



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: August 31, 2012 REPORT NO: 12-107

ATTENTION: Council President and City Council

SUBJECT: Authorization for Spreckels Organ Pavilion Public Parking Garage (Balboa Park) Lease Revenue Bonds, Series 2012C

REFERENCE: Balboa Park Plaza de Panama Parking Structure Plan of Finance, Report to City Council (12-083) June 26, 2012

REQUESTED ACTIONS:

1. Authorize the issuance of the Public Facilities Financing Authority of the City of San Diego, Spreckels Organ Pavilion Public Parking Garage Lease Revenue Bonds, Series 2012C, in a principal amount not to exceed \$17.4 million to provide up to \$14 million in construction proceeds and pay for or reimburse up to \$420,000 of eligible project related costs for the Spreckels Organ Pavilion Public Parking Garage;
2. Authorize the execution of related financing documents including the forms of the Site Lease, Facilities Lease, Indenture, Bond Purchase Agreement, and Continuing Disclosure Certificate;
3. Authorize the Chief Financial Officer to establish a special interest-bearing fund for the bond proceeds titled, "Organ Pavilion Parking Bonds 2012C" contingent upon approval of the bond authorization and related documents and contingent upon the issuance of the 2012C bonds;
4. Authorize the Chief Financial Officer to establish a special fund titled, "Organ Pavilion Parking Garage and Tram Fund," to deposit parking revenues and related garage funds, pay necessary operating expenses, and pay annual debt service;
5. Authorize the Chief Financial Officer to add CIP S-13019, Spreckels Organ Pavilion Parking Garage, to the Capital Improvements Program; and
6. Authorize the Chief Financial Officer to increase the Capital Improvements Program Budget in CIP S-13019, Spreckels Organ Pavilion Parking Garage, and to appropriate and expend an amount not to exceed \$14,420,000, from the Organ Pavilion Parking Bonds 2012C fund, for the purpose of permitting, planning, design and construction of the Parking Garage, contingent upon approval of the bond authorization and related documents and contingent upon the issuance of the 2012C Bonds, and contingent upon the Chief Financial Officer furnishing one or more certificates certifying that the funds necessary for expenditure are, or will be, in cash held with the trustee.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

I. Background

On July 9, 2012, the City Council approved the Plaza de Panama Improvement Agreement, between the Plaza de Panama Committee (the “Committee”) and the City (R-307558), wherein the City recognized that the undertaking of the reclamation and restoration of the Plaza de Panama (the “Project”) is of such significant cost that it will not be feasible solely through funds raised by the Committee. Accordingly, to ensure funding for the parking garage portion of the Project (the “Parking Garage”), the City Council also approved a plan of finance on July 9, 2012 (R-307558) contemplating the issuance of tax-exempt bonds in an amount self-supported from parking fee revenues generated by the operation of the Parking Garage.

The City’s contribution to the construction of the Parking Garage will be limited to approximately \$14 million in bond proceeds – of the estimated \$22.4 million total cost of the garage (excluding the rooftop park), construction cost amounts to \$16 million and the remaining \$6.4 million consists of design cost. This funding difference and any potential cost overruns will be borne by the Committee, in addition to the design and construction of the rooftop park above the Parking Garage. As recited in the Ordinance under consideration, the Committee has demonstrated to reasonable satisfaction that it has sufficient funding in place to cover the entire cost of the Project, excluding the bond offering portion of the Parking Garage contributed by the City, as required under the Improvement Agreement. Pursuant to the Improvement Agreement, the City Council must consider a proposal to issue bonds by no later than October 1, 2012. If approved through the actions herein, bonds are anticipated to be issued, and construction of the Parking Garage is expected to commence, in December 2012, in accordance with the project schedule.

II. Discussion

Based upon the net parking revenue projections developed by Parking Concepts Inc. in April 2012 and the review of the projections by Keyser Marston Associates Inc. in June 2012, it is anticipated the Parking Garage will generate approximately \$1.3 million annually, beginning in year 1 following the opening of the Parking Garage, in net parking revenues (net of parking and tram operating expenses).¹ Subsequent to year 1, net parking revenues are projected to remain relatively constant through year 5, at which point they are projected to increase to nearly \$1.5 million in years 6 through 10.¹

Utilizing the net parking revenue projections, the plan of finance calls for the issuance of General Fund backed lease revenue bonds, to be named the Public Facilities Financing Authority of the City of San Diego, Spreckels Organ Pavilion Public Parking Garage, Lease Revenue Bonds, Series 2012C² (the “2012C Bonds”), in an amount sufficient to provide up to \$14 million towards the construction of the Parking Garage, establish necessary funds, pay for costs of

¹ Keyser Marston Associates, Inc. report “Balboa Park Parking Garage Financial Feasibility Analysis,” dated June 7, 2012.

² Public Facilities Financing Authority of the City of San Diego issued Lease Revenue Bonds Series 2012A (Capital Improvement Projects) and Series 2012B (Fire and Life Safety Facilities Refunding).

issuance, and reimburse up to \$420,000 in project related costs of the City. The following provides additional detail regarding the proposed 2012C Bonds.

A. Legal Structure

The Public Facilities Financing Authority of the City of San Diego (the “Authority”) will be the issuer of the 2012C Bonds. The Authority was established in May 1991, pursuant to a Joint Exercise of Powers Agreement (“JPA Agreement”), between the City and the Redevelopment Agency of the City (“Agency”) to serve as a financing authority for the City and the Agency. In February 2012, the dissolution of redevelopment agencies occurred throughout the State. The City is the successor agency to the Agency. As a result of the legislative changes relating to the dissolution of redevelopment agencies, prior to the issuance of the 2012C Bonds, the JPA Agreement will need to be amended to add an entity other than the successor agency to the Authority to provide for flexibility to issue 2012C Bonds with a 30 year term. An appropriate amendment to the JPA Agreement will be brought to the City Council by the City Attorney’s Office prior to the issuance of the 2012C Bonds.

The legal structure for the 2012C Bonds involves lease agreements between the City and the Authority under which the City leases unencumbered real property to the Authority and, in turn, the Authority leases the same property back to City at a lease payment sufficient to cover the debt service on the 2012C Bonds.

The assets to be pledged initially for the 2012C Bonds are the Central Police Vehicle Maintenance Facility, Fire Station 14, and Fire Station 24. To establish the annual fair rental value of these properties, they were appraised by the appraisal companies retained by the City’s Real Estate Assets Department. The combined estimated appraisal value of all the properties is approximately \$17 million. At the time of the bond sale, if there is a smaller bond issue than what is currently anticipated due to more favorable market conditions, necessary steps will be taken to exclude one of the properties. As required under the lease financing structure, the maximum annual lease payments payable by the City under the lease from the Authority related to the 2012C Bonds will not be in excess of the combined annual fair rental value of the leased properties. Title reports will be obtained for all the leased properties, establishing that the assets are not already encumbered and are free and clear of liens.

The Parking Garage, once constructed and available for use and occupancy by the City, will be substituted as the sole subject of the lease over the life of the 2012C Bonds and the initial leased properties will be released from the lease and will again be unencumbered assets of the City.

B. Summary of Key Terms

- **Issuer:** Public Facilities Financing Authority of the City of San Diego
- **Structure:** General Fund-supported Lease Revenue Bonds; issued using a standalone Indenture, Site Lease, and Facilities Lease (see “Financing & Legal Documents” below)
- **Financing Ordinance Not-to-Exceed Bond Authorization:** \$17.4 million; accounts for additional interest rate increases while funding for \$14 million towards Parking Garage construction, \$420,000 to reimburse City project costs, a capitalized interest fund, and costs of issuance. As shown in the Estimated Sources and Uses of Funds table below,

approximately \$16.9 million in bond issue proceeds is estimated based on current market conditions (plus 0.50% cushion to account for interest rate fluctuations). The financing ordinance also incorporates flexibility to apply bond proceeds to alternate City General Fund funded capital improvement purposes in the event City is unable to use the proceeds for the construction of the parking garage under any extraordinary legal circumstances.

- **Repayment Source:** Payable from net annual parking revenues (\$1.3 million projected beginning year 1 of the Parking Garage opening) net of operating expenses of the Parking Garage and tram expenses. Annual debt service/lease payments for the 2012C Bonds will commence beginning Fiscal Year 2016 and will be budgeted in a newly established fund within the Park and Recreation Department budget named the “Organ Pavilion Parking Garage and Tram Fund”. In addition to paying debt service on the 2012C Bonds, this fund will also be programmed to collect parking revenues and pay Parking Garage and tram operating expenses. In the event that annual parking garage revenue is insufficient to pay debt service in any given year, funds will be drawn from the Internal Safety Fund (discussed below).
- **Final Maturity:** 30 year term (Fiscal Year 2042)
- **Capitalized Interest Fund:** Since the parking revenues to support the debt service will not be available until after the completion of the Parking Garage and the facility is open for public use, a capitalized interest fund to pay interest on the 2012C Bonds will be funded with proceeds of the bond issue offsetting the need for the City to fund or front debt service during the construction of the Parking Garage. This is a standard feature for bond issues that provide funding for a capital facility that generates income and the bond payments are dependent on the revenue from the facility. The amount anticipated to be funded from bond proceeds will pay for interest payments on the bonds during the construction period, and an additional amount to mitigate the risk of any construction delays and until the garage is established operationally and begins to collect parking revenue. Parking revenues collected while interest payments are paid from the bond funded capitalized interest fund will be deposited in the Internal Safety Fund held by the City establishing an internal reserve to protect the General Fund (see discussion below). Based on initial analysis, the capitalized interest period is estimated to be between 2.5 to 3 years (actual period to be determined at the time of pricing based on market conditions).
- **Internal Safety Fund:** A City-held Internal Safety Fund is to be maintained from net parking revenues. This is designed to ensure that the General Fund is not required to front any shortfall in revenue for annual debt service or annual operational expenses of the Parking Garage and tram. While net parking revenues are not anticipated to be particularly volatile based on the findings of the Parking Revenue Study, the Internal Safety Fund would be a funding source to cure any revenue deficiencies to cover annual debt service and operating costs for the Parking Garage and tram system.

The Internal Safety Fund is anticipated to be initially funded by net parking revenues collected following the completion of construction of the Parking Garage (estimated opening date is February 2014) through the end of the capitalized interest period, as discussed above. Debt service during this period (2nd Quarter of FY2013 through 1st Quarter of FY2016) will be programmed to be funded out of the capitalized interest fund. In addition, surplus revenues exceeding parking revenues from typical year operations are

expected from Centennial Celebration events planned for the Park throughout 2015, further supplementing the Internal Safety Fund. The funding amount is targeted to be sufficient to cover up to one (1) year of debt service and one (1) year of both Parking Garage and tram operating expenses (including tram lease purchase expenses); this is estimated to be approximately \$2.3 million and is projected to be reached by the 1st quarter of Fiscal Year 2016. Once this level is reached, excess net parking revenues could be retained as General Fund revenue and can be used for any general purpose that City deems appropriate.

Over the life of the 2012C Bonds, should a draw on the Internal Safety Fund be required for the City to meet debt service or operating expense shortfalls in a given year, thereby reducing the funding level below the initially established amount described above, excess net parking revenues in subsequent year(s) would be used to replenish the Internal Safety Fund to the original level. No adverse repercussions (i.e., investor concerns, higher costs of borrowing for future issuances or impact on credit ratings) would result in the event of an Internal Safety Fund draw.

C. City Council Approval Process

Certain of the financing legal documents, including the Site Lease, Facility Lease, Indenture, Bond Purchase Agreement and Continuing Disclosure Certificate must be approved via Ordinance. Staff will be docketing the Preliminary Official Statement (POS) for the 2012C Bonds separately to be authorized via Resolution in November 2012, closer to the distribution of the POS to investors and pricing of the 2012C Bonds.

Financing & Legal Documents

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

1. Site Lease – The Site Lease is the agreement between the City and the Authority under which the City leases the leased properties to the Authority.
2. Facilities Lease – The Facilities Lease is the agreement between the City and the Authority under which the City leases the leased properties back from the Authority. The lease payments made by the City are equal to the principal and interest payments on the 2012C 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. Indenture – The Indenture is an agreement between the Authority and the trustee for the 2012C Bonds. The Indenture provides for the issuance of the 2012C 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 2012C 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 is an agreement among the City, the Authority, and the underwriter for the transaction, pursuant to which the

Authority agrees to sell, and the underwriter agrees to buy, the 2012C 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 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 2012C Bonds’ bondholders.

Establishing the Organ Pavilion Parking Bonds 2012C Fund and Appropriation of Proceeds

Subsequent to City Council authorization and bond closing, bond proceeds will be deposited in the Organ Pavilion Parking Bonds 2012C Fund held by the Trustee. Concurrently, the Capital Improvements Program Budget would be increased to appropriate and expend a total of \$14.42 million, of which \$14 million will be deposited with the trustee to reimburse the Committee periodically for the expenditures incurred for the construction of the Parking Garage and up to \$420,000 will be used to reimburse the City’s Public Works, Development Services, and Public Utilities departments for various Project related expenditures. Of the \$420,000, an estimated \$200,000 has been accrued to date related to the environmental review process by the Development Services Department and the remaining balance, approximately \$220,000, is expected to be incurred as the Project’s four phases are completed and accepted by the City. Such costs include permitting costs, inspection fees, deposits, utility/connection fees, and other eligible City costs and fees related to the Project. Any remaining unspent funds, after all of the aforementioned City costs have been reimbursed, will be applied toward interest payments for the 2012C Bonds.

In accordance with the Plaza de Panama Improvement Agreement, \$14 million of funds from the Trustee held Organ Pavilion Parking Bonds 2012C Fund will be paid monthly to the Committee on a reimbursement basis upon the City receiving and approving invoices from the Committee, in arrears, for the actual cost incurred in the construction and construction management of the Parking Garage.

D. Financing Time Line

In order to execute the 2012C Bonds, the City Council authorizations are expected to occur as follows:

September 2012	Introduction & approval (2 readings) of the Financing Ordinance authorizing the issuance of the bonds and approval of the financing documents.
November 2012	Approval of the Preliminary Official Statement
December 2012	Pricing of the 2012C Bonds and execution of the Bond Purchase Agreement Bond Closing and delivery of construction proceeds deposited with Trustee

February 2014

Commencement of Parking Garage Construction

Anticipated Parking Garage opening date

E. Financing Team

The City's Financing Team for the 2012C Bonds consists of staff of the Department of Finance, including the Chief Operating Officer and staff of the Debt Management Department, the Park and Recreation Department, the Comptroller'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, and Engineering & Capital Projects. Outside members of the team include: Fieldman, Rolapp, & Associates as financial advisor; Stradling, Yocca, Carlson & Rauth as bond and disclosure counsel; Loop Capital Markets as the underwriters; Kutak Rock LLP as underwriter's counsel; Wilmington Trust as Trustee; and Chicago Title Company as title insurance provider.

Fieldman, Rolapp & Associates were 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 experience in General Fund lease revenue bond financings and fee proposal. The fee to Fieldman Rolapp for this issuance, which is contingent upon the successful closing of the 2012C Bonds, is for an amount not-to-exceed \$28,500, plus out-of-pocket expenses not-to-exceed \$500.

The City Attorney's Office identified Stradling, Yocca, Carlson & Rauth to serve as Bond and Disclosure Counsel and pay an amount not to exceed \$60,000, plus reasonable out of pocket expenses not to exceed \$2,500. The fees payable to Bond and Disclosure Counsel shall be contingent upon the closing of the bonds and paid out of bond proceeds. The City Council authorized the City Attorney to retain Stadling, Yocca, Carlson & Rauth on July 9, 2012 (R-307558).

Wilmington Trust is to serve as the Trustee for this transaction. Compensation for the Trustee includes an initial fee of \$1,500 and ongoing annual fees of \$500.

F. Underwriter

Loop Capital Markets was selected as the sole member of the underwriting syndicate for the 2012C Bonds through a competitive process utilizing the City's established Pool of Underwriters. The Request for Proposals was issued on March 29, 2012. In total, 11 underwriting proposals were received. Due to the small size of the proposed issuance, it is determined that a single firm, without additional co-managers serving on the syndicate, is best suited to price the 2012C Bonds.

FISCAL CONSIDERATIONS:

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

Based upon current market conditions as of late August 2012 (plus 0.50% cushion to account for any interest rate fluctuations), the issue size of the 2012C Bonds is approximately \$16.9 million. This amount would provide sufficient funds to establish a \$14 million construction fund for the Parking Garage, reimburse the City up to \$420,000 for staff cost related to the project, establish

the required Capitalized Interest Fund and pay costs of issuance (see Attachment 1 for additional detail on estimated Costs of Issuance). The table below provides a breakdown of the estimated sources and uses of funds.

Estimated Sources and Uses of Funds

Estimated Sources

Bond Issue Proceeds	<u>\$16,869,648</u>
Total Sources of Funds	\$16,869,648

Estimated Uses

Deposit to Construction Fund	\$14,000,000
Deposit to Capitalized Interest Fund	2,121,125
City Project Expenses	420,000
Costs of Issuance ⁽¹⁾	<u>328,523</u>
Total Uses of Funds	\$16,869,648

⁽¹⁾ Costs of Issuance include bond and disclosure counsel fees, financial advisory fees, title insurance costs, appraisal fees, rating agency fees, underwriter's discount, Preliminary Official Statement and Official Statement electronic printing/posting costs, CDIAAC fees, and City staff costs.

B. Interest Rate and Projected Debt Service

Based on market conditions as of late August 2012 (plus 0.50% cushion to account for interest rate fluctuations), the estimated True Interest Cost for the 2012C Bonds is approximately 4.58%. Annual debt service for a 30 year bond issue amounts to approximately \$1.1 million beginning in Fiscal Year 2016. This is approximately \$210,000, or 19%, less than projected net parking revenues (approximately \$1.3 million in year 1).

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 2012C Bonds will result in an effective interest rate of 7.00%; should that occur, the amount of proceeds produced to contribute the the Parking Garage would be reduced from \$14 million to approximately \$12 million. The average annual lease payment would be approximately \$1.3 million, equal to the projected net parking revenue constraint.

C. Impact on current debt ratios

In accordance with the City's Debt Policy, Section 4.2, an analysis of the impact of additional General Fund backed bond obligation was conducted, specifically for the impact of the 2012C Bonds \$16.9 million issue size. 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 4.36% for Fiscal Year 2013, and is projected to steadily decline to 3.26% by Fiscal Year 2018.

Under a conservative assumption where garage parking revenues are not taken into account, the issuance of the proposed 2012C Bonds would increase the debt service as a percentage of General Fund revenues by 0.04% beginning in Fiscal Year 2016 (after Capitalized Interest Period) and 0.08% in Fiscal Year 2017 and beyond. For illustration purposes, all else being

equal, the debt service as a percentage of General Fund revenues ratio would increase marginally to 3.34% in Fiscal Year 2018 compared to 3.26% before the issuance of the 2012C Bonds, as noted above.

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On July 9, 2012, the City Council adopted Resolution R-307554, Certifying EIR – Balboa Park Plaza de Panama; Resolution R-307555, approving the amendments to the Balboa Park Master Plan and the Central Precise Plan; Resolution R-307556, granting Site Development Permit No. 837848; Resolution R-307557, declaring an intention to issue debt solely for the purpose of establishing compliance with Section 1.1.50-2 of the Treasury Regulations; and Resolution R-307558, accepting a contribution from the Plaza de Panama Committee.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Also see above. Various Council actions were taken after public hearings. In addition, refer to Report No. 12-080, "Balboa Park Plaza de Panama, Circulation and Parking Structure Project" for a listing of various community participation and public outreach efforts related to the Project.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in this transaction are: Fieldman, Rolapp, & Associates (Financial Advisor); Stradling, Yocca, Carlson & Rauth (Bond and Disclosure Counsel); Loop Capital Markets (Underwriter); Kutak Rock LLP (Underwriter's Counsel); Wilmington Trust N.A. (Trustee); and Chicago Title Company (Title Insurance).



Lakshmi Kommi
Debt Management Director



Jay M. Goldstone
Chief Operating Officer

Attachment: Estimated Costs of Issuance (COI)

Public Facilities Financing Authority of the City of San Diego
 Lease Revenue Bonds, Series 2012C
 (Spreckels Organ Pavilion Public Parking Garage)

Estimated Costs of Issuance (COI)

Description	Firm	Budgeted
Bond / Disclosure Counsel	Stradling Yocca Carlson & Routh	\$60,000
General Disclosure Counsel	Hawkins Delafield & Wood	\$9,000
Financial Advisor (inc. out of pocket)	Fieldman Rolapp & Associates	\$29,000
Reimbursement Staff Costs (Bond Issue Related) ⁽¹⁾	Various City Departments	\$96,000
Title Insurance Policy	Chicago Title Company	\$9,000
Rating Agency Fees		\$25,000
Trustee	Wilmington Trust	\$1,500
Printing & Shipping of POS and OS	City Publishing Division	\$1,250
	<i>Subtotal:</i>	\$230,750
	<i>10% Contingency:</i>	\$23,075
	Total COI Budget:	\$253,825
	Underwriter's Discount:	\$74,698
	(Est.) Costs of Issuance:	\$328,523

(1) Separate from the project related costs estimated to be \$420,000 and to be deposited in the Construction Fund.