OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M

No. 06-22

DATE: September 22, 2006

TO: Honorable Council President and Members of the City Council

FROM: Andrea Tevlin, Independent Budget Analyst

SUBJECT: Line of Credit with Bank of America N.A. for the North Park Redevelopment Project Area

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The Redevelopment Agency (Agency) is requesting approval to borrow up to $10 million for the North Park Redevelopment Project Area utilizing a line of credit agreement with Bank of America, N.A. (BofA). The need for the line of credit results from various agreements that the Agency has entered into for the rehabilitation of the North Park Theatre and construction of the North Park Public Parking Structure. Due to unanticipated increased construction and land acquisition costs, additional funding is needed to satisfy obligations related to these completed projects and other contemplated public improvements within the project area.

There are currently three financial obligations totaling $8.23 million related to the North Park Theatre. The Agency must repay a developer loan of $2,845,000 (with 6% interest) for the North Park Parking Structure by March 2007. The Agency also must pay a property acquisition settlement agreement of $1,950,000 (with 6% interest if it cannot otherwise be funded from project area tax increment) for land acquired to construct the North Park Parking Structure. Lastly, the Agency must repay a developer loan of $3,435,000 (with 10.75% interest) for the North Park Theatre.

The Agency issued a Request for Proposals for a $10 million line of credit or private placement for the North Park Redevelopment Project Area in February 2006. The Agency's financial advisor (Gary Kitahata of Kitahata & Company) recommended a line of credit with a commercial bank that could subsequently be refinanced with a public offering of long-term tax allocation bonds once the Agency's rating had been restored and access to the bond market had normalized. In recommending a line of credit over privately placed debt, the Agency's financial advisor noted that privately placed debt would be more expensive, less flexible and take longer to process.

The Agency's financial advisor and staff concluded that the terms and conditions offered by BofA for a line of credit were the most favorable of all responses to their Request for Proposals. BofA has offered a $10 million non-revolving line of credit for two years to be secured by a subordinate pledge of tax increment revenues generated within and received by the North Park Redevelopment Project Area. The line of credit would require quarterly interest-only payments that Agency staff anticipates would begin in January 2007.

Agency staff has evaluated which project activities within the North Park Redevelopment Project Area require funds from the line of credit and determined that approximately 75% qualify for tax-exempt borrowing rates with the remaining 25% relegated to taxable borrowing rates. Based on current rates, BofA's line of credit would provide an interest rate of 4.27% for tax-exempt project activities and 6.60% for taxable project activities. If the Agency were able to issue insured long-term tax allocation bond financing today, the rates would be approximately 4.60% for tax-exempt projects and 6.37% for taxable project activities. It should be noted that the interest rate differential is currently very small (approximately 23-33 basis points or .23-.33%).

At the City Council meeting of July 25, 2006, there was some question as to why the Agency could not alternatively utilize a public offering of long-term tax allocation bonds as CCDC had done in June 2006. In a written recommendation dated May 31, 2006, the Agency's financial advisor provides three key differences between the CCDC public offering and a public offering for the North Park Redevelopment Project Area at this time. The first difference is that CCDC currently enjoys a stronger credit rating which influences the availability and cost of bond insurance which in turn results in lower overall borrowing costs. Project area characteristics (assessed value, incremental assessed value, total acreage, etc.) were cited as a second difference between the two project areas that can impact both credit ratings and the availability/cost of insurance. Of lesser importance, the size of the public offering was listed as a factor that can impact the availability and cost of insurance (CCDC issued a $110 million public offering in June 2006 versus the $10 million currently sought by the North Park Redevelopment Project Area).

Having reviewed the available information, the IBA generally concurs with the recommendation of the Agency's staff and financial advisor to pursue a line of credit with BofA at this time. Our recommendation is based on the following rationale:

- The North Park Redevelopment Project Area does not have sufficient tax increment revenues to repay the relatively expensive developer loans due in the short term.
- The BofA line of credit is available at interest rates that are only slightly higher (.33%) than interest rates for a public offering of long-term, fixed-rate tax allocation bonds.
- The BofA line of credit is significantly less expensive than the rate of interest on the existing developer loans (a tax-exempt/taxable blended rate of 4.84% vs. 6.00% for the parking structure obligation; a tax-exempt rate of 4.27% vs. 10.75% for the Theatre loan).
- The BofA line of credit will provide the Agency with limited financial capacity to address other cited public improvements within the North Park Redevelopment Project Area.

As has been noted on the final page of the Agency staff report, the IBA would call attention to the fact that the Agency will have to refinance the line of credit with BofA, or another lender, at the end of the two-year term unless the line of credit is paid off with proceeds of subsequently issued long-term tax allocation bonds. Replacing the line of credit with a future public offering of long-term tax allocation bonds was the recommendation of the Agency's financial advisor in his memo to Agency staff dated May 31, 2006.