



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Authorization of Spreckels Organ Pavilion Public Parking Garage Lease Revenue Bonds

OVERVIEW

On July 9, 2012, the City Council reviewed the Balboa Park Plaza de Panama, Circulation and Parking Structure Project (the "Project") and adopted five resolutions in support of the Project as proposed. The approved plan of finance requires the City to issue General Fund-backed lease revenue bonds to fund \$14 million of the total cost for a new underground parking garage. The City Council was informed that staff would return in September to introduce the financing ordinance and approve necessary financing documents. Final Council approval of the Preliminary Official Statement for the Spreckels Organ Pavilion Public Parking Garage Lease Revenue Bonds, Series 2012C (the "Bonds") will be sought in November 2012. Staff anticipates the Bonds will be sold in January 2013.

The IBA previously reviewed the proposed Project and plan of finance in Report 12-31 (Attachment 1 - pages 13 and 14). Additional detail for the Bonds has been provided by staff and in the docketed materials since we issued Report 12-31. While information relating to the Bonds remains relatively unchanged from July, this report further discusses a few key elements of the proposed borrowing before the Council.

FISCAL/POLICY DISCUSSION

The Bonds

The City plans to issue General Fund-backed lease revenue bonds. Although the Bonds are backed by the General Fund, net parking garage revenues are planned to be the first and only source of repayment. General Fund revenues would only be required if net parking revenue is insufficient to cover annual debt service on the Bonds.

The City will use its joint powers authority (the Public Facilities Financing Authority of the City of San Diego or “Authority”) to be the issuer of the Bonds. This bond financing structure requires the creation of a lease between the City and the Authority. As noted on page 3 of the staff report, the City would initially lease three unencumbered City-owned General Fund properties (Central Police Maintenance Facility, Fire Station 14 and Fire Station 24) to the Authority. The Authority would then lease the same properties back to the City at a lease payment sufficient to cover the debt service on the bonds. Once the parking garage is built and assigned to the City, the City will substitute the parking garage for the three General Fund properties in order to make the parking garage the go-forward subject of the financing lease arrangement.

Based on market condition as of late August 2012 and adding one-half percent to allow for interest fluctuations, staff estimates borrowing approximately \$16.9 million. As noted in the staff report, this amount is comprised of four components:

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

The term of the bonds will be 30 years and debt service payments are expected to be due in April and October of each year. Estimated debt service payments of approximately \$399,000 will be interest only through April 2016. Thereafter, interest and principal payments will be made annually.

Capitalized interest enables the City to 1) make its annual debt service payments until net parking revenues are available for debt service and 2) accumulate initial net parking revenues into an Internal Safety Fund (discussed below). The City plans to use capitalized interest to make debt service payments through October 2015. The October 2015 payment is expected to be funded two-thirds from capitalized interest and one-third from net parking revenues accrued between August and October of 2015.

Internal Safety Fund

As has been the case with recent City lease-revenue bond issuances, the proposed Bonds will be sold without a debt service reserve fund. In order to protect against parking revenue volatility (insufficient net parking revenue to cover annual debt service payments) and create a limited buffer for the General Fund, the plan of finance calls for the creation of an Internal Safety Fund. The amount of the Internal Safety Fund will be equal one year of debt service and one year of operating expenses for the parking structure and tram – approximately \$2.3 million. As noted on page 4 of the staff report, the Internal Safety Fund “is designed to ensure that the General Fund is not required to front any shortfall in revenue for annual debt service or annual operating expenses of the Parking Garage and tram.”

The parking garage is expected to be completed and open in February 2014. The City's parking consultants have projected net parking revenue to be approximately \$110,000 a month in calendar years 2014 & 2016 and approximately \$131,000 a month in the centennial year of 2015. Net parking revenue that accrues between February 2014 and August 2015 (the end of the capitalized interest period) will be used to establish the Internal Safety Fund. If net parking revenue is realized at or above consultant projections, the Internal Safety Fund will be fully funded. If the Internal Safety Fund is ever partially funded, any net parking revenues realized thereafter will be deposited into the Fund until it is fully funded at approximately \$2.3 million.

The City has full discretion over its Internal Safety Fund as it would not be governed by bond documents as would be the case for a bond debt service reserve fund. If the Internal Safety Fund is fully funded at \$2.3 million, net parking revenues would be available for any General Fund purpose the City deems appropriate.

Alternate Use of Bond Proceeds Option

In the event the City is unable to use Bond proceeds for the construction of the parking garage (i.e., "under any extraordinary legal circumstances"), the proposed financing ordinance before the Council on September 18th provides flexibility to apply Bond proceeds to alternate City General Fund funded capital improvement purposes. This provision is briefly noted on page 4 of the staff report and on page 2 of the proposed financing ordinance.

It is important to note that if the City is unable to complete the parking garage, there will not be net parking revenue to fund the annual debt service payments on the Bonds. Although the City will have the flexibility to assign Bond proceeds to other worthy capital improvement projects, it will also have a General Fund responsibility to pay annual debt service (estimated to be approximately \$1.1 million annually for 30 years). This responsibility will not have been planned or reviewed by the Council in advance.

The IBA understands why staff has provided for this flexibility; however, we believe it is important the Council be apprised of fiscal implications associated with this option before approving the proposed financing ordinance. If the financing ordinance is approved and in the event the City was unable to complete the parking garage, we recommend Bond proceeds be used for deferred capital improvement projects. The City has a current five-year plan to use cash and bonds to finance deferred capital improvement projects. If Bond proceeds cannot be used to complete the parking garage, the City could use these funds to reduce the size of the planned deferred capital borrowing. Deferred capital project timing and capacity challenges, if any, could probably be reasonably managed.

Requested Council Actions

The City Council is being asked to introduce an ordinance and adopt a resolution to facilitate issuance of the Bonds. The ordinance authorizes the issuance of Bonds in an aggregate principal amount not to exceed \$17.4 million until December 31, 2013. Authorizing a slightly larger borrowing amount (above the \$16.9 million currently estimated) reasonably allows for changes in bond market conditions. Additionally, the

financing ordinance authorizes the proposed form of necessary Bond documents (described on pages 5 and 6 of the staff report) including the Site Lease, Facilities Lease, Indenture, Bond Purchase Agreement and Continuing Disclosure Agreement.

The resolution authorizes the Chief Financial Officer to 1) amend the FY 2013 CIP Budget in accordance with the staff report to increase expenditure appropriations by \$14.42 million from the proceeds of the Bonds for the purpose of permitting, planning, designing and constructing the parking garage, 2) establish the necessary funds (including the Internal Safety Fund) to deposit parking revenues, pay operating expenses and debt service payments and 3) add the Spreckels Organ Pavilion Garage to the CIP program. These authorizations are contingent upon the approval and issuance of the Bonds.


CONCLUSION


On September 18, 2012, the Council will be asked to introduce an ordinance and adopt a resolution to facilitate the issuance of Bonds for the Spreckels Organ Pavilion Public Parking Garage. Approval of the Bonds was contemplated when the Council approved a proposed plan of finance on July 9, 2012. Prior to the July 9th Council meeting, the IBA issued Report 12-31 discussing the proposed Project and the associated plan of finance. Report 12-31 is attached for reference.

This report further reviews a few key elements of the proposed borrowing before the Council. In particular, we discuss the use of capitalized interest, the establishment of an Internal Safety Fund and an option for an alternate use of Bond proceeds if necessary.

The IBA supports the proposed Bonds given disclosure that the General Fund ultimately backs the borrowing. If parking revenues are realized as projected, annual debt service payments will be entirely funded without any reliance on the General Fund. Report 12-31 discusses Project revenue/expense assumptions and the possibility of variances in detail. An Internal Safety Fund is proposed to provide a limited buffer to General Fund debt service exposure; however, it is important to note that funding of the Internal Safety Fund is also dependent on the timeliness of Project completion and projected net parking revenues.

If the requested actions are approved on September 18th, staff will return to Council in November 2012 for approval of the Preliminary Official Statement. This will be the final Council action before the anticipated sale of the Bonds in January 2013.


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Attachment: 1. IBA Report 12-31, Balboa Park Plaza de Panama, Circulation and Parking Structure Project and Financing Plan