** *(in millions)*

<b>Funding Alternatives</b>	<b>Amount</b>
<b>Scenario 1</b>	
Decreased Public Liability Fund Contribution	(4.50)
Additional Debt Service	1.80
<b>Impact on Expenditures</b>	<b>\$ (2.70)</b>
<b>Scenario 2</b>	
Decreased Public Liability Fund Contribution	-
Additional Debt Service	-
<b>Impact on Expenditures</b>	<b>\$ -</b>
<b>Scenario 3</b>	
Decreased Public Liability Fund Contribution	(2.80)
Additional Debt Service	-
<b>Impact on Expenditures</b>	<b>\$ (2.80)</b>

- Scenario 2 – Use \$27 million from the 2007 Wildfire Settlement for Capital Improvement Projects. Since a bond issue won't be necessary, the City will not pay \$1.8 million in annual debt service but will contribute the full \$6.1 million in annual contributions to the Public Liability Fund. This scenario does not achieve any annual savings and does not achieve accelerated contributions to the Public Liability Fund from FY 14 to FY 19.
- Scenario 3 – Use \$10 million from the 2007 Wildfire Settlement for Capital Improvement Projects and deposit the remaining \$17 million into the Public Liability Fund. The City will not pay \$1.8 million in annual debt service and will reduce the annual contribution to the Public Liability Fund from \$6.1 million to \$3.3 million, saving \$2.8 million annually over the next six years. These annual savings are similar to the savings in Scenario 1. However, in this scenario, \$15 million in Capital Improvement Projects will go unfunded and \$10 million will not be deposited in the Public Liability Fund to achieve accelerated contributions.

FISCAL CONSIDERATIONS:

Based on tax-exempt long term interest rate trends and historical 20 year averages, the cost of borrowing for City's lease revenue bonds is estimated at approximately 5.6%. Based on this assumption, an estimated \$26 million is anticipated to be the issue size to generate \$25 million in project funds. This results in annual debt service cost of approximately \$1.8 million following the year of issue date over a 30 year period. The total debt service (principal and interest combined) to be paid over a 30 year period is estimated at \$54 million. The actual size of the borrowing and associated debt service will be based on the market conditions at the time of pricing of the bonds.

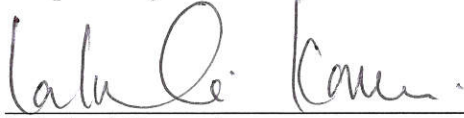
PREVIOUS COUNCIL and/or COMMITTEE ACTION:

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Citywide.

Respectfully submitted,



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Lakshmi Kommi  
Debt Management Director



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Tony Heinrichs  
Public Works Director



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Jay M. Goldstone  
Chief Operating Officer