

**OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT  
PUBLIC FINANCING AUTHORITY  
Meeting of August 8, 2022**

**DATE ISSUED:** August 1, 2022

**SUBJECT:**

Otay Mesa Enhanced Infrastructure Financing District Tax Allocation Bonds Authorization

**CONTACT/PHONE NUMBER:**

Richard Eyre, Department of Finance - Debt Management, 619-236-6899  
Samantha Weisman, Department of Finance - Debt Management, 619-533-6491

**OVERVIEW:**

This item requests approval for the issuance of Otay Mesa Enhanced Infrastructure Financing District ("District") Tax Allocation Bonds ("TABs"), and related actions, to provide supplemental funding for public capital improvements within the District.

**PROPOSED ACTIONS:**

**Via Resolution OMPFA-24:**

1. Authorize the initial issuance of District's TABs ("Initial Series of Bonds"), in one or more series, in an aggregate principal amount not-to-exceed \$70 million to finance certain capital improvements listed in the Infrastructure Financing Plan ("IFP").
2. Approve the 'Forms of', and authorize the completion and execution of related financing documents which include the Indenture of Trust and the Bond Purchase Agreement.
3. Authorize the District's General Counsel to prepare and file all proceedings required for the judicial validation of the District's TABs.
4. Authorize additional series of TABs issued from time to time, on parity or subordinate lien basis, over the life of the District subject to approval of future resolutions establishing certain not to exceed parameters.
5. Authorizing and directing the Authorized Officers of the Public Financing Authority ("PFA"), and their respective written designees, to take any and all necessary actions for the issuance of the Initial Series of Bonds.

**DISCUSSION ITEM:**

**A. Background**

*Otay Mesa EIFD Infrastructure Financing Plan (IFP)*

The Otay Mesa Enhanced Infrastructure Financing District was formed by Resolution No. OMPFA-2017-2 of the PFA on July 24, 2017. The District is coterminous with the Otay Mesa Community Plan Area and has a term ending in Fiscal Year (“FY”) 2063, 45 years after the formation.

The IFP is the primary formation document of the District and includes the PFA’s goals for the District which are to facilitate economic development and improve the quality of life for Otay Mesa residents through the accelerated delivery of needed infrastructure. The IFP contains an exclusive list of the eligible capital improvement projects (“CIP”) to receive District funds. If additional District CIP needs are identified, legislative actions by the City and PFA will be required to amend the IFP for those new projects to be eligible.

*Current Capital Improvement Needs*

Staff from the Engineering & Capital Projects Department have preliminarily identified projects for the bond issuance (see Attachment A). To be eligible for the list, the projects must be included in the approved project list contained in the District IFP and must also meet timely spend-down expectations and other covenants associated with tax-exempt bond requirements. Attachment A includes CIP projects partially funded from other sources, such as the Capital Outlay Fund, Facilities Benefit Assessment, and Development Impact Fees. The project list to be financed by the Initial Series of Bonds will be finalized closer to the approval of the Preliminary Official Statement and before bond issuance.

*Tax Increment*

The District began receiving tax increment (“TI”) revenue in FY 2019. Initially, the District received 50% of the City’s share of TI generated within the District’s boundaries through FY 2022 and will receive 100% thereafter, with the expiration of Proposition H. TI projections, (contained in the IFP) over life of the District, range from \$670,000 in FY 2019 to \$42 million in FY 2062, for total of \$970 million over life of the EIFD. As of June 30, 2022, the District has collected approximately \$4.2 million in TI. The IFP also establishes a \$1.1 billion cap on the total amount of TI that may be collected by the Otay Mesa EIFD. Any subsequent desired changes to this cap must go through an IFP amendment process.

*State Statute - Tax Increment Bonds*

Section 2 of the Financing Resolution details the State statute requirements outlined in Government Code Section 53398.77 that governs the issuance of bonds by an EIFD.

Additionally, pursuant to Government Code Section 53398.88, every two years after the issuance of debt, the District shall conduct an independent financial and performance audit according to the guidelines established by the State Controller. A copy of the completed audit shall be provided to the State Controller, the State Director of Finance, and to the State Joint Legislative Budget Committee. Staff will monitor and provide any necessary updates to the Board in consultation with the District's General Counsel.

## **B. Financing Plan**

*Issuer:* The District

*Initial Series of Bonds:* The first issuance of TABs by the District, in one or more series, is expected to fund approximately \$57 million in CIP and have average annual debt service of \$3.9 million.

*Additional Bonds:* In addition to the initial issuance of TABs, the Financing Resolution approves the issuance of additional TABs, from time to time, pursuant to applicable EIFD law and with the approval of the PFA board via resolution at the time of issuance.

*Repayment Source:* Tax Revenues, as defined in the terms of the financing documents, are the source of moneys pledged to payment of the TABs. Tax Revenues are a portion the property taxes generated within the District boundaries set forth in the IFP that are allocated to the District and may be pledged to the payment of bonds issued by the District. Tax Revenues exclude certain amounts that will be retained by the County Auditor–Controller to pay its administrative costs in connection with the allocation of TI to the District.

*Final Maturity:* The final maturity of any series of bonds will not exceed the last date on which the District may exist. The Initial Series of Bonds are estimated to have a final maturity that will not exceed 30 years.

*Debt Service Reserve Fund:* The TABs will have a Debt Service Reserve Fund which will be held and maintained by the Trustee and may be cash funded or satisfied by an insurance company Surety Policy.

**Tax Status:** TABs may be issued in one or more series, on a taxable or tax-exempt basis.

**Method of Sale:** The Financing Resolution allows for the bonds to be conducted as a negotiated sale, a competitive sale, or a private placement.

**Lien Status:** The Financing Resolution and legal documents allow for the bonds to be issued on either a Parity or Subordinated lien basis. The initial series of TABs will be issued on the “parity” lien.

### **C. Financing Approval and Documents**

**Financing Resolution:** The Financing Resolution authorizing the issuance of an initial series of TABs of up to \$70.0 million in aggregate principal to finance capital improvements within the District as defined in the IFP, with the flexibility to sell the TABs in one or more series, and with a not to exceed true interest cost of 7.00% per annum, exclusive of any default rate.

The Financing Resolution approves the following financing documents:

1. **Form of the Indenture of Trust (“Indenture”)** – The Indenture is an agreement between the District and the Trustee for the bonds. The Indenture provides for the issuance of the 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 District payable from installment payments). The Indenture also sets forth terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the bonds. The form of the Indenture allows for the issuance of parity or subordinated bonds.
2. **Form of the Bond Purchase Agreement (“BPA”)** – The BPA is an agreement between the District and the Underwriters for the transaction pursuant to which the District agrees to sell, and the Underwriters agree to buy, the 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 General Counsel and District 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.

***Debt Policy of the District***

A requirement of the California Debt and Investment Advisory Commission is that the District have in place a Board approved Debt Policy. The Financing Resolution approves adoption of the City’s Debt Policy, where applicable, for the District with exception of the appendices and sections specific to the City and other Related Entities. The Debt Policy is intended to guide the District in its financial decision making and to provide strong debt management practices by establishing key guidelines and targets. A thorough debt policy and written guidelines are a credit positive and signals to rating agencies and investors that careful consideration is given to each financing. The sale and issuance of the Initial Series of Bonds is determined to be consistent with the Debt Policy where applicable.

***Judicial Validation***

The Financing Resolution authorizes the General Counsel of the District, in consultation with Bond Counsel to prepare and file all proceedings required for the validation of the Initial Series of Bonds, the Parity Debt, the Subordinate Debt, the Indenture, the Supplemental Indentures and the Subordinate Debt Instruments in the Superior Court of San Diego County.

**D. Financing Timeline:**

Following are the critical milestones related to the execution of the Tax Allocation Bonds, including the authorization of the Financing Resolution and the POS (*depending on judicial validation action*).

August 2022	PFA approval of the TABs via financing resolution including approval of the Indenture and BPA
October 2022	PFA approval of the disclosure document (POS) for the Tax Allocation Bonds
November/December 2022	Print and distribute the POS Bond Sale Bond Closing

**E. Financing Team**

The Financing Team currently consists of City staff of the City Attorney’s Office, Department of Finance, and the Planning Department. The Financing Team also includes external members selected based on a competitive procurement process:

- Municipal Advisor: CSG Advisors Incorporated
- Bond and Disclosure Counsel: Stradling Yocca Carlson & Rauth

Future consultants will include assignment of a trustee, fiscal consultant and, if a negotiated sale, an underwriter or underwriting syndicate.

**ENVIRONMENTAL IMPACT:**

This activity is not a project as defined by California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Section 15378(b)(4), as it is a government fiscal activity which does not involve any commitment to a specific project that may result in a potentially significant physical impact on the environment, and therefore is not subject to CEQA, pursuant to Section 15060(c)(3) of the State CEQA Guidelines.

**PUBLIC NOTICE- GOOD FAITH ESTIMATES (BOND PROCEEDS, INTEREST RATE AND PROJECTED DEBT SERVICE):**

The good faith estimates set forth herein are provided with respect to the Initial Series of Bonds in accordance with Section 5852.1 of the Government Code. Such good faith estimates have been provided to the District by the Municipal Advisor. The following estimates have no bearing on, and should not be misconstrued as, any not to exceed financial parameters authorized by the Financing Resolution:

1. The true interest cost of the Initial Series of Bonds is estimated at 4.87% calculated as provided in Section 5852.1(a)(1)(A) of the Code.
2. The finance charge of the Initial Series of Bonds, including all fees and charges paid to third parties, including an assumed bond insurance premium is estimated at \$1,691,000. Bond insurance would only be purchased if the interest cost savings exceed the bond insurance premium.
3. The amount of proceeds received by the District for the sale of the Initial Series of Bonds less the finance charge of the Initial Series of Bonds described above, and any reserves or capitalized interest paid or funded with proceeds of the Bonds, is \$56,906,000.
4. The total payment amount calculated as provided in Section 5852.1(a)(1)(D) of the Code is estimated at \$116,268,000.

The foregoing estimates and the final costs will depend on projected tax increment revenues of the District, any changes to the Financing Plan within the authorized

parameters of the Financing Resolution, and market conditions at the time the Initial Series of Bonds are closed.

Respectfully submitted,

Richard Eyre  
Financial Operations Manager  
City of San Diego  
Department of Finance  
Debt Management Division

Matthew Vespi  
Chief Financial Officer  
City of San Diego  
  
Treasurer  
Otay Mesa Enhanced Infrastructure  
Financing District

Attachments: 1. Preliminary Project List for Bond Issuance  
2. Form of Indenture of Trust  
3. Form of Bond Purchase Agreement