THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: February 27, 2003 **REPORT NO.** 03-029 (Changes noted in strike-out/underline)

ATTENTION: Honorable Mayor and City Council
Docket of March 3, 2003

SUBJECT: Refunding of 1993 Lease Revenue Bonds (Old Town Trolley Extension) and 1993 Certificates of Participation (Balboa Park and Mission Bay Park Improvements).

REFERENCE: None

SUMMARY

Issues

1) Should the City Council authorize the issuance of Refunding Lease Revenue Bonds in an amount not to exceed $18.5 million and approve related financing documents for the purpose of refunding the 1993 Lease Revenue Bonds (Old Town Trolley Extension, (the "1993 Lease Revenue Bonds"), including a Property Lease, Lease Agreement, Sublease Agreement, Trust Indenture, Preliminary Official Statement, Continuing Disclosure Agreement, Escrow Agreement, and related documents?

2) Should the City Council authorize the issuance of Refunding Certificates of Participation in an amount not to exceed $22.0 million and approve related financing documents for the purpose of refunding the 1993 Certificates of Participation (Mission Bay and Balboa Park Capital Improvements Program, (the "1993 Certificates of Participation"), including a Site Lease, Facilities Lease, Assignment Agreement, Trust Agreement, Preliminary Official Statement, Continuing Disclosure Agreement, Escrow Agreement, and related documents?

3) Should the City Council authorize the substitution of cash in the Debt Service Reserve Funds of the Refunding Lease Revenue Bonds and Refunding Certificates of Participation with surety policies?

Manager's Recommendations – Adopt the Resolutions and Ordinances

Other Recommendations - None.

Fiscal Impact – Based on current market conditions, the refunding of the 1993 Lease Revenue Bonds is expected to generate total savings of approximately $1.0 million over a 21 year period through 2023, or 4.0% in Net Present Value Savings over the remaining term of the bonds ending in Fiscal Year 2023. The refunding of the 1993 Certificates of Participation is expected to generate a total savings of approximately $1.6 million over the next 22 years, or 5.5% in Net Present Value Savings over the remaining term of the bonds ending in Fiscal Year 2024.

As discussed above, the proposed refundings will result in future savings, in terms of lower annual lease payments. The average annual lease payments for the Refunding Lease Revenue Bonds are estimated to be $1.23 million, approximately $49,000 lower than the original annual payments for the refunded 1993 Lease Revenue Bonds. The annual lease payments for the 1993 Refunding Certificates of Participation are estimated to average $1.24 million, approximately $74,000 lower than the original annual payments for the refunded 1993 Certificates of Participation.

It is estimated that replacement of the cash in the Debt Service Reserve Funds for the Refunding Lease Revenue Bonds and the Refunding Certificates of Participation, net of the required surety premiums, will result in the release of approximately $3.6 million. ~~The cash funds released must be used on capital improvements which are determined to be eligible for funding with bond proceeds.~~ These surety ~~The~~ funds will be used ~~for miscellaneous capital projects, including, but not limited to, library facility improvements.~~ to meet a portion of the annual lease payments on the Refunding Lease Revenue Bonds and the Certificates of Participation in Fiscal Years 2003 and 2004.

BACKGROUND

In September 1993, the City of San Diego/MTDB Authority (the "Authority") issued $19,515,000 in Lease Revenue Bonds for the purpose of financing the City's portion of the acquisition, installation, equipping and construction of an extension of the San Diego Light Rail Transit System from Downtown San Diego to Old Town. Annual payments on the bonds are paid from and secured by the assignment of lease payments made by the City, utilizing an asset-transfer lease structure. An "asset transfer" structure involves a lease-back arrangement, whereby the City uses an existing asset as the basis for the lease, as opposed to the asset being constructed with the bond proceeds. The City leases the existing asset to a joint powers authority or a non-profit entity, which then leases it back to the City, with the City's lease payments used to pay off the bonds. The City has routinely used this structure for lease financings, including the Convention Center Expansion Project and, more recently, the Fire and the Life Safety

Facilities Project. For the 1993 Lease Revenue Bonds proposed for refunding, the joint powers authority is the City of San Diego/MTDB Authority and the facilities used as assets are: (1) the right-of-way necessary to operate the project (the Old Town Trolley Extension); and (2) a portion of a light rail maintenance yard. Both assets are owned by the Metropolitan Transit Development Board (MTDB) and leased to the Authority under the terms of a Property Lease, then leased by the Authority to the City utilizing a Facilities Lease, with the City making the annual lease payments to a Trustee, who in turn pays the bondholders. The proposed Refunding Lease Revenue Bonds will use the same facilities, with the related leases (Property Lease and Facilities Lease) amended and restated to reflect the requirements of the refunding.

In November 1993, $27,985,000 in Certificates of Participation (Balboa Park and Mission Bay Park Improvements) were issued to finance various improvement projects in Balboa Park and Mission Bay Park. For the purpose of this financing, similar to the 1993 Lease Revenue Bonds, an "asset-transfer" structure was used. The City utilized two existing facilities (the North Course of the Torrey Pines Golf Course and the House of Charm facility in Balboa Park) as assets to be leased to the San Diego Facilities and Equipment Leasing Corporation, a non-profit corporation, which then leased the facilities back to the City. Under the proposed refunding, the same facilities will be retained as assets, with the existing leases amended and restated to reflect the requirements of the refunding.

In accordance with legal requirements, the existing 1993 Lease Revenue Bonds and 1993 Certificates of Participation both maintain Debt Service Reserve Funds fully funded with Bond/Certificate proceeds. The amounts maintained in these Funds are approximately $1.3 million for the Lease Revenue Bonds and $2.3 million for the Certificates of Participation. Concurrent with the proposed Refundings, it is proposed that surety policies be substituted for the cash amounts maintained in these Debt Service Reserve Funds. With a surety substitution, the Surety Provider guarantees to make any necessary payments previously provided for by the cash funded Debt Service Reserve Funds. The use of the cash amounts released from the Debt Service Reserve Funds for the 1993 Lease Revenue Bonds and 1993 Certificates of Participation would be used to meet a portion of the annual lease payments in Fiscal Years 2003 and 2004 on these Bonds/Certificates. ~~limited to expenditures on capital projects determined to be eligible for bond financing.~~

DISCUSSION

The documents being submitted for City Council action provide authorization to the City Manager to proceed with Refundings of the 1993 Lease Revenue Bonds and the 1993 Certificates of Participation. Under the proposed refunding plan for the 1993 Lease Revenue Bonds, the proceeds of the Refunding Bonds will be placed in an Escrow Fund with the proceeds, including any interest earned, to be used to redeem the outstanding 1993 Lease Revenue Bonds at a redemption price of 101%, plus accrued interest, on, or after June 1, 2003. Monies in the Escrow Fund will also be used to pay any payments due on any outstanding bonds prior to redemption.

For the 1993 Certificates of Participation, proceeds will also be deposited in an Escrow Fund, with the proceeds, including any interest earned, to be used to redeem the outstanding 1993 Certificates of Participation in full on November 1, 2003, at a redemption price of 101% of the principal amount, plus any accrued interest due. It is proposed that both refunding issuances

be offered to underwriters on a competitive basis, with the sale to occur in late April 2003.

Documents are also being submitted for City Council action to implement surety substitutions for each refunding issuance. Net of the premium amounts paid to the surety providers, a total of $3.6 million will be released for use on annual lease payments in Fiscal Years 2003 and 2004. ~~miscellaneous capital projects, including, but not limited to, library facility improvements.~~

The basic documents being submitted for City Council action include:

Trust Indenture (Lease Revenue Bonds) and Trust Agreement (Certificates of Participation) - Outline the parties' rights, responsibilities, and obligations with respect to the issuance.

Lease Agreements – Various lease agreements required to implement the lease back structure used under both types of lease obligations (Lease Revenue Bonds and Certificates of Participation)

Escrow Agreements – Agreement governing use and investment of funds deposited in the Escrow Account.

Preliminary Official Statements - Bond offering document providing certain information pertaining to the bond Refunding.

Disclosure Agreements - Agreement between the City and the Trustee regarding continuing disclosure requirements.

Assignment Agreements – Agreement assigning City's lease payments to the Trustee for the purpose of making required payments to the Bond/Certificate owners.

Surety Agreements – Surety Agreement providing for payment of the necessary premium amounts to the Insurer as consideration for the Insurer's guarantee to make any required payments as required under the terms of the Surety Bond.

CONCLUSION

It is recommended that City Council authorize the issuance of Refunding Lease Revenue Bonds in an amount not to exceed $18.5 million, Refunding Certificates of Participation in an amount not to exceed $22.0 million, and the replacement of the cash amounts maintained in the Debt Service Reserve Funds of the two Refunding issuances with surety policies. It is recommended that the City Council approve all of the related financing documents, and Ordinances and Resolutions required to implement the authorized actions.

ALTERNATIVE

Do not approve the requested actions necessary to refund Bonds and Certificates.

Respectfully submitted,

Mary Vattimo
City Treasurer

Approved: Patricia T. Frazier
Deputy City Manager

KOMMI/MCC