



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: February 19, 2013 REPORT NO: 13- 13

ATTENTION: Council President and City Council

SUBJECT: 2013A Lease Revenue Bonds
(\$30 Million Capital Improvement Projects, economic refunding of the 2003 MTDB Authority Old Town Light Rail Lease Revenue Bonds, and economic refunding of the 2003 Balboa Park/Mission Bay Park Certificates of Participation)

REFERENCE: Proposed \$25 Million Bond Issuance for General Fund Capital Improvements, Budget and Finance Committee (Report 12-122 Revised) October 1, 2012

REQUESTED ACTIONS:

1. Authorize the issuance of the Public Facilities Financing Authority of the City of San Diego (the “Authority”) Lease Revenue Bonds, Series 2013 A (the “2013A Bonds”)
 - i. In a principal amount not to exceed \$ 31.1 million to provide for \$25 million in construction proceeds for General Fund Capital Improvement Projects as approved by City Council via R-307759 and \$5 million in construction proceeds for Storm Water capital improvement projects; and
 - ii. In a principal amount not to exceed \$ 15.5 million to refund outstanding 2003 MTDB Authority Old Town Light Rail Lease Revenue Bonds and the outstanding 2003 Balboa Park/Mission Bay Park Certificates of Participation, if each of the refundings generates at least 3% in net present value savings.
2. Authorize the execution of related financing documents including the form of First Amendment to the Site Lease, the form of First Amendment to the Facilities Lease, the form of First Supplemental Indenture with Wells Fargo Bank, National Association as the Indenture Trustee, the Bond Purchase Agreement with the underwriting syndicate members - Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James Morgan Keegan, and the Continuing Disclosure Certificate.

3. Authorize the City Attorney to appoint Nixon Peabody, LLP as Bond and Disclosure Counsel and pay an amount not to exceed \$75,000, plus reasonable out of pocket expenses not to exceed \$5,000, for the 2013 A Bonds. The fees payable to Bond and Disclosure Counsel shall be contingent upon the closing of the bonds.
4. Authorize the Chief Financial Officer to establish a Special Interest-bearing account for the bond proceeds of the \$30 million Capital Improvement Projects titled, "Capital Improvement Projects Bonds 2013A" contingent upon approval of the bond authorization and related documents and contingent upon the issuance of the 2013 A Bonds.
5. Authorize the Chief Financial Officer to increase the Capital Improvements Program Budget and to appropriate and expend a total of \$30 million from the Capital Improvement Projects 2013 A Bond Fund, in the projects and amounts shown in Table 1 of the full Report to City Council (13-13) for the purpose of planning, design, construction and related eligible expenditures.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

I. Background

The proposed actions authorize the implementation of lease revenue bonds to fund various General Fund Capital Improvement Projects ("2013 CIP") as described below, refund existing 2003 MTDB Authority Old Town Light Rail Lease Revenue Bonds and refund existing 2003 Balboa Park/Mission Bay Park Certificates of Participation.

2013 CIP Bonds

On October 22, 2012 (Resolution Number R-307759) City Council authorized the issuance of lease revenue bonds with net proceeds of \$25 million to fund certain Capital Improvement Projects.

Additionally, the Mayor recommends \$5 million in certain priority Storm Water CIP to be funded with the proceeds from the proposed bond offering. On February 6, 2013, the City's Capital Improvements Program Review and Advisory Committee (*CIPRAC*) made a unanimous recommendation to amend the proposed offering to identify bond funds for addressing critical CIP needs in Fiscal Year 2014 for the Storm Water System. A description of the specific nature of the Storm Water CIP needs is provided in a companion report to the City Council prepared by the Department of Transportation & Storm Water. A summary of the projects and amounts is listed below.

Table 1

Project	CIP Fund	Amount
<u>\$25 million approved by City Council</u>		
Skyline Hills Library	S00692	\$ 5.0 million
Mission Hills-Hillcrest Library	S13 022	2.0 million
San Ysidro Library	S00802	3.0 million
Fire Station #45 –East Mission Valley	S00688	3.7 million
Mission Beach Boardwalk Bulkhead	S00726	1.4 million
Streets Resurfacing	A-ID.00005	5.15 million
Concrete Streets	A-ID.00006	<u>4.75 million</u>
	Subtotal	\$25.0 million
<u>\$5 million Storm Water CIP</u>		
Watershed CIP	ACC.00001	<u>\$ 5.0 million</u>
Total Funding		\$30.0 million

Source: Public Works and Transportation and Storm Water Departments

Refunding Opportunities

In addition to the 2013 CIP discussed above, in staff’s monitoring of refunding opportunities on outstanding bonds, two additional refunding opportunities were identified that would offer debt service savings to the City. These proposed refundings are 2003 MTDB Authority Old Town Light Rail Lease Revenue Bonds, (“2003 MTDB Old Town Light Rail Bonds”) and 2003 Balboa Park/Mission Bay Park Certificates of Participation (“2003 Balboa Park/Mission Bay Park COPs”). Due to the projected debt service savings, these issuances were added to the 2013 CIP new money issuance planning process. The advantages to combining the two refundings with the 2013 CIP include cost savings from duplicate issuance costs, and accomplishing refundings on a fast track concurrent with the new money series.

2003 MTDB Old Town Light Rail Bonds Refunding

The 2003 MTDB Old Town Light Rail Bonds were issued to refund the 1993 Lease Revenue Bonds (San Diego Old Town Light Rail Transit Extension), which funded the San Diego Light Rail Transit System to Old Town San Diego. As of the date of this report, the outstanding principal amount of the 2003 MTDB Old Town Light Rail Bonds is \$10,025,000 and the final maturity is June 1, 2023. The 2003 MTDB Old Town Light Rail Bonds are callable at par commencing June 1, 2013, and are eligible for a current refunding (all bonds will be redeemed within 90 days from the date of the refunding bonds issue). Portions of the Right of Way and a Maintenance Yard, both assets owned by the San Diego Metropolitan Transportation System (“MTS”) will be utilized as leased properties. City Staff is currently working with MTS staff to receive necessary approvals from the MTS Board to be able to accomplish the refunding.

2003 Balboa Park/Mission Bay Park COPs Refunding

The 2003 Balboa Park/Mission Bay Park COPs were issued to refund the 1993 Balboa Park/Mission Bay Park Certificates of Participation, which funded certain improvements in Balboa Park and Mission Bay Park. As of the date of this report, the outstanding principal amount of the 2003 Balboa Park/Mission Bay Park COPs is \$6,745,000 and the final maturity is

November 1, 2023. The outstanding 2003 Balboa Park/Mission Bay Park COPs are callable at par commencing November 1, 2013, and are eligible for a current refunding. The Mingei International Museum and Art Institute Building (House of Charm) will be the leased property supporting the outstanding principal of the 2003 Balboa Park/Mission Bay Park COPs.

II. Discussion

A. Summary of 2013 A Bonds

- **Issuer:** Public Facilities Financing Authority of the City of San Diego
- **Not to Exceed Amount:**
 - 2013 CIP Bonds – \$31.1 million
 - Old Town Light Rail Extension 2013 Refunding Bonds & Balboa Park/Mission Bay Park 2013 Refunding Bonds – \$15.5 million
- **Tax Status:** The 2013 A Bonds will be issued as tax-exempt issuances. The financed projects under each of the categories are capitalizable and uses are governmental in nature. Consistent with the IRS regulations for tax-exempt bonds, the weighted average life of the bonds will not exceed 120% of the weighted average remaining aggregate useful life of all the projects funded by the bonds.
- **Structure:** The financing ordinance requesting the bond authorization for the 2013 A Bonds establishes flexibility to issue the bonds in one or more series through June 30, 2014. This provides flexibility to conduct the refunding portions of the transactions on a standalone basis, if warranted due to market conditions. One or more series would be issued under supplements to the Master Indenture and Master Site and Facilities Lease established with the 2012 Deferred Capital Improvement Bonds (see Legal Structure).
- **Repayment Source:** Payable from General Fund.
- **Final Maturity:**
 - 2013 CIP Bonds: 30-year term, through 2043
 - Old Town Light Rail Extension 2013 Refunding Bonds: Matched maturity of the existing bonds, through 2023 (10 years remaining)
 - Balboa Park/Mission Bay Park 2013 Refunding Bonds: Matched maturity of the existing bonds, through 2023 (10 years remaining)

B. Legal Structure

The Public Facilities Financing Authority of the City of San Diego (the “Authority”) is the issuer of the 2013 A Bonds. This will include the refunding of the 2003 MTDB Old Town Light Rail Bonds, which were issued by the City/MTDB Authority. In 2012, the City issued 2012A&B Bonds under a Master Site Lease and a Master Facilities Lease (together the Master Lease), and a Master Indenture. Under this structure, the documents allow for future bonds to be issued through supplements to each of the documents. The proposed 2013 A Bonds will be issued under supplements to the Master Indenture and the Master Lease.

Leased Properties

The Lease involves lease agreements between the City and the Authority of existing City-owned General Fund properties (the “Leased Properties”). The 2013 CIP projects include libraries, a fire station, a bulkhead and street projects. If the libraries and fire station are to be pledged assets for a lease revenue bond transaction, the City would need to pay capitalized interest until the libraries and fire station were completed which would increase the debt service costs to the City. As such, the 2013A Bonds are structured as an asset transfer bond offering which is a lease transaction where the financed assets are substituted with other essential assets of the City. These essential assets will be part of the pool of existing assets pledged for the 2012 Bonds. Pooling assets in a common Lease helps strengthen the Indenture and adds diversity and value to bond holders.

Debt Management staff worked closely with the Real Estate Assets Department (“READ”) to identify the additional unencumbered assets to be included in the Leased Properties for the proposed 2013A Bonds. The Leased Assets originally pledged for the existing 2003 MTDB Old Town Light Rail Bonds and the 2003 Balboa Park/Mission Bay Park COPs will be maintained in the pool of assets, to support the corresponding refunding portions of the 2013A Bonds. Below is a list of all the identified properties:

Table 2

\$30 million Capital Improvement Projects
Northeastern Police Division
Southern Police Division
Fire Station #44
Fire Station #16
UC Regents (ground lease)
Refundings
Mingei International Museum and Art Institute Building (House of Charm)
MTS Maintenance Yard (owned by MTS)
Right Of Way Portion (owned by MTS)

To establish the annual fair rental value, a legal requirement to issuing lease revenue bonds, the properties will be appraised by the appraisal companies retained by READ. As required under the lease financing structure, the maximum annual debt service payable by the City on the lease revenue bonds will not be in excess of the combined annual fair rental value of the Leased Properties. The City properties are leased until the final maturity of the 2013A Bonds, unless modified under conditions set forth in the legal documents. The combined preliminary appraisal value of the City owned properties is approximately \$38.6 million. The MTS properties will be released when the Old Town Light Rail Extension 2013 Refunding Bonds 2003 MTDB Old Town Light Rail Bonds is paid off (2023).

Final appraised value will be assessed closer to the timing of the bond sale and the final list of assets pledged will be determined based on the final appraisals and estimated debt service as of the date of the release of the Preliminary Official Statement. If final appraised value of assets pledged is in excess of what is required for the annual debt service, soon after the bonds are priced, properties will be excluded from the pledge. Title reports will be obtained for all the properties, establishing that the assets are not already encumbered and are free and clear of liens.

C. City Council Authorization

The City Council is requested to (i) authorize the issuance of 2013A Bonds; (ii) approve the financing legal documents; (iii) authorize the City Attorney to appoint the Bond and Disclosure Counsel; (iv) authorize the Chief Financial Officer to establish a Special Interest-bearing account for the bond proceeds titled, “Capital Improvement Projects Bonds 2013 A” contingent upon approval of the bond documents and contingent upon the issuance of the bonds; and (v) appropriate and expend the CIP bond proceeds. Certain of the financing legal documents, including the leases, the supplemental indenture, and a continuing disclosure certificate must be approved via ordinance, and are subject to a 30 day referendum period. Staff will be docketing the Preliminary Official Statement (POS) for the 2013 A Bonds separately to be authorized via resolution in May 2013, closer to the distribution of the POS to investors.

Financing & Legal Documents

The financing documents that would be approved through the requested actions include:

1. First Amendment to Master Site Lease (Site Lease) – The Site Lease is the agreement between the City and the Authority under which the City leases the City owned Leased Properties to the Authority. The MTS properties are leased to the Authority through a separate agreement - the MTS Site Lease. The MTS Site Lease does not require City Council approval since it is an agreement between the MTS and the Authority.
2. First Amendment to Master Facilities Lease (Facilities Lease) – The Facilities Lease is the agreement between the City and the Authority under which the City leases the Leased Properties (both City and MTS properties) back from the Authority. The lease payments made by the City are equal to the principal and interest payments on the 2013A Bonds issued by the Authority. The Facilities Lease contains certain covenants of the City, including that it will take the necessary action to include all lease payments due under the lease in the City’s operating budget each year.
3. First Supplemental Master Indenture (Indenture) – The Indenture is an agreement between the Authority and the Trustee for the 2013A Bonds. The Indenture provides for the issuance of the 2013 A Bonds, and includes information regarding the amount of the bonds, the maturities and interest rates on the bonds, the use of bond proceeds, and the nature of the security for the bonds (i.e., that the bonds are limited obligations of the Authority payable from lease payments. The Indenture also sets forth terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the 2013 A Bonds. Under the Indenture, the Authority assigns its rights to receive lease payments under the Facilities Lease to the Trustee to make debt service payments to bondholders.
4. Bond Purchase Agreement – The Bond Purchase Agreement (“BPA”) is an agreement among the City, the Authority, and the Underwriters for the transaction pursuant to which the Authority agrees to sell, and the Underwriters agree to buy, the 2013 A Bonds. It specifies the purchase price of the bonds, and certain terms of the bonds, such as interest rates and maturities. The agreement also specifies documents that the parties must receive prior to bond closing, including the Bond Counsel opinion regarding the validity and tax exempt nature of the bonds as well as certain opinions and certificates of the City Attorney and other City and Authority 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 bonds have been properly taken.

5. Continuing Disclosure Certificate – The Continuing Disclosure Certificate (“CDC”) details the City’s ongoing obligation to file annual reports and material events with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system for the benefit of the 2013 A Bonds’ bondholders.

D. Financing Time Line

In order to execute the 2013 A Bonds, following are authorizations and critical milestones:

March 2013	Introduction & approval (2 readings) of the Financing Ordinance authorizing the issuance of the bonds and approval of the financing documents. 30 Day Referendum Period after the City Council approval of the financing ordinance. MTS Board approval of the MTS Site Lease
May 2013	City Council approval of the disclosure document (Preliminary Official Statement) Authority approval of the 2013 A Bonds
June 2013	Pricing and execution of the Bond Purchase Agreement Bond Closing and delivery of proceeds for 2013 A Bonds

E. Financing Team

The City’s Financing Team for the 2013 A Bonds consists of staff of the Department of Finance, including the Chief Operating Officer and staff of the Debt Management Department, the Comptroller’s Office, the Treasurer’s Office, and the Financial Management Department. The Financing Team also includes staff of the Real Estate Assets Department, the City Attorney’s Office, the Risk Management Department, the Department of Public Works, Engineering & Capital Projects, and the Department of Transportation & Storm Water. External members include: Public Resources Advisory Group, LLC (“PRAG”) as the financial advisor; Nixon Peabody LLP, as Bond and Disclosure Counsel; Hawkins Delafield & Wood as Underwriter’s Counsel; Wells Fargo Bank, National Association as Trustee; Chicago Title Company as title insurance provider; and DF Davis Real Estate, Inc., Hilco Real Estate Appraisal, and James Naughton Jr., MAI, as appraisers.

Financial Advisor: PRAG is 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 General Fund lease revenue bond financings and the fee estimate. The fee to PRAG for this issuance, which is contingent upon the successful closing of the 2013 A Bonds, is for an amount not to exceed \$50,000, plus out of pocket expenses not to exceed \$3,000.

Bond and Disclosure Counsel: The City Attorney’s Office has identified Nixon Peabody LLP (“Nixon Peabody”) to serve as Bond and Disclosure Counsel and pay an amount not to exceed

\$75,000, plus reasonable out of pocket expenses not to exceed \$5,000, for the 2013 A Bonds. The fees payable to Bond and Disclosure Counsel shall be contingent upon the closing of the bonds and paid out of bond proceeds.

Trustee: Wells Fargo Bank will continue to serve as the Trustee for this transaction. Compensation for the Trustee includes \$4,000 for the transaction and ongoing estimated annual fees of \$4,000.

Underwriting Syndicate: Merrill Lynch, Pierce, Fenner & Smith Incorporated (Bank of America Merrill Lynch) and Raymond James Morgan Keegan were selected through a competitive process to serve as Senior Manager and Co-Manager respectively for the 2013 A Bonds. The Request for Proposals was issued on November 28, 2012. In total, 23 underwriting proposals were received of which 15 firms proposed to serve as a Senior Manager or Co-Manager and 8 firms proposed solely as a Co-Manager.

The syndicate members were identified based on the investment banking experience of the firms on similar transactions, capacity to underwrite the transaction, and bond marketing outreach capabilities. Bank of America Merrill Lynch has eight brokerage locations in the County of San Diego with 168 professionals maintaining approximately 276,000 accounts. Raymond James has eleven brokerage locations in the County of San Diego with 22 professionals maintaining approximately 4,300 accounts.

FISCAL CONSIDERATIONS:

A. 2013 CIP Bond Proceeds, Interest Rate and Projected Debt Service

Based upon current market conditions as of February 6, 2013, the par amount of the 2013 CIP Bonds is approximately \$29.7 million. This amount, in addition to funds from net original issue premium, would provide funding to establish the \$30 million Construction Fund for CIP expenditures and pay for associated costs of issuance.

2013 CIP Bonds Estimated Sources and Uses of Funds

Estimated Sources

2013 CIP Bonds

Par Amount	\$29,665,000
Original Issue Premium ⁽¹⁾	<u>686,366</u>
Total Proceeds	\$30,351,366

Estimated Uses

2013 CIP Bonds

Deposit to Construction Fund	\$30,000,000
Costs of Issuance ⁽²⁾	348,622
Additional Proceeds Due to Rounding	<u>2,744</u>
Total Uses of Funds	\$30,351,366

⁽¹⁾ Original issue premium is a bond structure from premium couponing of the bonds and is driven by market conditions.

- (2) Costs of Issuance include underwriter's discount, bond and disclosure counsel fees, financial advisory fees, title insurance costs, appraisal fees, rating agency fees, Preliminary Official Statement and Official Statement electronic printing/posting costs, CDIA fees, and City staff costs.

Summary of fiscal impact at current market rates as of February 6, 2013 (estimates, subject to change):

- True Interest Cost for the 2013 CIP Bonds: 3.88%
- Average annual debt service: \$1.7 million (Fiscal Year 2014 - 2043)
- Budgeted in the Citywide Program Expenditures Department

The maximum effective interest rate established under the Financing Ordinance is 7.00%. Under the current market conditions, it is not expected that the actual pricing for the 2013 CIP Bonds will result in an effective interest rate of 7.00%; should that occur, the average annual debt service would be approximately \$2.5 million.

In accordance with the City's Debt Policy, Section 4.2, an analysis of the impact of additional General Fund backed bonds was conducted, specifically for the impact of the 2013 CIP Bonds \$30 million new money series. Section 4.2 of the Debt Policy recommends that debt service as a percentage of General Fund revenues be below 10%. Under the current lease revenue bond levels, the debt service as a percentage of General Fund revenues is at 4.31% for Fiscal Year 2013. The 2013 CIP Bonds debt service commences in Fiscal Year 2014 and would increase the debt service as a percentage of General Fund revenues to 4.49% in Fiscal Year 2014 (no impact in Fiscal Year 2013).

B. Refundings of 2003 MTDB Light Rail Bonds and the 2003 Balboa Park/Mission Bay Park COPs

Estimated savings on the portion of the debt service relating to the 2003 MTDB Light Rail Bonds, based on current market conditions, is as follows:

- Total cash flow savings over the remaining life of the bonds: approximately \$1.3 million
- Average annual budgetary savings: approximately \$130,000 (FY 2014 – 2023)
- Net present value savings ("NPV") is \$910,000 over the life of the bonds, or 9.8% of refunded debt
- The current outstanding par amount of the 2003 MTDB Light Rail Bonds is \$9.3 million and will be reduced to \$8.5 million after the refunding

Estimated savings on the portion of the debt service relating to the 2003 Balboa Park/Mission Bay Park COPs, based on current market conditions, is as follows:

- Total cash flow savings of over the remaining life of the bonds: approximately \$555,000
- Average annual budgetary savings: approximately \$50,000 (FY 2014 – 2024)
- Net present value savings ("NPV") is \$460,000 over the life of the bonds, or 6.8% of refunded debt.
- The current outstanding par amount of the 2003 Balboa Park/Mission Bay Park COPs is \$6.7 million and will be reduced to \$6.2 million after the refunding.

It is recognized that there will be debt service savings in FY 2014 from the two proposed refundings. These savings will be captured in the FY 2014 Budget after the pricing of the bonds is executed and the actual savings are known.

Existing debt service for the Old Town Light Rail Extension 2013 Refunding Bonds is budgeted in the Old Town Light Rail Extension Fund supported by Transient Occupancy Tax revenue. Existing debt Service for the Balboa Park/Mission Bay Park 2013 Refunding Bonds are budgeted in the Mission Bay/Balboa Park Improvement Fund supported by Transient Occupancy Tax revenue.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

- On October 10, 2012, the Budget and Finance Committee approved the Proposed 2013 CIP Bond Authorization to advance to City Council.
- On October 22, 2012, City Council provided the authorization to issue lease revenue bonds generating \$25 million in net proceeds to fund certain General Fund Capital Improvement Projects (Resolution Number R-307759).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

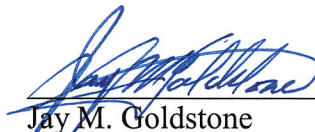
See above

KEY STAKEHOLDERS:

Business entities included in the financing: Merrill Lynch, Pierce, Fenner & Smith Incorporated (Underwriter - Senior Manager); Raymond James Morgan Keegan (Underwriter - Co-Manager); Nixon Peabody LLP (Bond and Disclosure Counsel); Hawkins Delafield & Wood LLP (Underwriter's Counsel); Wells Fargo Bank, National Association (Trustee); Public Resources Advisory Group (Financial Advisor); Standard & Poor's (Rating Agency); Fitch Ratings (Rating Agency); Chicago Title Company (title insurance); D.F. Davis Real Estate, Inc., Hilco Real Estate Appraisal, and James Naughton Jr., MAI (appraisals); and Elabra (Electronic Printing of POS and OS).



Lakshmi Kommi
Debt Management Director



Jay M. Goldstone
Chief Operating Officer

Attachments:

2013 Bonds Costs of Issuance Budget

2013A Lease Revenue Bonds - Estimated Costs of Issuance

**\$30 Million CIP, 2003 MTDB Light Rail Refunding, 2003 Balboa Park/Mission Bay
Park COPs Refunding**

<u>Description</u>	<u>Firm</u>	<u>Estimate</u>
Bond & Disclosure Counsel (inc. expenses)	Nixon Peabody	\$ 80,000
General Disclosure Counsel	Hawkins Delafield & Wood	10,000
Financial Advisor (inc. expenses)	Public Resource Advisory Group	53,000
Trustee/Escrow Agent	Wells Fargo	8,000
Title Insurance Policies	Chicago Title Company	28,000
Property Appraisal Fees	D.F. Davis; Hilco; James Naughton	35,000
Rating Agency Fees	Standard & Poor's, Fitch Ratings	62,000
Electronic Printing (POS/OS)	Elabra	1,000
Reimbursement for City Labor Costs	Various City Departments	90,000
	<i>subtotal</i>	\$ 367,000
	Contingency (~5%)	\$ 19,000
	Total COI Budget	\$ 386,000
	Underwriter's Discount	133,170
	(Estimated) Costs of Issuance	\$ 519,170