

Financial Summary

Debt Management

Introduction

Debt Management is an important component in a large city's overall financial management responsibilities. Cities use the option of debt financing to pay for large projects such as public buildings, parks, infrastructure and open space acquisition, when paying for these projects out of current revenues would be impractical.

Credit Ratings

As of December 15, 2004, the City's General Obligation bond ratings are as follows: Moody's Investors Service (A1) and Fitch Ratings (AA). In September 2004, Standard & Poor's suspended its credit ratings on the City's outstanding bonds and maintained them on a credit watch with negative implications. In September 2004, Moody's revised its outlook on the City's outstanding General Obligations and General Fund bonds from stable to negative, and Fitch Ratings placed the City's outstanding General Obligations and General Fund bonds on Rating Watch Negative.

Long-Term Financing Techniques

The following financing techniques are frequently used to pay for various capital improvements.

General Obligation Bonds – Under the California Constitution, the City may issue General Obligation bonds subject to the approval of two-thirds of those voting on the bond proposition. General Obligation bonds represent an indebtedness of the City secured by its full faith and credit. An ad valorem tax on real property is levied to pay principal and interest on General Obligation bonds.

Lease Revenue Bonds and Certificates of Participation – Under State law, the City may enter into long-term lease obligations without obtaining voter approval. Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sale agreement or by a lease-back arrangement with a public entity, where the general operating revenues are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval. Payments made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. The governmental lessee is obligated to place in its annual budget the rentals that are due and payable during each fiscal year the lessee has use of the leased property.

Revenue Bonds – Revenue Bonds are payable solely from net or gross non-ad valorem tax revenues derived from General Fund revenues, tax increment revenues, rates or tolls, fees or charges, or rents paid by users of the facility constructed with the proceeds of the bond issue.

Special Assessment/Mello-Roos Bonds - Under various sections of State law, the City may establish Special Assessment or Community Facilities (Mello-Roos) Districts and issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties in the district, and are not personal obligations of the property owners. The bonds are repaid through revenues generated by the annual levy of special assessments or special taxes on the benefiting properties.

The table that follows summarizes the City's outstanding General Obligation bonded debt, outstanding Lease Revenue Bonds and Certificates of Participation, and Revenue Bonds as of June 30, 2004, showing the Fiscal Year 2005 debt payment for each bond issue, the department where these funds are budgeted, and the funding source.

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Summary of Debt Obligations

		Principal Outstanding 6/30/2004	Fiscal Year 2005 Bond Payment	BUDGET DEPARTMENT	FUNDING SOURCE
General Obligation Bonds					
1991	Public Safety Communications	\$14,390,000	\$2,333,935	Bond Interest & Redemption	Property Tax
1994	Open Space Park Refunding	\$31,385,000	\$7,311,468	Park & Rec/Open Space	Property Tax and Franchise Fees
Subtotal General Obligation Bonds		\$45,775,000	\$9,645,403		
General Purpose Revenue Obligations					
Certificates of Participation					
1996A	Balboa Park/Mission Bay Park Improvements	\$20,570,000	\$3,530,608	Eng/Public Bldgs & Parks	Transient Occupancy Tax
1996B	Balboa Park/Mission Bay Park Improvements	\$9,845,000	\$881,860	Eng/Public Bldgs & Parks	Transient Occupancy Tax
2003	Balboa Park/Mission Bay Park Refunding	\$16,940,000	\$1,705,554	Eng/Public Bldgs & Parks	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension	\$21,775,000	\$2,920,378	Trolley Extension Reserve	Transient Occupancy Tax
1994	City/MTDB Authority Refunding - Police Improvements	included above	\$5,007,814	Police Decentralization	Land Sales/Sales Tax
1996	Qualcomm Stadium Improvements	\$62,870,000	\$5,771,703	Qualcomm Stadium	Stadium Revenues
1998	Convention Center Expansion Authority	\$192,480,000	\$13,700,545	Convention Center Complex	Transient Occupancy Tax
2002A	Ballpark and Redevelopment Project ⁽¹⁾	\$169,685,000	\$8,737,184	Ballpark Facility	Transient Occupancy Tax
2002B	Fire and Life Safety Facilities Project	\$24,665,000	\$1,646,408	Fire and Rescue Department	Safety Sales Tax
2003	City/MTDB Authority Refunding- Old Town Trolley Extension	\$15,010,000	\$889,149	Trolley Extension Reserve	Transient Occupancy Tax
Subtotal General Purpose Revenue Obligations		\$533,840,000	\$44,791,203		
Total General Obligation/General Purpose Revenue Obligations		\$579,615,000	\$54,436,606		
Non-General Fund Commitments					
<i>Sewer Improvements</i>					
1993	Sewer Revenue Bonds	\$195,510,000	\$16,317,576	Metropolitan Wastewater	Net Sewer System Revenues
1995	Sewer Revenue Bonds	\$301,385,000	\$23,585,916	Metropolitan Wastewater	Net Sewer System Revenues
1997	Sewer Revenue Bonds	\$219,155,000	\$16,637,248	Metropolitan Wastewater	Net Sewer System Revenues
1999	Sewer Revenue Bonds	\$290,165,000	\$20,513,883	Metropolitan Wastewater	Net Sewer System Revenues
2004	Sewer Revenue Bonds (Priv. Placement)	\$152,000,000	\$3,122,736 ⁽²⁾	Metropolitan Wastewater	Net Sewer System Revenues
<i>Water Improvements</i>					
1998	Water Certificates of Undivided Interest	\$286,665,000	\$21,355,025	Water	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	\$286,945,000	\$13,506,433	Water	Net Water System Revenues
Total Non-General Fund Commitments		\$1,731,825,000	\$115,038,817		

(1) Total Bond Payment is net of that portion that will be funded with capitalized interest

(2) Estimated interest-only payments, subject to change based on market conditions and LIBOR priods selected.

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Legal Debt Limits

Under Section 90 of the City Charter, the City may issue bonds for the purpose of acquiring, constructing, or completing any municipal improvements, excluding improvements to the City's water facilities, in an amount not to exceed 10 percent of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also issue bonds for the purpose of acquiring, constructing, or completing water facilities in an amount not to exceed 15 percent of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The combined limit on outstanding indebtedness for both non-utility related improvements and water related improvements is an amount not to exceed 25 percent of the total assessed valuation.

It should be noted that it has been the City's practice, as provided for in Section 90.1 of the City Charter, to issue Revenue Bonds for the purpose of constructing water facilities. Per Section 90.1 Revenue Bonds do not constitute an indebtedness of the City, but an obligation payable from the revenues received by the utility. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's sewer system.

Statement of Legal Debt Margin – June 30, 2003 (In Thousands of Dollars)

	General Obligation Bonds*		
	For Water Purposes	For Other Purposes	Total
Assessed Valuation: July 1, 2003 – \$27,206,877**			
Debt Limits***	\$4,081,032	\$2,720,688	\$6,801,720
Outstanding General Obligation Bonds	0	15,690	15,690
Less: Cash Reserve for Matured and Unpaid Bonds	0	0	0
Outstanding General Obligation Bonds Applicable to Debt Limit	0	15,690	15,690
LEGAL DEBT MARGIN	<u>\$4,081,032</u>	<u>\$2,704,998</u>	<u>\$6,786,030</u>
Percentage of Outstanding Debt to Debt Limit	<u>0.00%</u>	<u>0.58%</u>	<u>0.23%</u>

* All City of San Diego General Obligation Bonds are serially numbered and redeemable from special tax levy.

** Beginning January 1, 1981, a change in State law required the County Assessor to assess all taxable property at 100% of full value as opposed to the prior practice of assessing property at 25% of full value. To be in compliance with the City Charter, the assessed valuation used for this Statement is at 25% of full value.

*** Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation.

Source: Office of the City Auditor and Comptroller

Short Term Borrowings

The City has issued Tax Anticipation Notes since Fiscal Year 1968 (except for Fiscal Year 1979) to remedy periodic General Fund cash flows deficits. On July 1, 2004, the City privately placed a Tax and Revenue Anticipation Note in an amount not to exceed \$129,000,000. The Note will mature on or before June 30, 2005. The City has never defaulted on any short-term or long-term bonded indebtedness issues.

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Assessment and Community Facilities District Financing Policy

The City Council has adopted a formal Special District Financing Policy, which governs the financing of infrastructure facilities and other public improvements through the use of Special Assessment and Mello-Roos Community Facilities Districts. The policy consists of guidelines/requirements for:

Determining which public facilities qualify for financing

Initiating district formation proceedings

Providing impacted property owners with sufficient and appropriate disclosure relating to proposed special districts

Evaluating the financial feasibility of proposed special district financings

Determining and apportioning assessments of special taxes

Reimbursing the City for all necessary costs associated with the evaluation, establishment, and administration of special districts

The City has issued special assessment and special tax bonds on behalf of developers and other proponents. These bonds are repaid through the annual levy of special assessments and special taxes, and are ultimately secured by the properties within each district. Although the City is not obligated to make debt service payments on special assessment or special tax bonds, the City has, when necessary, taken proactive measures to help protect the interests of these bondholders.