THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED:	November 6, 2012	REPORT NO: 12-133
ATTENTION:	Council President and City Council Docket of November 27, 2012	
SUBJECT:	Preliminary Expenditures and Short Term Financing related to the San Diego Convention Center Phase III Expansion	
REFERENCE:	CMAR Contract (Clark Hunt) and Consultant Contract Amendment (Fentress Architects) for the San Diego Convention Center Phase III Expansion (City Council Meeting of October 1, 2012 – Item S400); San Diego Convention Center Phase III Expansion Plan of Finance and Related Actions (Report No. 12-114), dated September 18, 2012; Formation of a Convention Center Facilities District to Provide Funding for the San Diego Convention Center Phase III Expansion Project (Report No. 12-02), dated January 10, 2012; Formation of a Convention Center Facilities District to Provide Funding for the San Diego Convention Center Phase III Expansion Project (Report No. 11-155), dated November 21, 2011; and Amending the San Diego Municipal Code to Provide for Formation of a Convention Center Facilities District to Provide Funding for the San Diego Convention Center, Phase III Expansion Project (Report No. 11-119), dated September 13, 2011	

REQUESTED ACTIONS:

Authorize the issuance of the Convention Center Facilities District No. 2012-1 Special Tax Bond and Revenue Anticipation Notes, Series 2013 (the "Notes") under the terms provided in the Financing Resolution in an amount not to exceed $54.4 million to fund engineering, pre-construction, and costs to purchase area development rights for the Convention Center Phase III Expansion (the "Project"), and an Indenture and Note Purchase Agreement.

Authorize the establishment of a special fund titled Convention Center Phase III Expansion 2013 Notes Fund for the administration of the Notes proceeds and a special fund titled Convention Center Phase III Expansion Fund for the revenues, expenditures, and reserves pertaining to the financing of the Project.

Authorize an increase to the Capital Improvements Program Budget in CIP S-12022, Convention Center Phase III Expansion, and the appropriation and expenditure of $53,000,000 from the

Convention Center Phase III Expansion 2013 Notes fund, for the purpose of advancing the design and construction of the Project.

Authorize a modification to the Plan of Finance for the Project approved by City Council on October 1, 2012 to reflect prioritization of the long term lease revenue bonds for early pay down and approval of a City Support Agreement.

STAFF RECOMMENDATION:
Approve the requested actions.

SUMMARY:

I. BACKGROUND

Beginning in October 2011, the City Council has taken a number of actions concerning the formation of Convention Center Facilities District No. 2012-1 (the "CCFD") and the related election process to provide a primary funding mechanism for expansion of the San Diego Convention Center. Most recently, on October 16, 2012, the City Council approved an ordinance levying a special tax (the "Special Tax Ordinance") on landowners within the CCFD. The ordinance specifies the special tax will be collected only following: (1) a successful final validation judgment, including any appeals, concerning the CCFD formation and special tax levy; and (2) California Coastal Commission approval of the Port Master Plan Amendment to incorporate the Project.

On October 1, 2012, the City Council also approved a resolution establishing a plan of finance for the $520 million Project (the "Plan of Finance"). The approach outlined in the resolution approving the Plan of Finance and the report on the Plan of Finance (Report No. 12-114, referenced above) includes the issuance of short term notes to fund design and other preconstruction costs, followed by the issuance of long term bonds to refinance the notes and fund the remaining Project costs, concurrent with the active construction phase of the Project. As also described in Report No. 12-114, under this approach, only funds sufficient to support initial project work will be financed during the pre-construction phase, reducing the need to issue bonds to meet the entire Project budget upfront. This approach may also facilitate the accumulation of CCFD special tax revenues to fund necessary reserves and generates Project equity, which are elements of the overall Plan of Finance.

At the October 1, 2012 City Council Meeting, staff advised City Council that it expected to docket the note offering authorization and documents for City Council approval in November 2012, with the Preliminary Official Statement (disclosure document) for the note offering to follow in 2013 prior to the actual note offering issue date.

II. DISCUSSION

A. Project Plan and Short Term Financing Budget

The short term financing budget will provide for the design, limited construction, and purchase of the development rights for a portion of the expansion area, as discussed below. The current schedule anticipates moving forward with the construction and design effort in phases which will result in significant time savings versus completing the full design and then constructing the Project. The accelerated schedule contemplates beginning construction with the relocation of utilities and the street improvements from the building site. Plans and specifications for this effort can be developed relatively quickly allowing construction to begin while the design and permitting effort for the full structure continues. The balance of construction and design could be accomplished in one or two separate phases depending on the speed with which design is accomplished and other factors. In addition, the Assignment and Assumptions Agreement between the City and the San Diego Convention Center Corporation (the "Corporation"), approved by City Council on October 1, 2012 (R-307709), requires that once the City begins construction it must exercise the Expansion Option which includes an obligation for the City to purchase the development rights for the expansion area from the Fifth Avenue Landing, LLC (FAL Lease Purchase). This construction contract, design effort, and FAL Lease Purchase will require short term financing of approximately $53 million. The budget for the effort is broken down as follows:

CATAGORY	COST
Consultant Services	$23,000,000
Repayment of Allocated Reserve	1,000,000
Preconstruction Testing	1,000,000
Construction to relocate utilities and road	12,500,000
City fees and administration costs	2,000,000
FAL Lease Purchase	$13,500,000
Total Short Term Funding Needed	**$53,000,000**

The issuance of the short-term notes would only occur following: (1) a successful final validation judgment, including any appeals, concerning the CCFD formation and special tax levy; (2) California Coastal Commission approval of the Port Master Plan Amendment to incorporate the Project; and (3) Disclosure Practices Working Group (DPWG) and City Council approval of the Preliminary Official Statement for the Notes.

B. Legal Structure

The CCFD will be the issuer of the Notes, which will be obligations of the CCFD with interest payable solely from special tax revenues and principal payable from special tax revenues or the proceeds of long term bonds issued for the Project. No City General Fund pledge or revenues will support the Notes (as described in Report No. 12-114, the City's $3.5 million fixed annual payments will support only the long term lease revenue gap bonds issuance). The Notes will carry a repayment term of up to 2.5 years with the ability to be paid off early in accordance with the timing of the issue of the long term bonds. This stated maturity of up to 2.5 years will allow the City certain flexibility to issue the long term bonds only when additional project funds are needed and provides for the necessary amount of revenue coverage (see "Fiscal Considerations" below). In consultation with the City's Financial Advisor, it has been determined that a rated, negotiated, public sale of the Notes will provide the lowest cost of borrowing.

The notes pricing will be conducted soon after the first levy of the special taxes and in conjunction with the project management team's assessment of the immediate cash flow needs.

As described above and pursuant to the Special Tax Ordinance, the start of the special tax levy will occur only upon an affirmative validation judgment, including any appeals, of the CCFD and special taxes, and California Coastal Commission approval of the Port Master Plan Amendment, assumed in this report to occur in February 2013.

C. Summary of Key Terms

A summary of the key aspects of the Notes structure and financing plan are provided below. Additional detail is provided following the summary.

- ***Issuer**:* Convention Center Facilities District No. 2012-1

- ***Structure**:* Special Tax Bond and Revenue Anticipation Notes; issued using a stand-alone Indenture (see "Financing Legal Documents" below

- ***Financing Resolution Not-to-Exceed Authorization**:* $54.4 million

- ***Repayment Sources***: Payable from net special tax revenues (net of annual CCFD administration expenses) and/or the proceeds of the long term bonds.

- ***Interest Payments:*** Fixed rate of interest payable semi-annually.

- ***Principal Payment:*** Single principal payment due at final maturity or upon prepayment.

- ***Repayment Term**:* up to 2.5 year term; the note proceeds of $53 million are anticipated to fund approximately 16 months of initial Project costs. The 2.5 year term is based on the note size and corresponding special tax revenue coverage requirements (see "Fiscal Considerations" below).

- ***Early Prepayment:*** Notes can be prepaid at par any time after year 1.

- ***Use of Proceeds:*** Engineering and pre-construction costs of the Project, FAL Lease Purchase, costs of issuance for the Notes, and CCFD costs of formation.

D. City Council Approval Process

Certain of the financing legal documents, including the Indenture and Note Purchase Agreement, would be approved via the Financing Resolution presented with this item. Staff will be docketing the Preliminary Official Statement (POS) and Continuing Disclosure Certificate (CDC) for the Notes separately to be authorized via resolution in 2013, closer to the distribution of the POS to investors and pricing of the Notes after the project receives validation judgment and Coastal Commission approval.

<u>Financing Legal Documents</u>

The financing documents that the City Council would approve through the proposed actions include the Indenture and Note Purchase Agreement, as described below:

1. Financing Resolution – The Financing Resolution authorizes the issuance of the Notes (contingent upon a successful validation action and California Coastal Commission approval, and delivery and approval of the POS), establishes terms of the notes sale including the expectation that the Notes are to be paid with the special taxes and/or the proceeds for the long term bonds, and provides for the approval of the financing documents.

2. Note Indenture – The Indenture is an agreement between the CCFD and the trustee for the Notes that outlines the specific rights, responsibilities, and obligations of each party and the rights of bondholders with respect the notes. The Indenture includes information regarding the amount of the notes, the maturities and interest rates on the notes, the use of note proceeds, and the nature of the security for the notes (i.e., that the notes are not obligations of the City, and are limited obligations of the CCFD payable from special taxes generated from the CCFD). The Indenture also directs the flow of funds (e.g., provides for special tax revenues to be applied first to pay interest up to the total amount of interest due on the notes and then to principal).

3. Note Purchase Agreement – The Note Purchase Agreement is an agreement between the CCFD and the underwriter for the transaction, pursuant to which the CCFD agrees to sell, and the underwriter agrees to buy, the Notes. It specifies the purchase price of the notes, and certain terms of the notes, such as interest rates and maturities. The agreement also specifies documents that the parties must receive prior to note closing, including the note counsel opinion regarding the validity and tax exempt nature of the notes as well as certain opinions and certificates of the City Attorney and other City officials. Such opinions and certificates would confirm, among other things, that all steps necessary to authorize the execution of the financing documents and the issuance of the notes have been properly taken.

E. Financing Time Line (subject to change)

Upon City Council authorization of the issuance of the Notes, staff will begin preparing the POS. Under the following schedule, the Notes could be issued in March 2013 *if the validation action and Coastal Commission milestones thereon are met in February 2013*, with the long term bonds issued by the second half of Fiscal Year 2014 to support the start of the active construction phase of the project.

February 2013	• Begin Collection of Special Tax • Approval of POS and Continuing Disclosure Certificate for the Notes
March 2013	• Notes sale and execution of Note Purchase Agreement • Notes closing and deposit of proceeds with trustee (all subject to validation and Coastal Commission approval of Port Master Plan Amendment)
2014	• Long term bonds issued to take out Notes and fund project construction costs

If the validation action and Coastal Commission milestones occur later than February 2013, the time-line reflected above would be shifted by a corresponding period of time.

G. Financing Team

The City's Financing Team for the Notes consists of staff of the Department of Finance, including the Chief Operating Officer and staff of Debt Management, the Comptroller's Office, and the Treasurer's Office. The Financing Team also includes staff of the City Attorney's Office and Engineering & Capital Projects. Outside members of the team include: First Southwest & Company as financial advisor; Nixon Peabody LLP as note and disclosure counsel; Goldman Sachs & Co. as the note underwriter; Kutak Rock LLP as underwriter's counsel; and U.S. Bank National Association as Trustee.

First Southwest & Company was competitively selected to provide independent financial advisory services for this offering from the City's As-needed Financial Advisors List based on the firm's significant hotel and convention center financing experience and fee proposal. The fee to First Southwest & Company for this issuance, which is not contingent upon the successful closing of the Notes, is for an amount not-to-exceed $55,000. The agreement with First Southwest & Co. was approved by Mayoral action (as required).

The City Attorney's Office identified Nixon Peabody LLC to serve as note and disclosure counsel and pay an amount not to exceed $75,000, plus reasonable out of pocket expenses not to exceed $5,000. The fees payable to note and disclosure counsel are contingent upon the closing of the notes and paid out of note proceeds. City Council authorized the City Attorney to retain Nixon Peabody, via resolution, on October 1, 2012.

U.S. Bank National Association is to serve as the trustee for this transaction. Compensation for the trustee includes an initial fee of $2,000 and ongoing annual fees of $600.

Goldman Sachs & Co. was identified as the underwriter for the Notes through a competitive process utilizing the City's established Pool of Underwriters. The Request for Proposals was issued on October 27, 2011, and a total of 13 underwriting proposals were received. Through the RFP process, Goldman, Sachs and Co. and Citigroup Global Markets Inc. were appointed to the underwriting team, with Goldman, Sachs and Co. and Citigroup Global Markets Inc. to serve as Senior Manager and Co-Senior Manager, respectively, for the long term bonds, and the City to determine the appointment to the short term notes closer to the time of issuance based upon additional proposals provided by the two firms. Due to the size and nature of the proposed notes issuance, and the proposals received, in consultation with the City's financial advisor, it was determined that based on its underwriting and banking experience with respect to short term notes, Goldman, Sachs and Co. was most qualified to be selected as the underwriter of the Notes.

Other members of the underwriting syndicate for the long-term bonds, in addition to Goldman Sachs and Co. and Citigroup Global Markets Inc., will be identified closer to the time of offering the bonds. Based on the various selection parameters, the members listed above were also appointed as the financing team for the long term bonds in a similar capacity to that of the Notes.

III. FISCAL CONSIDERATIONS

A. Estimated Sources and Uses of Note Proceeds (preliminary and subject to change)

Based upon current market conditions as of late October 2012, the issue size of the Notes is approximately $54.3 million. This amount would provide sufficient funds to establish a $53 million project fund for initial Project expenses, including the FAL Lease Purchase ($13.5 million) and reimbursment of $1.0 million to the General Fund Allocated Reserve for funds transferred to the General Fund for Construction Manager at Risk pre-construction and other consultant services (R-307710), and pay for costs of issuance related to the Notes and formation costs related to the CCFD, including the reimbursement of any such costs incurred to date (see Attachment 1 for the detailed estimate of costs of issuance and formation). The table below provides a breakdown of the estimated sources and uses of funds.

Estimated Sources and Uses of Funds
(preliminary and subject to change)

Estimated Sources	
Note Issue Proceeds	$54.3 million
Total Sources of Funds	**$54.3 million**
Estimated Uses	
Deposit to Project Fund	$38.5 million
FAL Lease Purchase	13.5 million
Reimburse General Fund Allocated Reserve	1.0 million
Costs of Issuance and CCFD Formation[1]	1.3 million
Total Uses of Funds	**$54.3 million**

[1] See Attachment 1 for additional detail on estimated costs of issuance and CCFD formation costs.

B. Interest Rate and Projected Debt Service

Based upon market conditions as of late October 2012 , the estimated interest rate for the Notes is projected to be approximately 1.18%. The estimated interest rate is also based on an assumed coverage level of at least 120% necessary to meet anticipated bond market and credit rating expectations for the note offering. The coverage percentage reflects estimated special tax revenues available over the term of the Notes to pay interest and principal due on the notes.

Estimated debt service on the notes over the 2.5 year term includes semi-annual interest payments of approximately $300,000 and a single principal payment of approximately $54.3 million due at maturity to be paid from special taxes or prepaid with bond proceeds from the long term bonds, per the Note Indenture.

C. Establishment of Special Funds

Included among the proposed actions is the authorization to establish certain interest bearing special funds to account for the note proceeds and the revenues, expenditures, and reserves pertaining to the implementation of the financing plan for the Project. The special fund established for the note proceeds would be titled the "Convention Center Phase III Expansion 2013 Notes Fund." As specified in the resolution authorizing the establishment of funds, creation of this fund would be contingent upon the approval and issuance of the Notes.

In addition to the notes proceeds fund, a special fund would be established titled "Convention Center Phase III Expansion Fund" to track, report, and and administer the following:

- deposit of CCFD special tax revenues
- deposit of San Diego Port District annual Support Payments
- deposit of annual City Payments related to the long term lease revenue bonds annual debt service and the City Support Agreement (discussed below)
- payment of annual debt service for the Notes and long term bonds
- payment of CCFD administration costs
- payment of post-issuance administration costs related to the Notes
- payment of post-issuance administration costs related to the CCFD bonds
- payment of post-issuance administration costs related to the lease revenue bonds
- maintenance of an Internal Stabilization Fund, funded from CCFD special tax revenues, solely to support any General Fund-backed lease revenue bonds issued to fund the Project while the lease revenue bonds remain outstanding

As described in Report No. 12-114 and presented in the Plan of Finance, the City's $3.5 million fixed annual payments to the project and the fixed Port District Support Payments will not commence until after the Project is completed. Therefore, actual deposits of these revenues into the applicable fund(s) that would be authorized would not occur until that time. The authorization would facilitate establishment of funds for the notes transactions outlined above, and the framework for subsequent transactions pertaining to the City and Port District revenues, long-term bonds, and Internal Stabilization Fund[1]. (See Report No. 12-114 for additional information regarding the nature of the long term bonds and Internal Stabilization Fund, the latter of which is expected to be sized and capped at maximum annual debt service for the long term lease revenue bonds, and drawn only if special taxes, in combination with the City's $3.5 million project payment, are insufficient to pay debt service on the lease revenue bonds, and if drawn to be replenished from excess special taxes in subsequent years).

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[1] Once CCFD revenue collections begin and the flow of funds commences through the various funds established under these requested actions, the City Auditor and City Treasurer, in consultation with Department of Finance staff, will implement an annual review and certification process for the CCFD special tax revenue to ensure revenues are properly deposited into the Internal Stabilization Fund and various other funds and are utilized for the intended purposes.

IV. PLAN OF FINANCE UPDATE AND PROPOSED MODIFICATIONS

Report No. 12-114 on the Plan of Finance included the concept of structuring the long term CCFD bonds and City lease revenue bonds in a manner that allows the bonds to be retired early on a pro-rata basis to the extent there are accumulated surplus special tax revenues in excess of debt service and administration costs of the CCFD each year. When City Council took the action to approve the Plan of Finance at the October 1, 2012 City Council Meeting, with the Independent Budget Analyst's advice, it added direction to staff to develop an equitable approach to the early pay-down of the long term bonds, considering the City, the hotel property owners, and the Port District, but also prioritizing the repayment of the lease revenue bonds. The Mayor's recommendation to implement the City Council's direction is discussed below.

Early Pay-down of Lease Revenue Bonds

The early pay-down of the lease revenue bonds will remove the City's financial exposure as soon as possible, and provide debt burden relief, and debt capacity to the City General Fund, which backs the lease revenue bonds, and therefore the full lease revenue bond debt service payment (currently estimated to be approximately $13.2 million). Staff has worked with the Financing Team to address City Council's direction and when the long term financings are conducted will be prepared to structure the long term CCFD and lease revenue bonds to reflect that the lease revenue bonds would be *paid down first* if there are excess revenues from special taxes. The proposed City Council actions include an action to modify the Plan of Finance authorized via City Council resolution on October 1, 2012 to reflect the concept of prioritizing the lease revenue bonds for early redemption if there are excess revenues and approving a City Support Agreement, discussed below.

City Project Contribution

As described in Report No. 12-114, the City's fixed $3.5 million Project payments would be applied, in combination with special tax revenues (estimated $9.7 million) available after debt service payments are made on the CCFD bonds, to pay the lease revenue bonds. The City's $3.5 million project payments are solely dedicated to the lease revenue bonds. When the lease revenue bonds are paid down early, the $3.5 million City Project payment will also stop under this scenario. However, in consideration of the hotel property owners and the Port District's respective fixed contributions to the Project, and provided the lease revenue bonds are paid down ahead of the established repayment schedule (the bonds are expected to have a 30 year initial term) using excess special taxes, it is further proposed the Plan of Finance be modified to reflect that the City would continue to make its $3.5 million fixed annual Project payments until the CCFD bonds are also fully paid down.

The financing plan for the CCFD bonds would continue to include a mechanism for early pay-down of the CCFD bonds, which would occur only after pay down of the lease revenue bonds. If the lease revenue bonds, primarily supported by the special taxes, are paid down early, the special taxes that would have supported the lease revenue bonds would then be available, along with the City's $3.5 million project payments and any additional excess special tax revenues, to pay down the CCFD bonds.

City Support Agreement

The flow of City project contributions after the priority pay-down of the lease revenue bonds could be accomplished through an agreement between the City and the CCFD (the "City Support Agreement") with the following conditions: (1) The City's fixed $3.5 million project payment would be paid to the CCFD after the lease revenue bonds have been paid down and only as long as the CCFD bonds are outstanding; (2) Surplus special taxes would be applied, together with the City's $3.5 million payment, to accelerate the pay-down of the CCFD bonds; (3) Special taxes would continue to be levied at the maximum rate authorized under the CCFD Final Rate and Method of Apportionment to ensure any surplus special taxes can be tapped to accelerate the pay-down of CCFD bonds; and (4) the City's payments under the agreement would be subject to annual appropriation.

Included with the action to modify the Plan of Finance to reflect the concept of priority pay-down of the lease revenue bonds is the approval of the form of the proposed *City Support Agreement*. This agreement would be executed at the time of issuance of the long term bonds, expected in 2014.

These actions will eliminate the City General Fund's exposure to the full $13.2 million lease payment once the lease revenue bonds are fully paid-down, while allowing the City to continue to support the Project on a cash flow basis limited to $3.5 million annually, in consideration of the other Project contributors.

City Supported Lease Revenue Bonds Early Pay-down Projections

Based on a priority pay-down of the lease revenue bonds, the table below reflects preliminary projections of how much the final maturity for the 30 year lease revenue bonds and CCFD bonds could be accelerated under different special tax growth rate scenarios beginning after Fiscal Year 2017 and assuming no revenue growth from the time of issuance (Fiscal Year 2014) until Fiscal Year 2017. The table also illustrates the anticipated term of the City's Project payments under the City Support Agreement under the same growth rate assumptions. As noted above, the City's payments under the City Support Agreement would commence only after the lease revenue bonds are paid down, and would terminate once the CCFD bonds are paid down.

Growth Rate	Pay-down of Lease Revenue Bonds vs. 2044[1]	Pay-down of CCFD Bonds vs. 2044[1][2]	City Support Agreement City Payment to CCFD Bonds[1]
1.00%	2032 (12 years early)	2038 (6 years early)	2033-2038 (6 years)
2.00%	2030 (14 years early)	2036 (8 years early)	2031-2036 (6 years)
3.00%	2029 (15 years early)	2034 (10 years early)	2030-2034 (5 years)

(1) Based on projected Fiscal Year 2014 net CCFD revenues (net of administration expenses) of approximately $31 million, with growth rates reflected in the table applied after Fiscal Year 2017; revenues include Port Support Payments and City $3.5 million annual Project payments (continuing after pay-down of all lease revenue bonds).
(2) Port District Support Payment would cease upon the pay-down of all outstanding CCFD bonds, if earlier than the final scheduled Support Payment date.

The table above also reflects that although the lease revenue bonds would be paid down earlier, the pay-down of the CCFD Bonds under the applicable growth rate scenarios would still occur in approximately the same year as under the pro-rata pay-down scenario, which was discussed in Report No. 12-114, assuming the City continues to contribute its fixed $3.5 million Project payment to the CCFD, as provided under the *City Support Agreement*.

Other Considerations

The underwriters and the City's independent Financial Advisor have advised that, by shifting from a pro-rata pay down approach to an approach that prioritizes the pay-down of the lease revenue bonds, additional reserve set asides for up to one year of debt service for the CCFD bonds may be required, which could be funded from the first excess special taxes, in order to receive certain credit ratings on the CCFD bonds. The basis for this potential need would be that, under the pro-rata pay-down approach, the coverage on the CCFD bonds would increase as all bonds (including the CCFD bonds) are paid down early, whereas, under the approach that gives priority to the lease revenue bonds, the CCFD coverage would not increase unless and until the lease revenue bonds are fully paid down. If additional reserves are required for the CCFD bonds, there could be some impact to the timing of the pay down of the lease revenue bonds. Staff will continue to work with the Financing Team to assess the nature and extent of any credit impacts to the CCFD bonds, and the costs to address them in the form of additional reserves or other options. The details will be presented to the City Council when the long term bonds are requested to be authorized (currently expected in the second half of Fiscal Year 2014).

Prepayment Tools

Generally speaking, prepayment can only start in year 10 (this is a standard prepayment option for tax exempt bonds and was assumed in Report No. 12-114) unless one or more maturities of the bonds include a mechanism allowing excess revenues to prepay (or "call") such bonds earlier. Currently, available mechanisms for early pay-down include an early optional call provision for certain lease revenue bond maturities (a shorter call option increases flexibility, but at an incremental cost to the issuer) and a turbo call option under which the bonds must be redeemed at and after the beginning of the call period (this feature is currently untested for lease revenue bond credits). Incorporating such provisions would be accomplished through the authorizing financing ordinance for the long term bonds and the lease revenue bonds trust indenture. For illustration purposes, given current market conditions, if a 5-year early optional call was assumed to be included in certain maturities *and* sufficient excess revenues were realized to trigger the early optional call in year 5, approximately $6 million in interest cost savings could be produced compared to having to wait until year 10 to call the same maturities. Conversely, given the example of including a 5-year early optional call above, if excess revenues are insufficient to trigger the early optional call until year 10, the resulting cumulative cost would be approximately $1 million. A cost-benefit analysis of these concepts (i.e., the cost of the early call provision or turbo call option vs. the likely expectation of excess special taxes) will need to be conducted closer to the time of bond issuance. Furthermore, there are a number of factors which can influence how prepayment provisions are structured and how they will be received by investors in the context of the larger plan of finance. When the long term bonds are being structured, the Financing Team will assess which mechanism would best accomplish the City's goals considering rating agency criteria for early redemption, market conditions at the time of the long term bond issuances, the costs and benefits of each option, and the most current special tax projections.

V. PREVIOUS COUNCIL and/or COMMITTEE ACTION:

May 17, 2011: the City Council was presented with an informational report concerning the proposed Convention Center Phase III Expansion Project.

August 2, 2011: the City Council adopted a Resolution authorizing the Assignment and Authorization Agreement related to the Proposed Convention Center Phase III Expansion, and adopted a Resolution authorizing the Law Firm of Orrick Herrington & Sutcliffe to Provide Formation Counsel Services regarding the Formation of a Convention Center Financing District.

September 21, 2011: the Budget and Finance Committee forwarded an action to the City Council to amend the San Diego Municipal Code to provide for the formation of a Convention Center Facilities District to provide funding for the Project.

October 25, 2011: the City Council approved an ordinance amending the Municipal Code to facilitate formation of a Convention Center Facilities District.

December 6, 2011: the City Council adopted a Resolution of Intention to form CCFD No. 2012-1 and a Resolution Declaring the Need to Incur Bonded Indebtedness to provide funding for a contiguous expansion of the San Diego Convention Center.

January 24, 2012: in conjunction with a noticed Public Hearing, the City Council adopted a Resolution Forming CCFD No. 2012-1 and Providing for the Levy of a Special Tax, a Resolution Deeming it Necessary to Incur Bonded Indebtedness, and a Resolution Calling a Special Mailed-Ballot Election.

May 7, 2012: the City Council adopted a Resolution Declaring the Results of a Special Mailed-Ballot Election within CCFD No. 2012-1 and a Resolution Authorizing and Directing the City Clerk to File a Notice of Special Tax Lien and Authorizing the Filing of a Judicial Validation Action in Relation to the Formation of CCFD No. 2012-1 and Related Matters.

October 1, 2012: the City Council adopted Resolutions approving a Plan of Finance to fund the Expansion and related actions, a Support Agreement between the Port District and the City, a Joint Community Facilities Agreement between the Port District and the City, a Construction Manager at Risk (CMAR) Contract (Clark Hunt) and a Consultant Contract Amendment (Fentress Architects), an Assignment and Assumption Agreement, between the City and the San Diego Convention Center Corporation, for expansion of the Convention Center onto San Diego Unified Port District property, and the introduction of an Ordinance authorizing the levy of a special tax within CCFD No. 2012-1.

VI. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Outreach to hotel owners/operators has been ongoing. Significant community outreach occurred through a series of meetings conducted with hotel property owners and operators over the past year. For the January 24, 2012 Public Hearing, Notices of Public Hearing were mailed to each hotel property owner that would be subject to the special tax, and the Notice was published in the San Diego Daily Transcript prior to the Public Hearing. The notice provided a link to the City Clerk web-page for easier access to the documents associated with the Public Hearing. The ballot materials mailed in connection with the special mailed ballot election contained an impartial analysis of the measure prepared by the City Attorney's office and a link to additional reference materials on the City Clerk's website. The City has also established a web-link (www.sandiego.gov/ccfd) containing a repository of documents concerning CCFD No. 2012-1, including a Fact Sheet for Hotel Property Owners.

VII. KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Landowners who own property upon which hotels are located within the City that will be subject to the special tax. Business entities involved in the financing of the project include Nixon Peabody LLP (note and disclosure counsel services); FirstSouthwest (Financial Advisor); Goldman, Sachs and Co. (Underwriter); Kutak Rock LLP (Underwriter's Counsel); and U.S. Bank National Association (Trustee).

Lakshmi Kommi
Debt Management Director

Tony Heinrichs
Public Works Director

Jay M. Goldstone
Chief Operating Officer

Attachment : Estimated Costs of Issuance (COI) and Cost of Formation (COF)

ATTACHMENT

Convention Center Facilities District No. 2012-1
Special Tax Bond and Revenue Anticipation Notes, Series 2013
Cost of Issuance and Formation Budget

Description	Firm		Total Budget	
CCFD No. 2012-1 Formation Costs				
Formation Counsel	Orrick, Herrington & Sutcliffe LLP	$	115,000	
Formation Counsel (Validation Action)	Orrick, Herrington & Sutcliffe LLP	$	200,000	*
Special Tax Consultant	Willdan Financial Services	$	37,650	
TOT System Modification	City Treasurer's Office	$	190,000	
Reimbursement for City Labor Costs	Various City Departments	$	160,000	
CCFD Formation Sub-total		**$**	**702,650**	
Short-term Note Offering				
Bond / Disclosure Counsel	Nixon Peabody	$	75,000	
General Disclosure Counsel	Hawkins Delafield & Wood	$	10,000	
Financial Advisor	First Southwest Company	$	60,000	
Reimbursement for City Labor Costs	Various City Departments	$	240,000	
Rating Agency Fees	TBD	$	50,000	
Trustee	U.S. Bank N.A.	$	2,600	
Misc. (Advertising, Posting/Printing, etc.)	Various	$	2,750	
Short-term Notes Sub-total		**$**	**440,350**	
	5% Contingency	$	57,150	
	TOTAL Formation & Short-term Notes	**$**	**1,200,150**	
	Underwriter's Discount	$	110,000	
Total		**$**	**1,310,150**	

* Upon City Council authorization for an increase of $100,000 to the contract for Validation Action Counsel services.