



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** March 1, 2013

**IBA Report Number:** 13-10

**City Council Docket Date:** March 4, 2013

**Item Number:** 150

---

# **2013A Lease Revenue Bonds – \$30M Capital Improvement Projects Financing combined with the Refunding of two Bonds Originally Issued in 2003**

## OVERVIEW

The City Council adopted a resolution on October 22, 2012 providing authorization to issue lease revenue bonds generating net proceeds of \$25 million to fund all or a portion of specified General Fund Capital Improvement Projects. These projects included: Skyline Hills Library; Mission Hills-Hillcrest Library; San Ysidro Library; Fire Station #45 - East Mission Valley; Mission Beach Boardwalk Bulkhead; Street Resurfacing; and Concrete Street work. The approved dollar amount for each of these projects is presented in Table 1 of Report No. 13-13 to the City Council (page 3).

Subsequent to the City Council providing this authorization, Debt Management staff was asked to increase the proposed issuance to fund \$5 million of General Fund Storm Water CIP. The Storm Water projects and the associated funding recommendations are presented in the companion staff Report No. 13-19 to the City Council.

Additionally, Debt Management staff has identified refunding opportunities for two outstanding General Fund supported bonds - 2003 MTDB Old Town Light Rail Lease Revenue Bonds and the 2003 Balboa Park/Mission Bay Park Certificates of Participation. By combining the two refundings with the CIP bonds, cost efficiencies are achieved and annual debt service savings for the General Fund can be realized sooner.

On March 4, 2013, the City Council will be asked to approve a financing ordinance and a resolution in support of the proposed issuance of 2013A Lease Revenue Bonds (2013A Bonds). This report summarizes the process for City Council approval of bonds and highlights authorizations found in the financing ordinance and resolution. The report also describes the proposed structure of the 2013A bonds, comments on the two proposed refundings and discusses the recommendation to add \$5 million for storm water CIP.

## FISCAL/POLICY DISCUSSION

### Process for City Council Approval of Bonds

In recent years, City Council approval of bonds typically requires two separate and distinct approvals. The first involves Council adopting a financing ordinance which primarily authorizes the financing parameters for proposed bonds (i.e., terms such as a not to exceed bond issuance amount or interest rate level) and also approves the form and execution of necessary financing documents. The Office of the City Attorney retains outside Bond and Disclosure Counsel to prepare the necessary financing documents. It is important to note that Council approval of the financing ordinance alone (as is being requested of the City Council on March 4th) is not sufficient authorization for staff to sell bonds.

In order for staff to facilitate the sale of bonds, the City Council must also take a second action to adopt a resolution approving the form and content of the Preliminary Official Statement (POS). The POS is the marketing document the City makes available to potential bond buyers in the capital markets. Although Council could approve the financing ordinance and the POS together, staff typically seeks Council approval of the POS approximately two months after the financing ordinance is approved. This allows the time for the financing ordinance to become effective. It also allows time for the City's financing team and the Disclosure Practices Working Group to ensure the POS has current financial information that has been carefully vetted for accuracy before the Council is asked to approve it. Staff anticipates requesting Council approval of the POS for the 2013A bonds in May 2013.

### What does the Financing Ordinance for the proposed 2013A Bonds authorize?

As noted above, a financing ordinance authorizes financing parameters for proposed bonds and also approves the form and execution of necessary financing documents. However, other important authorizations are often provided in this ordinance. In the case of the proposed 2013A Bonds, the following important authorizations are included in the financing ordinance:

- 1) Authorizes the issuance of bonds (in one or more series of bonds if deemed necessary by the COO or CFO) between now and June 30, 2014 in an amount not to exceed \$31.1 million to result in net bond proceeds of \$30 million to finance the CIP list presented in Table 1 of Report No. 13-13 to the City Council and in companion Report No. 13-19.
- 2) Provided there are net present value savings of at least 3% as a percentage of the par amount of the bonds to be refunded (in keeping with the City's Debt Policy), authorizes the issuance of bonds (in one or more series of bonds if deemed necessary by the COO or CFO) between now and June 30, 2014 in an amount not to exceed \$15.5 million in order to finance the refunding of the 2003 MTDB Old Town Light Rail Lease Revenue Bonds and the 2003 Balboa Park/Mission Bay Park Certificates of Participation.

- 3) Authorizes the sale of bonds between now and June 30, 2014 so long as the true interest cost on the bonds does not exceed 7%. Based on market rates on February 6, 2013, staff indicates the 2013A bonds could be sold for just under 4%. The 3% cushion is provided to allow bonds to be sold should there be limited increases in interest rates before June 30, 2014 due to fluctuating conditions in the capital markets.
- 4) Authorizes the form and content of the following necessary financing documents: First Amendment to the Master Site Lease; First Amendment to the Master Facilities Lease; First Supplemental Master Indenture; Bond Purchase Agreement; and the Continuing Disclosure Certificate.
- 5) Authorizes the Office of the City Attorney to retain Nixon Peabody LLP as bond counsel and disclosure counsel in connection with the issuance of the 2013A Bonds. The contract is not to exceed \$80,000 including \$5,000 for reasonable expenses. If more than one series of the 2013A Bonds is necessary, this authorization allows for compensation of up to \$80,000 for each additional issuance.
- 6) Authorizes the CFO or COO, in consultation with the City's Financial Advisor, to take any and all actions necessary to facilitate the sale of 2013A Bonds once approved by Council. This authorization includes, but is not limited to, approving: bond pricing, bond timing, number of bond issues, establishing bond redemption provisions, paying costs of issuance, etc.

In addition to the **financing ordinance**, the Council will also be asked to approve a **resolution** on March 4th authorizing the CFO to amend the Fiscal Year 2013 Budget to provide for the expenditure of 2013A Bond proceeds to finance the CIP list presented in Table 1 of Report No. 13-13 to the City Council and in companion Report No. 13-19.

#### Proposed Structure of the 2013A Bonds

The proposed financing uses the Public Facilities Financing Authority of the City (Authority) to issue the proposed 2013A lease revenue bonds. Authorized by the State Government Code, the Authority is a joint powers authority between the City, the Successor Agency and the Housing Authority. The Authority exists for the purpose of facilitating the financing of public capital facilities improvements of the joint powers entities whenever there are significant public benefits as determined by the Authority

The financing ordinance specifies the City is requesting the Authority to be the issuer of the 2013A Bonds. The Authority is needed to facilitate the issuance of the 2013A lease revenue bonds. Lease revenue bonds are commonly used in California because the debt instrument is structured as a lease and not classified as debt for purposes of debt limit calculations or voter approval requirements.

In simple terms, the 2013A Bonds require the creation of a lease between the City and the Authority. As noted on page 5 of the staff report, the City would lease five unencumbered City-owned General Fund properties to the Authority. For the CIP portion of the 2013A Bonds, staff

anticipates the City leasing the following properties to the Authority: Northeastern Police Division, Southern Police Division, Fire Station #44, Fire Station #16 and the ground lease for UC Regents. 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.

Leased assets originally pledged for the existing 2003 MTDB Old Town Light Rail Lease Revenue Bonds (portions of MTS Maintenance Yard and Right of Way) and the 2003 Balboa Park/Mission Bay Park Certificates of Participation (Mingei International Museum and Art Institute Building) will continue to be utilized to support the refunding portion of the 2013A Bonds. It should be noted that certain MTS Board approvals are needed to refund the City's 2003 MTDB Bonds. City staff has been working with MTS staff to secure the necessary Board approvals and expect approvals will be received in late March.

#### Refunding the 2003 Bonds

Refunding, or refinancing, outstanding City bonds is an opportunity to **reduce annual debt service without extending the term of the outstanding bonds**. In order to ensure debt service savings are significantly greater than transaction and staff costs associated with a refunding, the City's Debt Policy requires the net present value of debt service savings be at least 3% of the par amount of the bonds being refunded.

Based on market conditions as of February 6, 2013, staff estimates the True Interest Cost for the 2013A Bonds to be approximately 3.88%. If this estimate holds until the anticipated bond sale in June 2013, the City's debt service payments for the 2003 MTDB Old Town Light Rail Lease Revenue Bonds and the 2003 Balboa Park/Mission Bay Park Certificates of Participation would be **reduced by approximately \$180,000 annually through FY 2023**. These annual savings will accrue to the City's General Fund. In accordance with the City's Debt Policy, net present value savings would be approximately 9.8% and 6.8% respectively.

Depending on market conditions when the bonds are sold in June 2013, the above estimates for annual debt service savings and net present value savings percentages could go up or down; however, current market conditions warrant staff efforts to refund these bonds as soon as possible. By consolidating the refundings with the CIP borrowing, transaction costs for the refunding bonds are significantly reduced and the potential for realizing debt service savings is enhanced.

#### Rationale for recommending an additional \$5 million be included for Storm Water CIP

The City must conduct CIP projects to comply with Total Maximum Daily Load (TMDL) and other requirements for the current Municipal Storm Water permit. The Storm Water Division identified \$5 million in high priority CIP projects to install Best Management Practices (BMP) water purification systems. These projects will filter and slow down storm water runoff in order to comply with the current permit. In addition, pollution reduction data gathered from these projects will be used to draft the City's compliance plan for the next permit to be released in April 2013, which is anticipated to include more stringent requirements. Once the new permit is adopted by the Regional Water Quality Control Board, the City has 18 months to submit a compliance plan.

These projects were brought forward to the CIP Review and Advisory Committee (CIPRAC) as part of the Storm Water Division's FY 2014 Budget request. Given the tight General Fund budgetary constraints expected in FY 2014, CIPRAC recommended \$5 million be added to the \$25 million planned CIP bond issuance for these high priority, time sensitive projects.

## CONCLUSION/RECOMMENDATION

On March 4, 2013, the City Council will be asked to approve a financing ordinance and a resolution in support of the proposed issuance of 2013A Lease Revenue Bonds (2013A Bonds). This report summarizes the process for City Council approval of bonds and highlights authorizations found in the financing ordinance and resolution. The report also describes the proposed structure of the 2013A bonds, comments on the two proposed refundings and discusses the recommendation to add \$5 million for storm water CIP.

The City Council unanimously adopted a resolution on October 22, 2012 providing authorization to issue lease revenue bonds generating net proceeds of \$25 million to fund all or a portion of specified General Fund Capital Improvement Projects. Subsequent to that approval, the City's CIP Review and Advisory Committee recommended borrowing an additional \$5 million to address critical storm water CIP projects. The proposed 2013A Bonds would result in \$30 million of net proceeds to address the combined CIP need.

Current market conditions provide the City with an opportunity to borrow at relatively low interest rates and refinance outstanding bonds to realize annual debt service savings for the General Fund. Based on market conditions as of February 6, 2013, staff estimates refunding the 2003 MTDB Old Town Light Rail Lease Revenue Bonds and the 2003 Balboa Park/Mission Bay Park Certificates of Participation could reduce annual debt service payments by approximately \$180,000 through FY 2023.

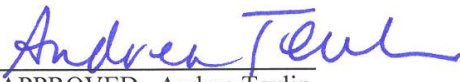
If the requested actions are approved, staff anticipates returning to Council in May 2013 for approval of the Preliminary Official Statement. The financing plan calls for the 2013A Bonds to be sold in June 2013. Given the ongoing need to address infrastructure deficiencies and the opportunity to realize annual debt service savings by refunding the outstanding 2003 bonds, the IBA recommends the City Council approve the financing ordinance and resolution in support of the proposed 2013A Bonds.



Jeff Kavar  
Fiscal & Policy Analyst



Erin Noel  
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin  
Independent Budget Analyst