THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED:	February 13, 2015	REPORT NO: 15-011
ATTENTION:	Council President and City Council	
SUBJECT:	Public Facilities Financing Authority of City of San Diego Lease Revenue Refunding Bonds, Series 2015 (Ballpark Refunding)	
REFERENCE:	Budget and Government Efficiency Committee Report No. 15-006, titled Economic Bond Refunding Opportunities – General Fund, Sewer Utility Fund, and Community Facilities District Credits, dated January 16, 2015	

REQUESTED ACTIONS:

1. Authorize the issuance of the Public Facilities Financing Authority of the City of San Diego (the "Authority") Lease Revenue Refunding Bonds, Series 2015 (Ballpark Refunding) (the "Series 2015 Bonds") in a principal amount not to exceed $136 million and the execution of related financing documents to refund the outstanding Lease Revenue Refunding Bonds, Series 2007A (Ballpark Refunding) (the "Series 2007A Bonds"). The related financing documents include a Site Lease, a Facility Lease, a Bond Indenture, a Bond Purchase Agreement, an Escrow Agreement, a Third Reaffirmation of Assignment Agreement and a Continuing Disclosure Certificate;

2. Authorize the City Attorney to retain and enter into an agreement with Nixon Peabody LLP to provide Bond and Disclosure Counsel services in connection with the issuance of the Refunding Bonds; and,

3. Authorize the Chief Financial Officer to establish one or more special interest bearing account(s) for the proceeds of the Series 2015 Bonds.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

I. Background

The original Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002 (Ballpark Project) (the "Original Ballpark Bonds") were issued in the amount of $169.7 million in February 2002 under a General Fund backed lease revenue bond structure to finance a portion of the construction of the Ballpark (also referred to as Petco Park) and an adjacent Public Park, and certain related infrastructure.

In March 2007, the City refunded the Original Ballpark Bonds through the issuance of the Series 2007A Bonds, which were privately placed in a principal amount of $156.6 million. As of February 15, 2015, there will be $125.3 million in outstanding principal of the Series 2007A Bonds, and the bonds can be called starting February 15, 2017.

Given the current attractiveness of the municipal market coupled with the potential for rate increases later in 2015 and beyond, the City will be best positioned to attain economic savings by locking in current favorable rates to mitigate future interest rate risk, and moving forward with a refunding of the outstanding Series 2007A Bonds, which are eligible to be refunded on an "advance refunding" basis.

An advance refunding, which may only be conducted once for each bond issue under IRS guidelines, is utilized when refunding bonds are issued more than 90 days prior to the date the bonds can be called. In this case, proceeds from the refunding bonds are placed in an escrow fund in an amount sufficient, along with interest earnings, to pay scheduled debt service payments on the refunded bonds until the bonds are eligible to be called, and to redeem all remaining bonds on the call date. Pursuant to the City's Debt Policy, the City will consider conducting an advance refunding if net present value (NPV) savings of at least 4% can be achieved. As discussed under Fiscal Considerations below, the proposed refunding is expected to exceed this threshold. In addition, consistent with a refunding evaluation threshold commonly used by the market, NPV savings is expected to be greater than the amount of negative arbitrage. (Negative arbitrage arises in today's market because the interest rate earned in the refunding escrow fund is lower than the interest rate on the refunding bonds.) Annual debt service savings produced by the refunding would benefit the General Fund.

II. Discussion

A. Summary of the Series 2015 Ballpark Refunding Bonds

- ***Issuer****:* Public Facilities Financing Authority of the City of San Diego
- ***Not to Exceed Amount***: $136 million.

- ***Debt Service Reserve Fund:*** Currently, the Series 2007A Bonds carry a debt service reserve fund with $3.8 million in cash and a $7.5 million Ambac surety policy.[1] The $3.8 million will be released from the Series 2007A Bonds and applied as a source of funds for the refunding, thus reducing the issuance size of the refunding bonds and increasing cashflow savings.

- ***Method of Sale:*** Public Offering; Negotiated Sale.

- ***Tax Status:*** The Series 2015 Bonds will be issued as a tax-exempt issuance. Consistent with the IRS regulations for tax-exempt bonds, the weighted average life of the bonds will not exceed 120% of the remaining useful life of the project funded by the bonds. In addition, although the Padres L.P., a private entity, has use of the Ballpark, net Ballpark related revenue received by the City (net of operating and maintenance contributions), is not expected to exceed certain established limits set by the IRS for a bond issue to be tax-exempt.

- ***Structure****:* The bonds will be issued under the Indenture and Amended and Restated Site and Facility Leases established with the Series 2015 Bonds (see Legal Structure).

- ***Repayment Source***: Payable from General Fund.

- ***Principal and Interest payments:*** To improve the credit and marketability of the Series 2015 Bonds, the full debt service payment due in the fiscal year will be deposited with the Trustee each fiscal year on October 15 to cover the October 15 payment and in advance of the April 15 payment.

- ***Final Maturity:*** 17 year term; the final maturity of the refunding bonds will occur in the same Fiscal Year as the Series 2007A Bonds (FY2032).

B. Legal Structure

The Public Facilities Financing Authority of the City of San Diego (the "Authority") is the issuer of the Series 2015 Bonds. The legal structure for the Series 2015 Bonds involves lease agreements between the City and the Authority under which the City leases unencumbered City-owned property to the Authority and, in turn, the Authority leases the same property back to the City. The lease payments made by the City are assigned by the Authority to the Trustee to pay the debt service on the Series 2015 Bonds. The leased property for the Series 2007A Bonds will remain the same for the Series 2015 Bonds. It includes the Ballpark[2] and adjacent park (also known as the Park-at-the Park). The Financing Team initially explored the possibility of leasing only the Ballpark and releasing the adjacent park from the lease; however, the release of the park does not currently appear to be feasible due to limitations in the covenants, conditions, and restrictions concerning the leased property established during project implementation.

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[1] A surety policy is a commitment issued by a bond insurance company that is deposited into the Debt Service Reserve Fund in lieu of cash.
[2] Padres L.P. owns certain identified components of the Ballpark, which will not be included in the leasing arrangement.

To establish the annual fair rental value, a legal requirement to issuing lease revenue bonds, the property was appraised by an independent appraisal company. While the appraisal value is not available as of the date of this report, it will be included in the final Financing Ordinance reviewed by City Council and verbally communicated in staff's presentation. In addition, 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 annual fair rental value of the Leased Property. The Ballpark will be leased until the final maturity of the Series 2015 Bonds.

C. City Council Authorization

The City Council is requested to (i) authorize the issuance of the Series 2015 Bonds; (ii) approve the financing legal documents; (iii) authorize the City Attorney to appoint the Bond and Disclosure Counsel; and (iv) authorize the Chief Financial Officer to establish one or more special interest-bearing accounts for the bond proceeds contingent upon approval of the bond documents and contingent upon the issuance of the bonds. Certain of the financing legal documents, including the leases, the indenture, the bond purchase agreement, the escrow agreement and a continuing disclosure certificate would be approved via ordinance, and are subject to a 30 day referendum period.

Staff will be docketing the Preliminary Official Statement (POS) for the Series 2015 Bonds separately to be authorized via resolution in May 2015, closer to the distribution of the POS to potential investors.

<u>Financing & Legal Documents</u>

The financing Ordinance approves and authorizes the execution of the following financing documents:

1. <u>Form of Amended and Restated Site Lease (Site Lease)</u> – The Site Lease is the agreement between the City and the Authority under which the City leases the City owned portion of Ballpark to the Authority.

2. <u>Form of Amended and Restated Ballpark Facility Lease (Facility Lease)</u> – The Facility Lease is the agreement between the City and the Authority under which the City leases the Ballpark back from the Authority. The lease payments made by the City are equal to the principal and interest payments on the bonds issued by the Authority. The Facility 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. <u>Form of Indenture (Indenture)</u> – The Indenture is an agreement between the Authority and the Trustee for the bonds. The Indenture provides for the issuance of the 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 bonds.

4. <u>Form of the Continuing Disclosure Certificate (CDC)</u> – The 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 bondholders.

5. <u>Form of the Bond Purchase Agreement (BPA)</u> – The 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 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.

6. <u>Form of Escrow Agreement</u> – The Escrow Agreement between the Authority and the Trustee provides for the deposit of moneys in the escrow account to refund all outstanding principal since the Series 2015 Bonds will be issued prior to the first eligible redemption date of the Series 2007A Bonds. The agreement sets forth the manner in which funds are to be invested pending their expenditure and a schedule of debt service payments to be made with respect to the bonds being refunded.

7. <u>Third Reaffirmation of Assignment Agreement</u> – The Third Reaffirmation of Assignment Agreement is an agreement between the Authority and the Trustee under which the Authority reaffirms its assignment to the Trustee of its rights to receive lease payments under the Facility Lease.

D. Financing Time Line

Following are the critical milestones related to the execution of the Series 2015 Bonds, including the authorization of the financing ordinance and the POS.

March 2015	Introduction & approval (two readings) of the financing ordinance authorizing the issuance of the Series 2015 Bonds, and the financing documents. Authority approval of the Series 2015 Bonds
May 2015	City Council approval of the disclosure document (POS) for Series 2015 Bonds (occurs 60 days following City Council approval of the financing ordinance)
Late-May/Early-June 2015	Pricing
July 2015	Bond Closing

E. Financing Team

The City's Financing Team for the Series 2015 Bonds consists of staff of the Department of Finance, including the Chief Financial Officer and staff of the Debt Management Department, the Comptroller's Office, the Treasurer's Office, the Risk Management Department, and the Financial Management Department. The Financing Team also includes staff of the Real Estate Assets Department, and the City Attorney's Office. External members include: Public Resources Advisory Group ("PRAG") as the Financial Advisor; Nixon Peabody LLP, as Bond and Disclosure Counsel; Wells Fargo Bank, National Association as Trustee; Chicago Title Company as title insurance provider; and DF Davis Real Estate, Inc. as Appraiser.

Financial Advisor: PRAG was selected to provide financial advisory services for this transaction through a competitive process utilizing the City's As-needed Financial Advisors Pool based on the firm's experience in General Fund lease revenue bond financings, negotiated method of sale, and the fee proposal. The fee to PRAG for this issuance, which is contingent upon the successful closing of the Series 2015 Ballpark Refunding Bonds, is for an amount not to exceed $55,000, plus out of pocket expenses not to exceed $1,500.

Bond and Disclosure Counsel: The City Attorney's Office has identified via a RFP process Nixon Peabody LLP to serve as Bond and Disclosure Counsel for the Series 2015 Ballpark Refunding Bonds and pay an amount not to exceed $110,000 inclusive of reasonable out of pocket expenses. 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, the existing trustee for the Series 2007A Bonds, will continue to serve as the Trustee for this new refunding issuance. Compensation for the Trustee includes $3,500 for the transaction and ongoing annual fees of $4,000. Through an agreement that was entered into in 2002 in connection with the Original Ballpark Bonds, the City prepaid $67,500 for trustee services. As a result of the refunding, a balance of approximately $38,000 will remain unexpended and will be credited toward the annual fees for the Series 2015 Bonds until exhausted. Wells Fargo Bank will also serve as Escrow Agent for a fee of $2,500.

Underwriting Syndicate: RBC Capital Markets LLC was selected to serve as Senior Manager for the Series 2015 Bonds. In addition, the underwriting syndicate will include three Co-Managers: Bank of America Merrill Lynch, William Blair & Co., and Stern Brothers & Co. They were selected through a competitive process utilizing the City's established pool of Underwriters. The solicitation specific to the Series 2015 Bonds was issued on November 13, 2014. In total, 18 underwriting proposals were received of which 11 firms proposed to serve as a Senior Manager or Co-Manager and 7 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.

FISCAL CONSIDERATIONS:

A. Bond Proceeds, Interest Rate, Projected Debt Service and Savings

Based upon current pricing conditions, the total proceeds from the Series 2015 Bonds is expected to be approximately $134 million which, together with the monies released from the Series 2007A Bonds debt service reserve fund, will be used to refund the Series 2007A Bonds and pay for financing costs of issuance.

Estimated Sources and Uses of Funds *

Estimated Sources	
Bond Proceeds	$134,107,000
Release of the Series 2007A Bonds Debt Service Reserve Fund	3,802,000
Total Sources of Funds	**$137,909,000**
Estimated Uses	
Escrow Fund to refund 2007 Bonds (1)	$137,187,000
Costs of Issuance (2)	722,000
Total Uses of Funds	**$137,909,000**

* Preliminary; subject to change. Based on interest rates as of January 9, 2015.

(1) Includes debt service on Series 2007A Bonds to the call date (February 15, 2017) and redemption of remaining principal on the call date, net of escrow earnings.

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

The estimated All-in True Interest Cost (All-in TIC) on the Series 2015 Bonds based on current market conditions is approximately 2.90%; the estimated annual lease payment would be approximately $9.9 million. In comparison, the All-in TIC for the Series 2007A Bonds is 4.84%, and the annual lease payment is $11.3 million. This translates to cumulative cash flow savings to the General Fund of approximately $24 million over the remaining 17 year term of the bond issue, an average annual cash flow savings of approximately $1.4 million in Fiscal Years 2016 – 2032. The net present value savings is estimated at 12.5%. The following table provides a financing comparison between the Series 2007A Bonds and the proposed Series 2015 Bonds.

	Series 2007A Bonds	**Series 2015 Bonds (Estimate)**
Bond Proceeds	$156.6 million	$134.1 million
Annual Lease Payment	$11.3 million	$9.9 million
All-in TIC	4.8%	2.9%
Final Maturity	February 2032	October 2031
Total Debt Service (1)	$192.4 million	$167.9 million

(1) For the Series 2007A Bonds, the Total Debt Service figure reflects the amount remaining following the payment of debt service due February 15, 2015.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On January 28, 2015, Debt Management presented four proposed economic refunding items to the Budget and Government Efficiency Committee, of which one was the Series 2015 Bonds. The Budget and Government Efficiency Committee forwarded the Series 2015 Bonds to the City Council for approval.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Not applicable.

KEY STAKEHOLDERS:

Business entities included in the financing: Nixon Peabody LLP (Bond and Disclosure Counsel); Wells Fargo Bank, National Association (Trustee/Escrow Agent); Public Resources Advisory Group (Financial Advisor); RBC Capital Markets LLC, Bank of America Merrill Lynch, William Blair & Co., and Stern Brothers & Co. (Underwriters); Standard & Poor's (Rating Agency); Fitch Ratings (Rating Agency); Chicago Title Company (Title Insurance); D.F. Davis Real Estate, Inc.(Appraiser); and the Printer (Electronic Printing of POS and OS).

Lakshmi Kommi Debt Management Director	Mary Lewis Chief Financial Officer