THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED:	November 13, 2012	REPORT NO: 12-137
ATTENTION:	Budget & Finance Committee, Agenda of November 28, 2012	
SUBJECT:	Community Facilities District No. 3 (Liberty Station) Special Tax Refunding Bonds, Series 2013	
REFERENCE:		

REQUESTED ACTION(S):

Forward the refunding of the Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series 2006 and Special Tax Bonds Series 2008 to City Council for consideration and approval. The City Council will be requested to authorize the issuance of the refunding bonds and approve the related financing documents.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

I. BACKGROUND

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos" Act) was enacted by the State to help growing areas finance essential public infrastructure that typically accompanies major development projects. The Mello-Roos Act provides for the establishment of a Community Facilities District ("CFD") for the purpose of financing certain public improvements and/or services. The City's Council Policy 800-03, which was in effect at the time Community Facilities District No. 3 (Liberty Station) (the "District") was formed, allows for utilization of CFDs to finance public facilities required in connection with development.[1] In accordance with the Mello-Roos Act and the Council Policy, and following public hearings and a special election

[1] On November 6, 2007, the City Council passed a resolution to repeal Council Policy 800-03 and to approve a new Special Districts Formation and Financing Policy ("the Policy"), which is included in the City's Debt Policy. The resolution stated that the new Policy would apply only to CFDs and Assessment Districts formed after the effective date of the resolution. Therefore, in connection with the issuance of the Refunding Bonds, Council Policy 800-03 is still considered operative.

conducted pursuant to the Mello-Roos Act, the City Council adopted the necessary resolutions and ordinances to form the District and establish Improvement Areas No. 1 and No. 2 therein in June 2002. Subsequently, the District issued CFD No. 3 (Liberty Station) Special Tax Bonds Series 2006 in the amount of $16.0 million in 2006 and CFD No. 3 (Liberty Station) Special Tax Bonds Series 2008 in the amount of $3.95 million in 2008. The bonds were conduit issuances, executed to fund certain public infrastructure facilities within or serving the District. The facilities include street improvements, water and sewer facilities, and regional park improvements. All of the facilities intended to be financed by the CFD No. 3 Special Tax Bonds Series 2006 and Series 2008 have been completed and acquired by the City. The Series 2006 and Series 2008 bonds are secured solely by special taxes levied upon approximately 391 parcels of commercial and residential property located within the District. The special taxes are levied and collected annually via property tax bills. The proposed issuance contemplates combining the full refunding of the Series 2006 and Series 2008 Bonds through a combined single issuance of refunding bonds.

II. DISCUSSION

A summary of the key aspects of the financing plan for the Refunding Bonds and structure are provided below. Additional detail is provided following the summary:

- **Purpose:** Economic refunding to lower debt service; full refunding
- **Method of Sale**: Negotiated sale. Public offering
- **Issuance Size**: Principal not to exceed $18,000,000
- **Repayment Source**: The Refunding Bonds are payable from Special Taxes levied on taxable property within the District. No funds of the General Fund are pledged to repayment of the Refunding Bonds.
- **Final Maturity**: Twenty-four year term (through September 1, 2036). No extension of the final maturity.

A. Method of Sale - Negotiated Public Offering

Due to the nature of the security for CFD bonds (i.e., the bonds are secured solely by Special Tax revenues levied on property within the established district) such as the Refunding Bonds, most CFD bond sales in the State of California utilize a negotiated sale method. With a negotiated sale, the underwriter is selected early in the financing process. This gives the underwriter adequate time to pre-market the Refunding Bonds to appropriate investors.

B. Issuance Size

Under current market conditions, the proposed Refunding Bonds issuance is anticipated to total approximately $17.4 million to execute a full refunding of the 2006 and 2008 Bonds. The table below specifies the estimated sources and uses of proceeds to defease the 2006 and 2008 Bonds:

Sources and Uses of Funds*

Estimated Sources		
Bond Issue	$	17,435,000
Release of 2006 & 2008 Debt Service Reserve Funds		1,413,109
Additional Available District Funds[1]		1,555,777
Total Proceeds	**$**	**20,403,886**
Estimated Uses		
Deposit to Defease 2006 & 2008 Bonds[2]	$	18,892,195
Refunding Bonds Debt Service Reserve Fund		1,182,648
Costs of Issuance[3]		324,610
Rounding		4,433
Total Uses of Funds	**$**	**20,403,886**

* Preliminary; subject to change. Based on interest rates as of October 2012.
[1] Additional Available District Funds includes Special Taxes collected in Tax Year 2012-2013 to pay the March 1, 2013 debt service payment due on the 2006 & 2008 Bonds and other district funds on hand.
[2] Reflects deposit into escrow to defease the 2006 & 2008 Bonds, including sufficient funds to provide for the principal being refunded ($18,125,000), premium on the refunded bonds ($253,150), and interest due March 1, 2013 on the refunded bonds ($514,045).
[3] Costs of Issuance include legal fees, special tax consultant fees, financial advisor fees, underwriter's discount, City staff costs, and other expenses related to the issuance of the bonds.

C. Repayment Source – Special Taxes

Debt service on the Refunding Bonds would be payable from Special Taxes levied on taxable property within Improvement Area No. 1 and Improvement Area No. 2 of the District over the term of the Refunding Bonds, in accordance with the applicable Rate and Method of Apportionment of Special Taxes approved by the City Council and through a landowner election process. The Refunding Bonds are not general or special obligations of the City. The Refunding Bonds are special limited obligations of the District payable solely from Special Taxes collected from owners of taxable property within the District.

If there is a shortfall in the amount of Special Taxes available to make a debt service payment, monies would be withdrawn by the Trustee from the Debt Service Reserve Fund ("DSRF"). The DSRF is established when the bonds are issued, and will be sized in an amount approximately equivalent to the maximum annual debt service on the Refunding Bonds, in accordance with tax requirements concerning the maximum amount of reserves for the transaction.

D. Interest Rate and Projected Debt Service

Under market conditions as of October 2012, the estimated True Interest Cost ("TIC") for the Refunding Bonds is approximately 4.45%. The estimated annual debt service payments due on the Refunding Bonds would be $1.2 million over the remaining twenty-four year term, compared to $1.4 million for the existing bonds being refunded. The difference in the average annual debt service for the outstanding bonds compared to the Refunding Bonds is approximately $235,000 through 2036 starting with tax year 2013-2014. The net present value ("NPV") savings level for the refunding, including costs incurred for the refunding, is $2.1 million, or approximately 11.5% expressed as a percentage of the bonds refunded. The refunding bonds would only be issued if a NPV savings level of at least 3.00% is achieved.

E. The Financing Team

The Financing Team for the Refunding Bonds includes staff of the Department of Finance, including Debt Management, the City Treasurer's Office, and the City Comptroller's Office, the City Attorney's Office, and outside consultants, including the financial advisor (Fieldman Rolapp & Associates), a special tax consultant (David Taussig & Associates), and bond and disclosure counsel (Stradling, Yocca, Carlson, & Rauth). Selection of the bond underwriter and trustee is currently in process. Upon Equal Opportunity Contracting Program approval, those selected firms will be identified in the docket materials related to the City Council approval of this action.

Fieldman Rolapp & Associates ("Fieldman") was selected to provide financial advisory services for this transaction from the City's As-needed Financial Advisors List based on the firm's experience in land secured financings and the fee estimate. The fee to Fieldman for this issuance is for an amount not to exceed $28,500, plus out of pocket expenses not to exceed $250.

David Taussig & Associates was selected to provide special tax consulting services for this transaction from the City's As-needed Special Tax Consultant/Assessment Engineer List based on the firm's experience in land secured financings and particularly its experience as the existing special tax consultant to the district, and the fee estimate. The fee to David Taussig & Associates for this issuance is for an amount not to exceed $17,500, plus out of pocket expenses not to exceed $500.

The City Attorney's Office has identified Stradling, Yocca, Carlson, & Rauth to serve as bond and disclosure counsel for the transaction through a Request for Proposals process. Stradling, Yocca, Carlson, & Rauth has proposed to provide such services for a fee in an amount not to exceed $60,000. Expenses are not to exceed $2,000.

Payment of fees for the above referenced outside consultants are contingent on the successful closing of the Refunding Bonds, and will be paid from bond proceeds.

F. The Financing Documents

The financing team is in the process of developing the financing documents for the refunding. These documents include the Financing Resolution, a Bond Indenture, a Bond Purchase Agreement, a Continuing Disclosure Certificate, and a Preliminary Official Statement (the "POS"). The POS will be reviewed by the Disclosure Practices Working Group prior to docketing for City Council consideration.

G. Schedule

Should the Budget & Finance Committee forward the refunding to City Council and should City Council approve the Financing Resolution and related financing documents which will be included in the docket materials for the City Council item, it is anticipated that the Refunding Bonds would be sold the week of February 11, 2013. The bond closing (receipt of bond proceeds) is anticipated to occur the week of February 18, 2013.

III. FISCAL CONSIDERATIONS:

As described above, under "Interest Rate and Projected Debt Service"under market conditions as of October 2012, the estimated True Interest Cost ("TIC") for the Refunding Bonds is approximately 4.45%. It is estimated the issuance of the Refunding Bonds will result in annual debt service savings to the District of approximately $235,000 annually through 2036 starting tax year 2013-2014.

IV. PREVIOUS CITY COUNCIL ACTIONS:

The City Council previously approved actions relating to the formation of the District and the issuance of bonds. These actions include: the adoption of City Council resolutions on May 7, 2002 stating the City Council's intent to establish the District, to authorize the levy of Special Taxes, and to have the District incur bonded indebtedness; the June 25, 2002 adoption of City Council resolutions establishing the District, declaring the necessity to issue bonded indebtedness, and authorizing the levy of special taxes, following a noticed public hearing and election; the adoption of an ordinance authorizing the levy of a special tax adopted on July 8, 2002; resolutions adopted on May 24, 2005 and March 11, 2008 to authorize the issuance of the Series 2006 and Series 2008 District bonds, respectively; and various resolutions adopted annually to establish the special tax levy for the subsequent tax year.

V. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On July 31, 2012, the City Council adopted Resolution R-307648, approving the Fiscal Year 2013 Special Tax Levy for Community Facilities District No. 3 (Liberty Station).

VI. KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key stakeholders include the special taxpayers in CFD No. 3 (Liberty Station) who would benefit from the refunding due to the lower debt service on the Refunding Bonds. Business entities involved in the transaction are: Stradling, Yocca, Carlson and Rauth (Bond and Disclosure Counsel); Fieldman Rolapp & Associates (Financial Advisor); and David Taussig & Associates (Special Tax Consultant). As described above, under "The Financing Team", upon Equal Opportunity Contracting Program approval, the firms selected as underwriter and trustee will be identified in the docket materials related to the City Council approval of this action.

Respectfully submitted,

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Chief Operating Officer