

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

**INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF) DIRECT FINANCING
EXECUTIVE SUMMARY**

Applicant: San Diego Convention Center Corporation (SDCCC), and City of San Diego (City), as Borrowers jointly and severally liable (Borrowers)		ISRF Project Type: Economic Expansion Project	ISRF Project Category: Educational, Cultural and Social	
Financing Amount: \$25,500,000	Financing Term: 25 years		Interest Rate¹: 3.59%	
Source of Repayment: SDCCC Fund (SDCCC Fund) and City General Fund (City Fund)		Fund Rating/Date: City Issuer Rating: Standard & Poor's (S&P) AA, Moody's Aa2; Implied GO Rating: Fitch AA-; City Lease Revenue Bonds: S&P AA-, Moody's A1, Fitch A+ / February and March 2016		
Security: The proposed ISRF Program financing would be structured as a lease-lease back financing (Financing), encumbering certain improvements in Phase I of the Convention Center (Leased Assets).				
Project Name: San Diego Convention Center Facility Infrastructure Replacement & Upgrades (Project)		Project Location: 111 W Harbor Drive, San Diego, CA 92101		
Project Description/Sources and Uses of Proceeds: The Project includes the sails pavilion upgrades, cooling tower replacement, fire life safety system replacement and escalator modernization, all as more fully described in this Staff Report and are located within the Phase I unencumbered portion of the Convention Center. Use of Financing Proceeds: The Financing would fund the costs of Construction & Contingency, Machinery & Equipment, Engineering, Architectural, Design, Permits, Environmental, and the IBank Origination Fee for the Project.				
PROJECT SOURCES and USES SAN DIEGO CONVENTION CENTER – FACILITY INFRASTRUCTURE REPLACEMENT & UPGRADES				
Uses	Sources			
	IBank	City	SDCCC	Total
Construction & Contingency, Machinery & Equipment	\$23,751,791			\$23,751,791
Engineering, Architectural, Design, Permits, Environmental	\$1,493,234			\$1,493,234
IBank Origination Fee	\$254,975			254,975
Total	\$25,500,000	\$0	\$0	\$25,500,000
Source: Financing Application				

¹ As of January 20, 2016

Credit Considerations:**SDCCC Fund**

SAN DIEGO CONVENTION CENTER CORPORATION CASH FLOW					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Cash Available for Debt Service	\$1,800,689	\$2,317,968	\$1,389,105	\$3,001,713	\$4,812,995
Total Debt Service	\$1,629,424	\$1,629,424	\$1,629,424	\$1,629,424	\$1,629,424
Debt Service Coverage Ratio	1.11	1.42	0.85	1.84	2.95

The historical cash flow over the last five years demonstrates the SDCCC's Fund has the ability to service existing and proposed debt in four of five years reviewed, inclusive of the City's annual subsidy. However, SDCCC is dependent on the City for sufficient revenue to meet existing operating expenses.

City Fund

CITY OF SAN DIEGO LEASE PAYMENT AND FUNDS BUDGET ANALYSIS (in Thousands)					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Net Change in Fund Balance	\$87,173	\$32,802	(\$56,052)	\$3,330	\$27,701
Proposed ISRF Program Lease Payment	(1,628)	(1,628)	(1,628)	(1,628)	(1,628)
Revised Net Change in Fund Balance	\$85,545	\$31,174	(\$57,680)	\$1,702	\$26,073

The historical fund balances demonstrate sufficient capacity to support the Financing in four of the last five years. The only year showing a negative change in fund balance was FY 2013, primarily due to the dissolution of the former Redevelopment Agency (RDA).

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the SDCCC Fund ability to service existing debt and Financing, given the support of the City Fund.
2. The City's Issuer, Implied GO, and Lease Revenue Bonds ratings from all three rating agencies were given Positive or Stable outlooks in February and March 2016.
3. The fair market value of the proposed Leased Assets is equivalent to the proposed financing amount.

Criteria Waivers

1. Title Insurance Criteria: Due to the nature of the contemplated leased assets, title insurance is not commercially available for the ISRF Financing. The leased assets will be secured by a UCC-1 filing and appropriate covenants.
2. Useful Life Criteria: The Project consists of four separate components, the useful life of which ranges from 30 years to 15 years. The term of the ISRF Financing will be 25 years. The weighted average useful life of the Project components is approximately 28 years, which substantially meets the intent of the Useful Life Criteria.
3. Model Questionnaire Criteria: SDCCC will be the party to award the Project construction contracts and it did not pre-qualify contractors using the Model Questionnaire. Instead SDCCC used its own required pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire Criteria.

IBank Staff:

John Lee

Date of Staff Report:

6/17/2016

Date of IBank Board Meeting:

6/28/2016

Resolution Number:

16-16

Staff Recommendation:

Staff recommends approval of Resolution No.16-16 authorizing ISRF Program financing to the San Diego Convention Center Corporation and the City of San Diego for their San Diego Convention Center Facility Infrastructure Replacement & Upgrades project.

PROJECT DESCRIPTION

The San Diego Convention Center Corporation (SDCCC) and City of San Diego (City), together as Borrowers, requests ISRF Program financing (Financing) in the amount of \$25.5 million to fund the San Diego Convention Center – Facility Infrastructure Replacement & Upgrades (Project). The Project would provide for much needed upgrades to the Convention Center facilities, which SDCCC expects will enhance its ability to draw visitors to the City. All components listed below are within the Phase I unencumbered portion of the Convention Center. The Project is not part of the separate proposed convention center facility several blocks away, which is the subject of a potential lawsuit.

The Project has four components described as follows:

1. Sails Pavilion Upgrades

Removal and replacement of the entire existing 113,600 square foot Sails Pavilion tensioned roof structure, including structural steel masts, structural support cables, and tensile membrane. Upgrades also include replacement of the concrete floor, fire cannon, roof top chillers, and tie-in of two (2) stand-alone roof top chillers into the chilled water system.

2. Cooling Tower Replacement

Removal and replacement of the entire existing five (5) cooling towers and related devices necessary to deliver a complete system, including supports, flashings, pumps, and controls.

3. Fire Life Safety System Replacement

Replacement and upgrade of the existing fire alarm system with a new Siemens/Cerebus XLS fire alarm system that is compatible with, and able to communicate via, an XNET data line, an existing MXL fire alarm system, and Desigo CC Fire Safety Management Station.

4. Escalator Modernization

Upgrade of escalators, including the upgrade of the following systems: truss isolation mounting, incline modules, step bands, comb plates, access covers, decks, balustrades, front plates, skirts, interior trim, handrails, controls, wiring, and safety devices.

Project Benefits

The Project would provide much needed upgrades to the Convention Center facilities, which SDCCC expects will enhance its ability to draw visitors to the City. The tax revenues generated by out of town convention attendees are used to pay for basic city services and reduce the tax burden on local tax payers.

Public Benefits

SDCCC anticipates approximately 150 temporary jobs to be created during the period of construction as a result of the Project.

GENERAL INFORMATION

Ownership and Management of the Convention Center

The San Diego Unified Port District (the “Port”) owns the Convention Center. The City manages the Convention Center under a management agreement between it and the Port (the “Port-City Agreement”). Under the Port-City Agreement, the City has the right to enter into contracts with third parties to finance and construct improvements at the Convention Center. The Port-City Agreement permits the City to encumber improvements within the Convention Center (such as the improvements that constitute the Project) in connection with financings to fund the construction of improvements. The City subcontracts its Convention Center management responsibilities to SDCCC pursuant to an agreement between the City and SDCCC (the “SDCCC Management Agreement”). This is expressly permitted under the Port-City Agreement.

San Diego Convention Center Corporation

SDCCC is a non-profit public benefit corporation created by the City to manage, market, and operate the Convention Center. The mission of the SDCCC is to generate significant economic benefits for the greater San Diego region by hosting international and national conventions and trade shows in a world-class facility. Since opening in 1989, SDCCC estimates the Convention Center has contributed approximately \$25.3 billion to the regional economy, making it one of San Diego’s most important economic engines.

SDCCC is forecasting a record-breaking year for 2016 in terms of primary attendance, hotel room nights, building occupancy and direct attendee spending, from a total of 108 events currently scheduled in the facility. SDCCC expects the total regional impact to eclipse \$1.2 billion based on a forecasted all-time record \$708.1 million in direct attendee spending. Approximately \$25.6 million in tax revenues are expected to be generated by convention attendees, helping to reduce the tax burden on local taxpayers and pay for essential city services.

City of San Diego

San Diego was one of the original cities of California, incorporated in 1850 at the time of statehood, and is located on the coast of the Pacific Ocean in Southern California, approximately 120 miles south of Los Angeles and immediately adjacent to the border with Mexico. With an estimated population of 1,381,069 as of July 1, 2014, San Diego is the eighth-largest city in the United States and second-largest in California. San Diego’s main economic engines are military and defense-related activities, tourism, international trade, and manufacturing. The presence of the University of California, San Diego (UCSD), with the affiliated UCSD Medical Center, has helped make the area a center of research in biotechnology.

The City operates under and is governed by the laws of the City Charter, and under a “Strong Mayor” form of government. The City Council is comprised of nine members who are elected to staggered four-year terms and may serve up to two consecutive terms.

CREDIT ANALYSIS

Source of Financing and Security

The source of repayment for the proposed Financing would be the City Fund and the SDCCC Fund. The Financing would be structured as a lease-lease back financing, encumbering certain improvements in Phase I of the Convention Center, and not a lien on either Fund.

Comparative Statement of Net Position Analysis

Analysis of SDCCC Fund's Comparative Statement of Net Position for the last five years is as follows:

SAN DIEGO CONVENTION CENTER CORPORATION STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) June 30,	2011		2012		2013		2014		2015	
Source Annual Financial Report:	AFR	% ⁽¹⁾	AFR	% ⁽¹⁾	AFR	% ⁽¹⁾	AFR	% ⁽¹⁾	AFR	% ⁽¹⁾
Current Assets										
Cash and Cash Equivalents	\$7,885,279	18.2%	\$6,123,460	13.9%	\$7,116,265	16.5%	\$7,051,854	15.9%	\$10,951,620	34.2%
Restricted Cash and Cash Equivalents	\$1,732,728	4.0%								
Deposits	\$1,207,000	2.8%	\$1,207,000	2.7%	\$1,097,000	2.5%	\$1,277,063	2.9%		
Receivables	\$3,315,110	7.7%	\$4,910,601	11.1%	\$2,775,616	6.4%	\$4,052,770	9.1%	\$5,605,713	17.5%
Inventory									\$38,416	0.1%
Prepaid Expenses	\$847,209	2.0%	\$866,059	2.0%	\$602,708	1.4%	\$639,198	1.4%	\$593,470	1.9%
Deposits with Others							\$139,334	0.3%	\$132,280	0.4%
Total Current Assets	\$14,987,326	34.6%	\$13,107,120	29.7%	\$11,591,589	26.9%	\$13,160,219	29.7%	\$17,321,499	54.0%
Noncurrent Assets										
Receivables			1,875,000	4.2%	1,875,000	4.3%	1,250,000	2.8%	4,125,000	9.3%
Land	16,594,314	38.3%	17,364,520	39.3%	18,113,270	42.0%	18,598,170	41.9%		
Furniture, Equipment and Software	7,738,699	17.9%	7,316,624	16.6%	6,684,160	15.5%	5,784,067	13.0%	4,593,484	14.3%
Leasehold Improvements	25,626,127	59.2%	26,934,923	61.0%	28,259,933	65.5%	29,289,021	66.0%	29,947,436	93.4%
Less Accumulated Depreciation	(21,651,496)	-50.0%	(22,433,481)	-50.8%	(23,387,800)	-54.2%	(23,718,704)	-53.5%	(23,936,153)	-74.7%
Total Noncurrent Assets	28,307,644	65.4%	31,057,586	70.3%	31,544,563	73.1%	31,202,554	70.3%	14,729,767	46.0%
Total Assets	\$43,294,970	100%	\$44,164,706	100%	\$43,136,152	100%	\$44,362,773	100%	\$32,051,266	100%
Current Liabilities										
Accounts Payable	\$751,722	1.7%	\$757,440	1.7%	\$685,788	1.6%	\$570,994	1.8%	\$1,022,247	3.2%
Accrued Liabilities	\$2,317,104	5.4%	\$2,658,961	6.0%	\$2,376,255	5.5%	\$2,419,123	7.5%	\$1,297,682	4.0%
Unearned Income	\$7,278,144	16.8%	\$8,993,403	20.4%	\$8,168,280	18.9%	\$8,488,671	26.5%	\$5,316,651	16.6%
Compensated Employee Absences	\$1,081,815	2.5%	\$1,035,628	2.3%	\$980,929	2.3%	\$1,217,873	3.8%	\$1,286,258	4.0%
Current Portion of Long-term Debt	\$184,357	0.4%	\$168,994	0.4%	\$220,030	0.5%	\$12,629,266	39.4%	\$2,197	0.0%
Total Current Liabilities	\$11,613,142	26.8%	\$13,614,426	30.8%	\$12,431,282	28.8%	\$25,325,927	79.0%	\$8,925,035	27.8%
Noncurrent Liabilities										
Accrued Liabilities	\$6,349	0.0%	\$96,349	0.2%	\$57,730	0.1%				
Compensated Employee Absences	\$29,791	0.1%			\$173,668	0.4%	\$27,523	0.1%	\$54,523	0.2%
Long-term Debt	\$15,668,994	36.2%	\$15,500,000	35.1%	\$15,646,296	36.3%	\$17,029	0.0%	\$14,831	0.0%
Long-term Portion of Unearned Income									\$6,280,314	19.6%
Total Noncurrent Liabilities	\$15,705,134	36.3%	\$15,596,349	35.3%	\$15,877,694	36.8%	\$44,552	0.1%	\$6,349,668	19.8%
Total Liabilities	\$27,318,276	63.1%	\$29,210,775	66.1%	\$28,308,976	65.6%	\$25,370,479	79.2%	\$15,274,703	47.7%
Net Position										
Net Investment in Capital Assets	\$14,187,021	32.8%	\$15,246,321	34.5%	\$15,535,965	36.0%	\$17,306,259	39.0%	\$10,587,739	33.0%
Restricted for Capital Projects	\$1,732,728	4.0%								
Unrestricted	\$56,945	0.1%	(\$292,390)	-0.7%	(\$708,789)	-1.6%	\$1,686,035	3.8%	\$6,188,824	19.3%
Total Net Position	\$15,976,694	36.9%	\$14,953,931	33.9%	\$14,827,176	34.4%	\$18,992,294	42.8%	\$16,776,563	52.3%
Total Liabilities and Net Position	\$43,294,970	100%	\$44,164,706	100%	\$43,136,152	100%	\$44,362,773	100%	\$32,051,266	100%
Total Liabilities to Total Assets	0.63		0.66		0.66		0.57		0.48	
Total Net Position / Total Liabilities	0.58		0.51		0.52		0.75		1.10	

⁽¹⁾ Calculated as a percent of Total Assets.

Review of SDCCC Fund's Comparative Statement of Net Position for the five years analyzed found decreases in the Fund's Total Assets, 26%; and Total Liabilities, 44%; while Total Net Position increased 5%. Cash and Cash Equivalents increased 55.3% in FY 2015 over the prior year, primarily from increased commissions received for food and beverage and ancillary services. The increase in Noncurrent Assets Receivables for FY 2015 was primarily the result of a \$3.25 million food and beverage contract extension signing bonus to be amortized and received over the next 11 years.

The decrease in Land, as well as both Total Assets and Total Liabilities was primarily due to the elimination of \$12.5 million note payable related to the Phase III expansion project ground lease, which was transferred back to the seller as a result of a reconveyance agreement between parties. The Long-term Portion of Unearned Income increase in FY 2015 was primarily the result of the above mentioned food and beverage contract extension.

Total Net Position decreased \$2.2 million, or 12%, in FY 2015, primarily attributable to a decrease of \$6.7 million, or 39%, in Net Investment in Capital Assets that resulted from the Phase III expansion project. Unrestricted net position increased by \$4.5 million which was directly impacted by the decrease in Net Investment in Capital Assets of \$6.7 million, offset by excess expenses over revenues of \$2.2 million.

Comparative Statement of Revenues, Expenses, and Changes in Fund Balances Analysis

Analysis of SDCCC Fund's Comparative Statement of Revenues, Expenses, and Changes in Fund Balances for the last five years is as follows:

SAN DIEGO CONVENTION CENTER CORPORATION											
STATEMENT OF REVENUES, EXPENSES, and CHANGES IN FUND BALANCES											
For Fiscal Year Ending (FYE) June 30,	2011		2012		2013		2014		2015		
Source:	AFR	%	AFR	%	AFR	%	AFR	%	AFR	%	
% Change		-1.7%		10.1%		-9.4%		7.9%		11.0%	
Operating Revenues											
Rental Revenue:	\$9,327,664	30.8%	\$8,481,364	25.5%							
Convention and Trade Shows					\$6,996,959	23.2%	\$6,944,217	21.3%	\$6,988,599	19.4%	
Consumer Shows					\$461,720	1.5%	\$574,855	1.8%	\$474,345	1.3%	
Corporate/Incentive Events					\$257,268	0.9%	\$441,662	1.4%	\$419,433	1.2%	
Cancelled Events					\$216,407	0.7%	\$406,046	1.2%	\$333,098	0.9%	
Community Events					\$371,602	1.2%	\$306,221	0.9%	\$324,764	0.9%	
Meetings and Seminars					\$292,437	1.0%	\$203,240	0.6%	\$253,744	0.7%	
Local Trade Shows					\$142,167	0.5%	\$113,707	0.3%	\$91,662	0.3%	
Food and Beverage Revenue	\$6,816,086	22.5%	\$9,353,603	28.1%	\$7,172,846	23.8%	\$8,430,578	25.9%	\$10,538,043	29.2%	
Ancillary Service Revenue:	\$10,627,718	35.1%	\$12,015,129	36.1%							
Utilities					\$3,688,839	12.2%	\$3,741,177	11.5%	\$4,455,081	12.3%	
Event and Cleaning Services					\$3,403,163	11.3%	\$3,439,934	10.6%	\$3,848,315	10.7%	
Telecommunications					\$2,229,199	7.4%	\$2,726,507	8.4%	\$3,167,963	8.8%	
Audio Visual					\$1,077,857	3.6%	\$1,312,907	4.0%	\$1,322,297	3.7%	
Parking					\$408,285	1.4%	\$452,859	1.4%	\$448,134	1.2%	
Contributions:											
City of San Diego	\$3,405,278	11.3%	\$3,405,278	10.2%	\$3,405,000	11.3%	\$3,405,000	10.5%	\$3,405,000	9.4%	
Other Revenue	\$76,289	0.3%	\$43,256	0.1%	\$31,913	0.1%	\$40,392	0.1%	\$42,992	0.1%	
Total Operating Revenues	\$30,253,035	100%	\$33,298,630	100%	\$30,155,662	100%	\$32,539,302	100%	\$36,113,470	100%	
Operating Expenses											
Salaries and Wages	\$16,334,668	54.0%	\$17,748,289	53.3%	\$14,871,381	49.3%	\$15,384,542	47.3%	\$15,852,467	43.9%	
Fringe Benefits	\$4,208,552	13.9%	\$5,069,205	15.2%	\$4,194,649	13.9%	\$4,460,333	13.7%	\$4,438,571	12.3%	
Utilities	\$3,000,377	9.9%	\$2,969,255	8.9%	\$3,763,472	12.5%	\$3,414,056	10.5%	\$3,891,630	10.8%	
Repairs and Maintenance	\$1,768,289	5.8%	\$1,833,811	5.5%	\$1,681,359	5.6%	\$2,035,025	6.3%	\$2,864,579	7.9%	
Depreciation	\$2,043,978	6.8%	\$2,000,860	6.0%	\$2,087,009	6.9%	\$1,935,649	5.9%	\$1,936,173	5.4%	
Contractual Marketing and Sales					\$1,900,000	6.3%	\$1,900,000	5.8%	\$1,931,000	5.3%	
General	\$1,380,397	4.6%	\$1,451,443	4.4%	\$1,464,625	4.9%	\$1,213,946	3.7%	\$1,237,753	3.4%	
Insurance	\$609,244	2.0%	\$642,640	1.9%	\$531,519	1.8%	\$432,928	1.3%	\$371,896	1.0%	
Contracted Services	\$771,123	2.5%	\$551,557	1.7%	\$374,011	1.2%	\$405,801	1.2%	\$467,779	1.3%	
Supplies	\$465,823	1.5%	\$517,974	1.6%	\$406,367	1.3%	\$358,476	1.1%	\$429,556	1.2%	
Sales and Marketing	\$457,804	1.5%	\$320,540	1.0%	\$56,618	0.2%	\$95,936	0.3%	\$109,844	0.3%	
Travel and Transportation	\$93,637	0.3%	\$104,653	0.3%	\$44,825	0.1%	\$81,692	0.3%	\$69,879	0.2%	
Telecommunications	\$115,003	0.4%	\$104,447	0.3%	\$74,340	0.2%	\$48,394	0.1%	\$47,822	0.1%	
Total Operating Expenses	\$31,248,895	103.3%	\$33,314,674	100.0%	\$31,450,175	104.3%	\$31,766,778	97.6%	\$33,648,949	93.2%	
Operating Income (Loss)	(\$995,860)	-3.3%	(\$16,044)	0.0%	(\$1,294,513)	-4.3%	\$772,524	2.4%	\$2,464,521	6.8%	
Non-Operating Revenues (Expenses)											
Other Income	\$732,298		\$458,353		\$651,423		\$354,622		\$408,448		
Interest Income	\$39,502		\$15,978		\$7,705		\$3,429		\$2,423		
Interest Expense	(\$12,005)										
Loss/Gain on Disposal of Capital Assets	(\$19,229)		(\$141,179)		(\$62,519)		(\$64,511)		\$1,430		
Total Non-Operating Revenues (Expenses)	\$740,566		\$333,152		\$596,609		\$293,540		\$412,301		
Income Before Capital Contributions and Extraordinary Item	(\$255,294)		\$317,108		(\$697,904)		\$1,066,064		\$2,876,822		
Capital Contributions and Transfers											
Capital Contributions	\$142,857		\$392,857		\$571,149		\$99,054		\$269,549		
Extraordinary Item - Forgiveness of RDA Loan							\$3,000,000				
Special Item - Loss on Disposal Phase III Expansion									(\$5,362,102)		
Extraordinary Item - Unspent Loan Proceeds Transferred to San Diego City			(\$1,732,728)								
Change in Net Position	(\$112,437)		(\$1,022,763)		(\$126,755)		\$4,165,118		(\$2,215,731)		
Net Position Beginning of Year	\$16,089,131		\$15,976,694		\$14,953,931		\$14,827,176		\$18,992,294		
Net Position - End of Year	\$15,976,694		\$14,953,931		\$14,827,176		\$18,992,294		\$16,776,563		

Review of SDCCC Fund's Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances found the Fund's revenues increased steadily between FY 2013 and FY 2015, with Total Revenues growth of 11% in the most current year, and 19.4% over all five years reviewed. The increase in Total Revenues was mainly due to increases in Food and Beverage Revenue and Ancillary Service Revenue, which increased over the last five years 54.6% and 24.6%, respectively.

The line items of Salaries and Wages and Fringe Benefits decreased in FY 2013 compared to the prior year, 16.2% and 17.3%, respectively. The decrease was a result of organizational changes and personnel reductions significantly related to the sales, marketing and promotional functions transferred from the Convention Center to a third party contractor. Partially offsetting the decrease in salaries and benefits was a \$1.9 million increase related to a marketing contract paid to the San Diego Tourist Authority, which is reflected in the new category Contractual Marketing and Sales beginning in FY 2013.

The SDCCC Management Agreement between the Borrowers provides the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center. The City contributed approximately \$3.4 million annually in revenue, or 10% of SDCCC's Total Revenues, towards the Convention Center's annual operational expenses for the last five years. The City's annual contributions to SDCCC are expected to remain at \$3,405,000, including \$1,931,000 to the San Diego Tourist Authority to offset marketing contract expenses.

Total Operating Expenses have remained relatively constant, increasing by 7.7% over the last five year period. Total Operating Expenses increased \$1.9 million, or 5.9% in FY 2015 over the prior year, primarily attributable to increases in Utilities as well as Repairs and Maintenance, which increased 14% and 40.8%, respectively. The increase was also due in part to a 3% increase in Salaries and Benefits costs primarily due to increased part-time staff hours in support of event activity. Total Operating Expenses as a percentage of Total Revenues declined from 103.3% in FY 2011 to 93.2% in FY 2015.

During FY 2015, a Special item - Loss on Disposal Phase III Expansion totaling \$5.4 million was recognized as a result of not receiving funding from expansion bonds to satisfy the note payable obligation. The \$12.5 million note payable related to the purchase of a ground lease to be used as the site for future expansion. In order for the City to issue bonds, a public vote of the funding mechanism for expansion bonds is required as determined by a state appeals court ruling in July 2014. During May 2015, SDCCC entered into an agreement to transfer and convey the lease back to the seller in lieu of foreclosure.

Comparative Balance Sheet Analysis

Analysis of the City Fund's Comparative Balance Sheet for the last five years is as follows:

CITY OF SAN DIEGO COMPARATIVE BALANCE SHEET (in Thousands)										
For Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015	
Source Comprehensive Annual Financial Report:	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾
Assets										
Cash and Investments	222,352	69.6%	236,030	65.0%	242,330	75.1%	322,758	71.7%	360,958	74.0%
Receivables										
Taxes - Net of Allowance for Uncollectible	66,170	20.7%	84,110	23.2%	66,132	20.5%	72,755	16.2%	78,648	16.1%
Accounts - Net of Allowance for Uncollectible	12,359	3.9%	9,846	2.7%	10,676	3.3%	8,530	1.9%	15,703	3.2%
Claims	214	0.1%	214	0.1%	214	0.1%	221	0.0%	8	0.0%
Notes			661	0.2%						
Loans			20,433	5.6%						
Accrued Interest	498	0.2%	477	0.1%	593	0.2%	535	0.1%	748	0.2%
Grants	1	0.0%					1,186	0.3%		
From Other Funds	6,510	2.0%	1,600	0.4%			38,805	8.6%	22,937	4.7%
Advances to Other Funds					1,693	0.5%	1,548	0.3%	848	0.2%
Advances to Other Agencies	45	0.0%	44	0.0%	1,083	0.3%	3,730	0.8%	7,627	1.6%
Land Held for Resale	9,403	2.9%	7,769	2.1%						
Investment in Joint Ventures	2,055	0.6%								
Prepaid Items			1,707	0.5%						
Total Assets	\$319,607	100%	\$362,891	100%	\$322,721	100%	\$450,068	100%	\$487,477	100%
Liabilities										
Accounts Payable	16,765	5.2%	18,172	5.0%	36,622	11.3%	34,141	7.6%	32,042	6.6%
Accrued Wages and Benefits	36,475	11.4%	40,838	11.3%	43,564	13.5%	48,594	10.8%	52,004	10.7%
Due to Other Funds			7,769	2.1%					5,053	1.0%
Due to Other Agencies	26	0.0%	34	0.0%	1,025	0.3%	50	0.0%		
Unearned Revenue	2,563	0.8%								
Deferred Revenue	17,661	5.5%	17,005	4.7%	18,673	5.8%				
Contract Deposits	369	0.1%	373	0.1%	339	0.1%	403	0.1%		
Other Accrued Liabilities									1,441	0.3%
Short-term Notes Payable			150							
Total Liabilities	\$73,859	23.1%	\$84,341	23.2%	\$100,223	31.1%	\$83,188	18.5%	\$90,540	18.6%
Deferred Inflows of Resources										
Unavailable Revenue - Taxes							\$11,978	2.7%	\$13,195	2.7%
Unavailable Revenue - Other							\$4,788	1.1%	\$5,927	1.2%
Total Deferred Inflows of Resources							\$16,766	3.7%	\$19,122	3.9%
Fund Balance										
Non-spendable			22,140	6.1%			1,248	0.3%	849	0.2%
Restricted	145,880	45.6%	102,104	28.1%	60,507	18.7%	104,885	23.3%	140,358	28.8%
Committed	1,183	0.4%	44,831	12.4%	40,953	12.7%	147,053	32.7%	130,891	26.9%
Assigned	38,153	11.9%			8,717	2.7%	5,575	1.2%	6,162	1.3%
Unassigned	60,532	18.9%	109,475	30.2%	112,321	34.8%	91,353	20.3%	99,555	20.4%
Total Fund Balances	\$245,748	76.9%	\$278,550	76.8%	\$222,498	68.9%	\$350,114	77.8%	\$377,815	77.5%
Total Liabilities and Fund Balance	\$319,607	100%	\$362,891	100%	\$322,721	100%	\$450,068	100%	\$487,477	100%
Total Liabilities to Total Assets	0.23		0.23		0.31		0.18		0.19	
Total Fund Balance/Total Liabilities	3.33		3.30		2.22		4.21		4.17	

⁽¹⁾Calculated as a percent of Total Assets.

Review of the City Fund's Comparative Balance Sheet for the five years analyzed found growth in Total Assets, 52.5%; Total Liabilities, 22.6%; and Total Fund Balance, 53.7%. The increase in Total Assets is primarily attributable to growth in Cash and Investments of 62.3% over the five years reviewed, increasing each year to \$360 million in FY 2015. The increase in Cash and Investments reflects the consolidation of certain Special Revenue Funds into the City Fund beginning in FY 2014, because the majority of the City's revenue collected was transferred out each year, in order to fund expenditures of the City Fund.

The balances of From Other Funds for FY 2014 and FY 2015 are mainly comprised of loans to Public Facilities Finance Authority (PFFA) in order to fund expenditures related to the Lease Revenue Bonds Series 2012A and 2013A until eligible costs are reimbursed from the trustee held funds. In addition, loans were made to the Grants Special Revenue Fund and Capital Grants Fund, in order to cover negative cash resulting from deferred inflows of resources (unavailable grant revenue).

Total Liabilities as a percentage to Total Assets decreased 4.5% over the five years reviewed. This decrease is primarily attributable to the above mentioned consolidation of funds, as well as the GASB 65 reclassification of Deferred Revenue from the Liabilities category into the new category Deferred Inflows of Resources, beginning in FY 2013. Total Liabilities amount to \$90.5 million, or 18.6% of Total Assets for FY 2015.

Total Fund Balance increased year over year for the last three of five years reviewed, amounting to \$377.8 million for FY 2015, primarily attributable to the above mentioned increase in Cash and Cash Investments. The City maintains City Fund reserves at 14%; comprised of an Emergency Reserve and a Stability Reserve, at 8% and 6%, respectively. The City Fund's Emergency Reserve of \$89.9 million is reported as restricted fund balance in the financial statements. The City Fund's Unassigned fund balance as of June 30, 2015 was \$99.6 million, of which \$67.4 million represents the City Fund's Stability Reserve and the remaining \$32.1 million is available in fund balance for appropriation as of June 30, 2015.

Comparative Statement of Revenues, Expenses, and Changes in Fund Balances Analysis

Analysis of the City Fund's Comparative Statement of Revenues, Expenses, and Changes in Fund Balances for the last five years is as follows:

CITY OF SAN DIEGO										
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (in Thousands)										
For Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015	
Source:	CAFR	%(¹)	CAFR	%(¹)	CAFR	%(¹)	CAFR	%(¹)	CAFR	%(¹)
% Change Year-over-Year in Total Revenues		8.14%		6.63%		-2.01%		10.70%		16.14%
Revenues										
Property Taxes	\$384,023	36.5%	\$408,776	36.3%	\$412,204	37.4%	\$460,592	36.5%	\$449,244	34.1%
Sales Taxes	215,873	20.5%	227,650	20.2%	240,922	21.8%	254,219	20.2%	265,295	20.2%
Transient Occupancy Taxes	73,399	7.0%	78,268	7.0%	83,904	7.6%	89,673	7.1%	98,138	7.5%
Other Local Taxes	70,994	6.8%	74,818	6.6%	74,691	6.8%	117,347	9.3%	129,940	9.9%
Licenses and Permits	28,621	2.7%	31,117	2.8%	32,772	3.0%	34,952	2.8%	24,727	1.9%
Fines, Forfeitures and Penalties	31,598	3.0%	62,976	5.6%	29,656	2.7%	30,327	2.4%	30,596	2.3%
Revenue from Use of Money and Property	49,923	4.7%	51,679	4.6%	56,263	5.1%	58,637	4.7%	61,852	4.7%
Revenue from Federal Agencies	1,431	0.1%	1,608	0.1%	1,341	0.1%	1,875	0.1%	579	0.0%
Revenue from Other Agencies	8,773	0.8%	969	0.1%	7,645	0.7%	7,399	0.6%	11,910	0.9%
Revenue from Private Sources	1,016	0.1%			84	0.0%	2,647	0.2%	2,164	0.2%
Charges for Current Services	181,006	17.2%	181,682	16.1%	155,389	14.1%	186,547	14.8%	211,459	16.1%
Other Revenue	4,505	0.4%	6,239	0.6%	8,686	0.8%	16,403	1.3%	30,040	2.3%
Total Revenues	\$1,051,162	100%	\$1,125,782	100%	\$1,103,557	100%	\$1,260,618	100%	\$1,315,944	100%
Expenditures										
Current:										
General Government and Support	259,782	24.7%	233,122	20.7%	247,644	22.4%	264,867	21.0%	259,491	19.7%
Public Safety - Police	389,811	37.1%	389,752	34.6%	398,224	36.1%	426,513	33.8%	425,645	32.3%
Public Safety - Fire, Life, Homeland	184,437	17.5%	196,911	17.5%	201,109	18.2%	225,753	17.9%	231,478	17.6%
Parks, Recreation, Culture and Leisure	114,375	10.9%	112,569	10.0%	119,226	10.8%	135,879	10.8%	140,780	10.7%
Transportation	42,704	4.1%	58,772	5.2%	58,813	5.3%	65,178	5.2%	69,446	5.3%
Sanitation and Health	66,320	6.3%	62,874	5.6%	63,270	5.7%	80,543	6.4%	90,256	6.9%
Neighborhood Services	25,767	2.5%	60,255	5.4%	40,601	3.7%	28,295	2.2%	37,642	2.9%
Capital Outlay	\$776	0.1%	\$894	0.1%	\$1,351	0.1%	\$5,554	0.4%	\$50,321	3.8%
Debt Service:										
Principal Retirement	10,391	1.0%	11,580	1.0%	11,688	1.1%	32,478	2.6%	8,945	0.7%
Interest	5,030	0.5%	3,580	0.3%	4,905	0.4%	1,979	0.2%	1,309	0.1%
Total Expenditures	\$1,099,393	104.6%	\$1,130,309	100.4%	\$1,146,831	103.9%	\$1,267,040	100.5%	\$1,315,313	100.0%
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$48,231)	-4.6%	(\$4,527)	-0.4%	(\$43,274)	-3.9%	(\$6,423)	-0.5%	\$631	0.0%
Other Financing Sources (Uses)										
Transfers from Proprietary Funds	1,983		17,013		20,127		27,109		268	
Transfers from Other Funds	158,874		74,273		85,228		27,798		34,628	
Transfers to Proprietary Funds	(2,852)		(30,234)		(13,013)		(9,134)		(719)	
Transfers to Other Funds	(22,601)		(36,390)		(61,665)		(37,804)		(52,182)	
Proceeds from the Sale of Capital Assets			3						2	
Capital Lease Proceeds					2,824		22,850		45,073	
Total Other Financing Sources (Uses)	\$135,404		\$24,665		\$33,501		\$30,819		\$27,070	
Extraordinary Item										
Extraordinary Gain (loss)			\$12,664		(\$46,279)		(\$21,067)			
Net Change in Fund Balance	\$87,173		\$32,802		(\$56,052)		\$3,330		\$27,701	
Fund Balance, Beginning of Year	115,023		245,748		278,550		222,498		350,114	
Prior Year Adjustment	43,552						124,286			
Fund Balance, End of Year	\$245,748		\$278,550		\$222,498		\$350,114		\$377,815	

⁽¹⁾ Calculated as a Percent of Total Revenues

Review of the City Fund's Comparative Statement of Revenues, Expenses, and Changes in Fund Balances found the City Fund's revenues increased steadily between FY 2011 and FY 2015, with Total Revenues growth of 4.4% in the most current year, and 25% over all five years reviewed. The increase in Total Revenue was mainly due to increases in Property, Sales, and Transient Taxes, which all saw significant increases over the years reviewed. The significant increase in Property taxes in FY 2014 of 12% was primarily due to a one-time distribution of property taxes from the Redevelopment Property Tax Trust Fund (RPTTF) and growth in Sales Tax Revenue. Notably, the Other Local Taxes category shows a significant increase in FY 2014 and FY 2015, of 57%, and 10.7%, respectively. The increases are due in part to the consolidation of additional funds into the City Fund that include revenues previously classified under Gas Tax Fund and Environmental Growth Fund.

Total Expenditures increased 19% over the last five year period, while Revenues increased 25.2% over the same period. Total Expenditures as a percentage of Total Revenues declined from 104.6% in FY 2011 to 100% in FY 2015. The 4.6% decrease in expenditures in terms of a percent of Total Revenues, represents the City maintaining a good financial discipline.

Other notable categories include Transfers From Other Funds, Capital Lease Proceeds, Extraordinary Gain (Loss), and Prior Year Adjustment. In FY 2012, the decrease in Transfers From Other Funds was due to the dissolution of the former Redevelopment Agency (RDA), and the decrease in FY 2014 and FY 2015 is due to the consolidation of funds that were previously presented separately in the CAFR. Capital Lease Proceeds increased from FY 2013 to FY 2014 due to the refinancing of certain capital leases. In FY 2012 the Extraordinary Gain was due to the dissolution of the former RDA. The Extraordinary Loss in FY 2013 was due to the establishment of an allowance for uncollectible interfund loans from the RDA Successor Agency. The Extraordinary Loss in FY 2014 was due to a loan to the RDA Successor Agency that was written off after the Department of Finance concluded it was not an enforceable obligation and denied the repayment.

The Prior Year Adjustment in FY 2014 was primarily due to a reclassification of the Workers' Compensation and Public Liability components of the Self Insurance fund as part of the City Fund; the consolidation of several Special Revenue funds as of the beginning of FY 2014, including Environmental Growth and Special Gas Tax Street Improvement; and the correction of accrued neighborhood services expenditures for the downtown parking meter district.

The City's financial discipline has generated an operating surplus after transfers for four of five years reviewed, with a surplus of \$27.7 million in FY 2015.

SDCCC Fund Cash Flow and Debt Service Analysis

Fund cash flow and debt service analysis for the Financing is as follows:

SAN DIEGO CONVENTION CENTER CORPORATION CASH FLOW					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Income Before Capital Contributions and Extraordinary Item	(\$255,294)	\$317,108	(\$697,904)	\$1,066,064	\$2,876,822
+ Depreciation	\$2,043,978	\$2,000,860	\$2,087,009	\$1,935,649	\$1,936,173
+ Interest Expense	\$12,005				
Cash Available for Debt Service	\$1,800,689	\$2,317,968	\$1,389,105	\$3,001,713	\$4,812,995
Debt Service Calculation					
Debt Service @ MADS⁽¹⁾					
CG 7600 Lease (included in rent)	\$2,197	\$2,197	\$2,197	\$2,197	\$2,197
Proposed IBank Financing ⁽²⁾	\$1,627,227	\$1,627,227	\$1,627,227	\$1,627,227	\$1,627,227
Total Senior MADS	\$1,629,424	\$1,629,424	\$1,629,424	\$1,629,424	\$1,629,424
Debt Service Coverage Ratio	1.11	1.42	0.85	1.84	2.95
Cash Available after Debt Service	\$171,265	\$688,544	(\$240,319)	\$1,372,289	\$3,183,571

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$25,500,000 @ 3.59% for 25 years

The historical cash flow over the last five years demonstrates the SDCCC Fund ability to service existing and proposed debt four of five years analyzed, inclusive of the City's annual contribution. This demonstrates the need for the addition of the City as a Borrower to support the financing.

Existing Obligations Payable from the SDCCC Fund

SAN DIEGO CONVENTION CENTER CORPORATION OBLIGATIONS							
Debt Issues	Underlying Rating (at issuance)	Current Rating	Date Issued	Amount Issued	Outstanding Balance	Highest Annual Payment	Maturity
CG 7600 Lease	NA	NA	2013	\$21,972	\$17,029	\$2,197	2023
Proposed IBank Financing					\$25,500,000	\$1,627,227	2041
Total				\$21,972	\$25,517,029	\$1,629,424	

2015 Total Revenues	\$36,113,470
15% of Total Revenue	\$5,417,021
Total Annual Payments	\$1,629,424
% of Total Revenue	4.51%

The sum of the payments due on the one outstanding obligation and the proposed obligation do not exceed 15% of the SDCCC Fund's 2015 Total Revenues.

Historical Ability of the City Fund to Budget Proposed Payment

Lease payment and Fund balance analysis for the Financing is as follows:

CITY OF SAN DIEGO LEASE PAYMENT AND FUNDS BUDGET ANALYSIS (in Thousands)					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Net Change in Fund Balance	\$87,173	\$32,802	(\$56,052)	\$3,330	\$27,701
Proposed ISRF Program Lease Payment	(1,628)	(1,628)	(1,628)	(1,628)	(1,628)
Revised Net Change in Fund Balance	\$85,545	\$31,174	(\$57,680)	\$1,702	\$26,073

The historical fund balances demonstrate sufficient capacity to support the Financing in four of the last five years. The negative change in fund balance in FY 2013 was primarily attributable to the dissolution of the former RDA, whereby its assets and liabilities were transferred from the City Fund to a private-purpose trust fund.

Existing Obligations Payable from the City Fund

CITY OF SAN DIEGO GENERAL FUND OBLIGATIONS							
Debt Issues	Underlying Rating (at issuance)	Current Rating	Date Issued	Amount Issued	Outstanding Balance	Highest Annual Payment	Maturity
2010 Master Refunding LRBs	Fitch: A+ Moody's: A2 S&P: A-	Fitch: A+ Moody's: A1 S&P: AA-	2010	\$167,635,000	\$144,300,000	\$13,003,081	2040
2011 QECBs	Not Rated	Not Rated	2011	\$13,141,596	\$9,258,957	\$1,400,670	2026
2012 Convention Center Refunding	Fitch: A+ S&P: A+	Fitch: A+ S&P: AA-	2012	\$140,440,000	\$112,980,000	\$12,564,800	2028
2012 A CIP LRBs	Fitch: A+ S&P: A+	Fitch: A+ S&P: AA-	2012	\$72,000,000	\$67,715,000	\$6,003,244	2042
2012 B CIP LRBs ⁽¹⁾	Fitch: A+ S&P: A+	Fitch: A+ S&P: AA-	2012	\$18,745,000	\$16,300,000	\$0	2032
2013 A CIP LRBs	Fitch: "A+" S&P: "A+"	Fitch: A+ S&P: AA-	2013	\$43,245,000	\$38,975,000	\$3,219,956	2042
2013 B CIP LRBs	Fitch: "A+" S&P: "A+"	Fitch: A+ S&P: AA-	2013	\$6,285,000	\$4,865,000	\$739,375	2023
2015 A CIP LRBs	Fitch: A+ S&P: AA-	Fitch: A+ S&P: AA-	2015	\$62,260,000	\$62,260,000	\$6,901,125	2044
2015 B CIP LRBs	Fitch: A+ S&P: AA-	Fitch: A+ S&P: AA-	2015	\$45,030,000	\$43,365,000	\$3,837,350	2032
2016 Ballpark Refunding LRBs	Fitch: A+ S&P: AA-	Fitch: A+ S&P: AA-	2016	\$103,255,000	\$103,255,000	\$9,294,375	2031
IBank Financing (Proposed)					\$25,500,000	\$1,627,227	2041
Total				\$672,036,596	\$628,803,957	\$58,591,203	

⁽¹⁾ Highest Annual Payment is combined with 2012 A CIP LRBs

2015 Total Revenues	\$1,315,944,000
15% of Total Revenue	\$197,391,600
Total Annual Payments	\$58,591,203
% of Total Revenue	4.45%

The sum of the payments due on the 10 outstanding obligations and the proposed obligation do not exceed 15% of the City Fund's 2015 Total Revenues.

Fitch Ratings as of February 8, 2016, issued a rating of A+ for the Lease Revenue Refunding Bonds, Series 2016 (Ballpark Refunding); affirmed its implied GO rating and lease revenue bond rating for the City as AA- and A+, respectively; and revised the outlook from stable to positive. Fitch noted the City's diverse economy, strong key revenue streams, a declining unemployment rate, and healthy tax base. Moody's, as of February 12, 2016, affirmed the City's Aa2 issuer rating and A1 lease revenue rating, noting a stable outlook. The action states the Aa2 rating reflects strong growth trends in a large and diverse economy, above average socio-economic indicators, a strong and improving financial position marked by growing reserves and policy targets. Additionally, factored in the Aa2 rating is a low debt burden and currently manageable pension and OPEB burdens, despite the uncertainty surrounding pension reform measures. On March 23, 2016, S&P also issued an A+ rating to the Ballpark Refunding, and affirmed its issuer rating and lease revenue bond rating for the City as AA and AA-, respectively.

Budget

SDCCC and the City adopt budgets annually as the foundation for financial planning and control.

SDCCC's total FY 2016 Budget is \$33.8 million, an increase of \$1.9 million or 6% from the FY 2015 Budget. SDCCC's management is anticipating similar financial performance during FY 2016 as compared to FY 2015, and the City's operational contributions to SDCCC are anticipated to remain at \$3,405,000.

Review of the City's budgeting process finds that the City conservatively budgets Total Revenues. All five years reviewed found that the actual Total Revenues received exceeded the amount originally budgeted. Actual Total Expenditures were more than the budgeted amounts for all years reviewed; however, the difference between budgeted and actual revenues exceeded the difference of budgeted and actual expenses for the last two fiscal years.

Pension Plan

SDCCC has a qualified defined contribution Money Purchase Pension Plan (SDCCC Plan) that covers all eligible employees, and is administered through a Defined Contribution Committee. The assets of the SDCCC Plan are currently \$21 million, and given the type of plan it is always fully funded. For the year ended June 30, 2015, pension expense amounted to \$1,186,826, with no employee contributions made to the plan.

The City has a defined benefit pension plan (Pension Plan) and various defined contribution pension plans covering substantially all of its employees. The Pension Plan is administered through the San Diego City Employee's Retirement System (SDCERS). In June 2012, following earlier pension reforms, the voter initiative Proposition B (Prop B) passed effectively closing the SDCERS to all new employees except police. Subsequent litigation against the pension reform led to the California Public Employment Relations Board (PERB) issuing a ruling to rescind Prop B's provisions, and on January 25, 2016 the City appealed the PERB ruling to a state court.

The estimated savings of Prop B is \$1 billion over 30 years. The City states that if Prop B were to be overturned, the settlement would be negotiated with the employee labor organizations, and the outcome as to what the City would pay is unknown. If the City's pension reforms remain valid, the net pension liability is \$1.5 billion and the pension system's fiduciary net position is 80% of its total pension liability.

The City contributed at least 100% of its annual percentage cost every year since FY 2006. The City plans to continue making its actuarially-based contributions of between \$254.9 million and \$267.9 million annually in FY's 2016-2025. Additionally, the City voted in its January 2016 City Council meeting to create a pension reserve with a portion of its current \$31 million surplus. The specific amounts devoted to the pension reserve will be decided this spring during budget negotiations for FY 2017.

The City's Other Post Employment Benefit Plan (OPEB) funded ratio is 18.4% funded as of June 30, 2015, with 105%, 89%, and 77% of the annual required contribution being made in FY's 2013, 2014, and 2015, respectively.

RISK FACTORS

1. The Borrowers are not prohibited from incurring additional obligations payable from their respective Funds.
2. The transaction structure would be a lease-lease back financing, encumbering certain improvements in Phase I of the Convention Center and not a lien on either Fund.
3. Under State law governing the proposed Financing structure, Lease payments to the IBank (designed to match debt service) are subject to abatement, with the amount of abatement proportionate to the extent and disruption, of the Borrowers use of the Leased Assets.
4. Under State law governing the proposed Financing structure, acceleration in the event of default by the City is prohibited. Thus, in the event of payment default, IBank must annually pursue a remedy of compelling past due lease payments.

MITIGATING FACTORS

1. The Borrowers would covenant against permitting additional encumbrances against the Leased Assets.
2. SDCCC would covenant to annually budget and appropriate Lease payments. The City would covenant to budget and appropriate sums necessary to make Lease payments. The City's and SDCCC's covenants would be included in the financing documents and in a certificate of the City and SDCCC executed at the closing of the financing.
3. Lease payments may be made from any General Fund revenue providing a broad source of funds and greater flexibility to the Borrowers to meet the required Lease obligations.
4. The Borrowers would covenant to procure rental interruption insurance for the San Diego Convention Center facility so that in the event of abatement, such insurance would cover abated Lease payments for a period of at least six months beyond the period required to rebuild the Leased Assets.

Compliance with IBank Underwriting Criteria

- The total Fund obligation (inclusive of the proposed Financing) is less than 15% of both SDCCC's Fund and the City's Fund Total Revenue.
- The Leased Assets are the certain improvements in Phase I of the Convention Center, and are acceptable to IBank.
- The source and the diversity of the City Fund and SDCCC Fund appear to adequately cover existing expenditures, financing obligations, and the proposed IBank Lease payments.
- IBank requests the Board waive the following requirements of IBank's Criteria, Priorities, and Guidelines:
 - Borrowers' procurement of CLTA or ALTA title insurance policy.
 - The Leased Assets don't consist of land, rather they are certain improvements in Phase I of the Convention Center, and as such title insurance is not appropriate for this type of security. A UCC filing will be executed in the place of a title policy.
 - Financing term will not exceed the lesser of project's useful life or 30 years.
 - Staff performed a weighted average calculation for useful life that resulted in a 28 year term for the project. The percentage of Financing proceeds funding components with at least a 30 year and 25 year useful life are 75%, and 90%, respectively. Borrowers elected to go with the lesser term of 25 years.
 - Use of the contractor model pre-qualification questionnaire approved by the Department of Industrial Relations (DIR).
 - SDCCC used its own required questionnaire that substantially meets the intent of IBank's requirement.

- SDCCC requires that the contractor meet the following criteria: 1) pay prevailing wages, 2) be registered with DIR, and 3) be qualified to perform public work pursuant to Section 1725.5 of the Labor Code.

Through the Financing Agreements, the Borrowers would covenant to the following in accordance with the Criteria:

- SDCCC would covenant to annually budget and appropriate Lease payments. The City would covenant to annually budget and appropriate sums necessary to make Lease payments. The City's and SDCCC's covenants would be included in the financing documents and in a certificate of the City and SDCCC executed at the closing of the financing.
- Enter into a fixed-price construction contract.
- Obtain payment and performance bonds, builder's risk insurance, and liability and worker's compensation insurance.
- Procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Assets.

In addition to the covenants required by the Criteria, Staff is recommending the following covenants:

- Borrowers would not permit additional encumbrances against the Leased Assets.

Interest Rate Setting Demographics

The interest rate for the proposed Financing was set based upon the following statistics obtained from the 2014 American Community Survey (1-year estimate).

Unemployment Rate	The City's unemployment rate was 7.3%, which is 85.9% of the State's rate of 8.5%.
Median Household Income	The City's median household income was \$67,799 which is 109.5% of the State's median house income of \$61,933.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No.16-16 authorizing Financing to the San Diego Convention Center Corporation and City of San Diego and for their San Diego Convention Center Facility Infrastructure Replacement & Upgrades project.

1. **Applicant/Borrower:** San Diego Convention Center Corporation and City of San Diego jointly and severally
2. **Project:** San Diego Convention Center – Facility Infrastructure Replacement & Upgrades
3. **Amount of Financing:** \$25,500,000
4. **Maturity:** 25 years
5. **Repayment/Security:** SDCCC Fund and City Fund / Lease-lease back financing, encumbering certain improvements in Phase I of the Convention Center (Leased Assets).
6. **Interest Rate:** 3.59%
7. **Fees:** Origination fee of 1.00% of the Financing amount, \$254,975, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** The IBank's resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the Borrowers into a Financing agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 180 days from the date of its adoption. Thus, the Borrowers and IBank must enter into the Financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank would be able to provide the Financing to the Borrowers or consider extending the approval period.
10. **Financing Agreement Covenants:** The financing agreement shall include, among other things, the following covenants:
 - a. Borrowers to comply with all applicable requirements of ISRF Program Criteria, as well as all applicable laws, regulations and permitting requirements associated with public works projects.
 - i. SDCCC to enter a fixed-price construction contract, and to provide payment and performance bonds, builder's risk insurance, and liability and worker's compensation insurance.
 - b. SDCCC would covenant to annually budget and appropriate Lease payments. The City would covenant to annually budget and appropriate sums necessary to make Lease payments. The City's and SDCCC's covenants would be included in the financing documents and in a certificate of the City and SDCCC executed at the closing of the financing.
 - c. SDCCC and the City to report the full loan obligation in their respective annual financial statements as applicable under GAAP accounting procedures.
 - d. Borrowers to procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Assets.
 - e. Borrowers to covenant against future encumbrances against the Leased Assets.
 - f. Borrowers to provide to IBank within 240 days of the end of each fiscal year a copy of its audited financial statements, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.
11. **Waivers:** IBank requests the Board waive the following requirements of IBank's Criteria, Priorities, and Guidelines:
 - a. Borrowers' procurement of CLTA or ALTA title insurance policy.
 - b. Financing term will not exceed the lesser of project's useful life or 30 years.
 - c. Use of the contractor model pre-qualification questionnaire approved by the Department of Industrial Relations.