

**OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT  
PUBLIC FINANCING AUTHORITY  
Meeting of February 14, 2022**

**DATE ISSUED:** February 7, 2022

**SUBJECT:**

Discussion of bonding capacity and capital infrastructure needs for the Otay Mesa Enhanced Infrastructure Financing District (“District”)

**CONTACT/PHONE NUMBER:**

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**DESCRIPTIVE SUMMARY OF ITEM:**

Discussion regarding the District’s bonding capacity and next steps for the issuance of first bond series to fund public capital infrastructure improvements in Otay Mesa.

**STAFF RECOMMENDATION:**

This is an informational item.

**EXECUTIVE SUMMARY OF ITEM:**

In November 2018, the voters approved Measure O which authorized the Otay Mesa EIFD to issue bonds secured by the property tax increment (“TI”) revenue received by the District. In October 2019, the State passed AB 116 amended Government Code section 53398.81 which removed the requirement that EIFD’s seek voter approval before issuing bonds. The District may now issue debt with the approval of a resolution by a majority of the PFA under the statutes of Government Code section 53398.77.

Debt Management staff have been monitoring TI revenue received by the District and are currently projecting TI revenue will reach a level sufficient to support a bond issuance in Fiscal Year (“FY”) 2023. This projection is slightly below projections contained in the Infrastructure Financing Plan (“IFP”) approved by the City Council and the PFA upon formation of the District in FY 2017.

***Current Tax Incremental Revenue***

The table below shows the TI revenue actuals since formation of the District as well as staff projections for the next five fiscal years (FY 2023 -FY 2027).

<i>Fiscal Year</i>	<i>Growth Rate</i>	<i>Annual TI Revenue <sup>(1)</sup></i>
2019	6%	\$571,445
2020	8%	\$928,114
2021	7%	\$1,191,348
2022	7%	\$1,536,000
<b>2023</b>	<b>6.75%</b>	<b>\$3,782,000</b>
2024	6.50%	\$4,511,000
2025	6.25%	\$5,258,000
2026	6.00%	\$6,020,000
2027	2%	\$6,289,000

<sup>(1)</sup> FY 2019–2021 actuals; FY 2022 TI based on Assessed Value of District as of January 1, 2021; FY 2023–2027 projected

It is important to note the impact on the District’s TI revenue in FY 2023 is based on the expiration of certain provisions of Proposition H (in bold above). The City’s Infrastructure Fund, established by Proposition H in 2016, is funded by, among other sources, 50% of the year-to-year growth of property taxes received by the City. This diversion of revenues will expire at the end of Fiscal Year 2022, wherein 100% of the TI revenue generated within the District will be committed to the District.

Currently and until this provision of Proposition H expires, the District is receiving 50% of its TI revenue. The amount projected to be received by the District in FY 2023 is based on a 5-year historical average of growth within the District assuming modest growth declines thereafter. Actual TI revenues are subject to change.

***Bonding Capacity and Projections***

Original Bond Projections from IFP

Original bond projections were included in the IFP which projected seven bond issuances over the life of the District as TI revenue increased. Generally, a new bond issuance was anticipated every 3–4 years and projected a total of \$155 million in proceeds generated over time between FY 2021 and FY 2037. In addition, pursuant to Government Code section 53398.63 (d)(5), the maximum term of the District is 45 years from the date on which the first issuance of bonds is approved or when a total \$1.1 billion of TI revenue has been collected by the District, whichever comes first.

Updated Bond Projections–First issuance after Proposition H expiration

Based on current market trends and TI projections, below is a breakdown of the bond proceeds for a potential first bond series issued once Proposition H expires. Staff estimates the District’s first bond issuance would produce approximately \$36.5

million in net proceeds (after costs of issuance and debt service reserves) for CIP by mid-FY 2023.

<i>Fiscal Year</i>	<i>Term (Years)</i>	<i>Projected Revenue (in millions)</i>	<i>Gross Bond Amount (in millions)</i>	<i>Net Bond Proceeds (in millions)</i>	<i>Annual Debt Service (in millions)</i>
2023	30	\$3.7	\$39.6	\$36.5	\$2.5

***Consultants and Next Steps***

Debt Management staff, on behalf of the District, is preparing to release, by the end of the month, a Request for Proposals (“RFP”) to the City’s Municipal Advisory Services Pool in anticipation of the bond issuance and expects to bring a municipal advisor contract to the PFA Board by the end of FY 2022. Additionally, a fiscal consultant will be identified to further analyze the District’s TI revenue projections and bonding capacity going forward. Staff will submit an RFP to the active Special District Financial and Economic Consultants Pool for the fiscal consultant.

In anticipation of a potential bond issuance by mid FY 2023, Debt Management staff, on behalf of the District, also expects to bring a refined financing plan and formal request for authorization back to the PFA by the end of FY 2022. This will include a financing resolution authorizing statutorily required financing components such as the not-to-exceed issuance amount, list of projects to be financed with bond proceeds, financing documents and the bond offering statement. Additionally, bond and disclosure counsel for the financing will be procured by the Office of the City Attorney using a competitive RFP process and the related contract will be brought to the PFA Board for approval.

***District Public Capital Improvements***

The only CIP project currently receiving TI revenue funding from the District is S-15018, La Media Road. Staff from the Planning Department and Engineering & Capital Projects have preliminarily identified projects that could benefit from the FY 2023 bond issuance (see Exhibit A). To be eligible for the list, the projects must be included in the approved project list contained in the District IFP and also must meet timely spend-down expectations and other covenants associated with tax-exempt bond requirements. Exhibit A includes CIP projects partially funded from other sources, such as the Capital Outlay Fund, Facilities Benefit Assessment, and Development Impact Fees, and projects future funding needs. The final list will be included in the bond authorization prior to issuance.

**CONCLUSION:**

In the coming 12 months the District has bonding options to leverage District TI revenues and accelerate funding for eligible public capital improvements. Staff's first step is to procure a municipal advisor to assist with the anticipated bond issuance and a fiscal consultant to further analyze TI revenue and bonding capacity of the EIFD with the intention to issue the first bond by early to mid-FY 2023. Staff expects to return to the PFA Board by the end of FY 2022 to present a financing plan, related consultant contract(s) and to seek formal bonding authorization.

Respectfully submitted,

Richard Eyre

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Debt Manager

City of San Diego

Lakshmi Kommi

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Debt Management Director

City of San Diego

EXHIBIT A – Preliminary Project List

## EXHIBIT A

Otay Mesa EIFD - Public Financing Authority

### Otay Mesa CIP Summary

(Preliminary, subject to change)

(in thousands)

Ref No.	Priority No. <sup>1</sup>	Project	PFFP No.	City CIP Project No.	Total Project Cost	Future Funding Needs
1	65	Airway Road Improvements <sup>2</sup>	T-10.6 T-10.7 T-10.8	P-19007	\$16,500	\$16,490
2	51	Beyer Park Development	P-7.1	S-00752	\$19,458	\$14,652
3	47	Dennery Ranch NP <sup>3</sup>	P-2	S-00636/ RD-22001	\$21,600	\$20,909
4	81	Fire Station 49	F-2	S-00784	\$22,586	\$22,500
5	65	Hidden Trails NP	P-6	S-00995	\$7,504	\$5,971
6	77	La Media Road (SR 905 to Airway, Airway to Siempre Viva)	T-25.3 T-25.4	S-15018	\$42,700	\$27,417
7	53	Palm / I-805 Interchange	T-1	S-00869	\$39,032	\$29,814
9	73	Riviera del Sol NP	P-5	S-00999	\$9,571	\$600
10	65	Siempre Viva Road (La Media Road to Harvest Road) <sup>2</sup>	T-19.3 T-19.4	P-19006	\$5,600	\$5,590
				<b>Total</b>	<b>\$184,552</b>	<b>\$143,943</b>

<sup>1</sup>Priority number is based on Adopted Fiscal Year 2022 CIP Budget.

<sup>2</sup>P-19006 and P-19007 reflect total project cost from the FY14 Otay Mesa PFFP, and appropriations per the FY22 Adopted CIP project pages.

<sup>3</sup>City Project Number was changed to RD-22001 after adoption of the budget and publication of the project page.