CITY OF SAN DIEGO
FISCAL YEAR
2008 ANNUAL BUDGET

Debt Obligations

Debt Obligations

Under the direction of the Chief Financial Of. cer, the City executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments with attention to current economic conditions. Debt is an equitable means of financing projects and represents an important component of the Mayor's Five-Year Financial Outlook and the Water and Wastewater Departments' capital planning to meet the City's infrastructure needs.

In addition to its current outstanding debt obligations, the City will use debt financing to meet various capital needs outlined in the Financial Outlook. Of the $500 to $600 million in General Fund-supported deferred maintenance and capital needs expected to be funded over the next five years, approximately $380 million is expected to be debt financed. In Fiscal Year 2008, an estimated $33 million in storm drain and street maintenance expenditures, approximately 75 percent is expected to be debt financed.

An estimated $874 million in capital needs for the City's Wastewater System and Water System is expected to be debt financed between Fiscal Years 2008 and 2010.

City of San Diego's existing long term debt obligations[1]:

Projected Outstanding Principal as of June 30, 2007

- General Obligation Bonds: $10.7 million
- General Fund backed lease-revenue obligations: $472.5 million
- Water and Wastewater System obligations: $1.75 billion

Fiscal Year 2008 Projected Debt Service

- General Obligation Bonds: $2.8 million
- General Fund backed lease-revenue obligations: $43.1 million
- Water and Wastewater Enterprise Fund obligations: $130.2 million

[1] Does not include debt obligations of City Agencies (Redevelopment Agency and Housing Authority) and Special Districts (Community Facilities Districts and Special Assessment Districts).

Debt Obligations

City of San Diego's Bond Ratings:

General Obligation Bond ratings as of September 2007

- Moody's Investors Service: A3 Negative Outlook
- Fitch Ratings: BBB+ Rating Watch Negative
- Standard & Poor's: Suspended, Negative Credit Watch

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 (value-based) tax on real property is levied to pay principal and interest on General Obligation Bonds.

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. The lease payments in turn are 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 to be 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 lease payments that are due and payable during each fiscal year the lessee has use of the leased property.

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, and charges or rents paid by users of the facility constructed with the proceeds of the bond issue.

Pursuant to Section 90 of the City Charter, the City may incur bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including 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 incur bonded indebtedness for the purpose of acquiring, constructing, or completing water facilities in an amount not to exceed 15 percent of the total assessed valuation. 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.

Based on the assessed valuation as of July 1, 2006, the legal debt limit, as defined in Section 90 of the City Charter, was $36.1 billion (unaudited). As of June 30, 2006, outstanding debt subject to this limit was $12.7 million (includes both outstanding General Obligation Bonds).

In accordance with Section 90.1 of the City Charter, the City issues Revenue Bonds, an obligation payable from the revenues received by the utility, for the purpose of constructing water facilities, which fall outside the legal debt limit as defined in Section 90 of the City Charter. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's wastewater system.

The table that follows summarizes the City's outstanding debt as of June 30, 2007, and the projected debt/lease payment for each outstanding issuance for Fiscal Year 2008.

SUMMARY OF DEBT OBLIGATIONS

		Principal Outstanding 6/30/2007	Fiscal Year 2008 Debt/Lease Payment	Final Maturity	Primary Funding Source
GENERAL OBLIGATION BONDS					
1991	San Diego General Obligation Bonds (Public Safety Communications Project)	$9,905,000	$2,328,948	FY 2012	Property Tax
1994	San Diego Open Space Facilities District No. 1 Refunding Series	$800,000	$437,025	FY 2009	Franchise Fees
Subtotal General Obligation Bonds		$10,705,000	$2,765,973		
GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS					
Certificates of Participation					
1996A	Certificates of Participation Balboa Park/ Mission Bay Park Improvements Program	$12,675,000	$3,528,679	FY 2011	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	$8,825,000	$882,865	FY 2022	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	$12,270,000	$2,155,689	FY 2024 (1)	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension	$7,888,000	$2,922,533	FY 2010	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	$59,180,000	$5,773,203	FY 2027	Stadium Revenues & Midway/Sports Arena Leases
1998	Convention Center Expansion Authority	$178,430,000	$13,699,125	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	$23,305,000	$1,621,208	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	$13,420,000	$1,157,349	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	$156,560,000	$11,314,556	FY 2032	Transient Occupancy Tax
Subtotal General Fund Backed Lease-Revenue Obligations		$472,553,000	$43,055,207		
TOTAL GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS		$483,258,000	$45,821,180		
WASTEWATER AND WATER SYSTEM OBLIGATIONS (2)					
Wastewater System Obligations					
1993	Sewer Revenue Bonds	$175,330,000	$16,318,531	FY 2023	Net Wastewater System Revenues
1995	Sewer Revenue Bonds	$275,300,000	$23,585,816	FY 2025	Net Wastewater System Revenues
1997	Sewer Revenue Bonds	$202,790,000	$16,636,223	FY 2027	Net Wastewater System Revenues
1999	Sewer Revenue Bonds	$270,525,000	$20,514,658	FY 2029	Net Wastewater System Revenues
2007	Sewer Revenue Notes (Private Placement) (3), (5)	$223,830,000	$11,440,200	FY 2009	Net Wastewater System Revenues
Water System Obligations					
1998	Water Certificates of Undivided Interest	$262,750,000	$21,353,783	FY 2028	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	$282,365,000	$18,031,255	FY 2032	Net Water System Revenues
2007	Subordinated Water Revenue Notes (Private Placement) (4), (5)	$57,000,000	$2,320,628	FY 2009	Net Water System Revenues
TOTAL WATER AND WASTEWATER SYSTEM OBLIGATIONS		$1,749,890,000	$130,201,094		

(1) The 2003 Balboa Park/Mission Bay Park Refunding Series consists of 2 underlying leases - (a) The North Course Torrey Pines lease (which terminates in FY 2009); and (b) The House of Charm lease (which terminates in FY 2024).
(2) Does not include outstanding State Revolving Fund (SRF) loan obligations pertaining to Wastewater and Water Systems.
(3) This Note refunded the outstanding Sewer 2004 Note in an amount of $144.4 million, and borrowed additional funds for the Wastewater System CIP.
(4) A proposed Water Revenue Bond issuance is anticipated to be issued in Fiscal Year 2008; proceeds from this issuance is expected to pay-down the outstanding 2007 Water Revenue Notes and raise funds for additional Water System CIP.
(5) Interest only payments

Debt Obligations

In addition to long-term debt obligations, the City annually issues short-term Tax and Revenue Anticipation Notes (TRANs) in June to meet General Fund cash flow needs of the following fiscal year, in anticipation of the receipt of property tax revenues later in the fiscal year. In June 2007, the City Council approved, via Resolution R-302672, a privately placed Note Purchase Agreement with Bank of America in an amount not to exceed $130 million, to meet the cash flow needs for Fiscal Year 2008. Pursuant to the actual cash flow needs, the City borrowed $116 million on July 2, 2007 on a 13-month term.

The City's Equipment and Vehicle Financing Program provides a mechanism for the short-term lease purchases of essential equipment in addition to the 'pay-as-you-go basis funding.' The lease purchases are typically over a three- to seven-year term.

Periodically, the City of San Diego Redevelopment Agency, Special Assessment, or Community Facilities Districts, and the San Diego Housing Commission issue long-term debt.

The State Redevelopment Law gives the City of San Diego Redevelopment Agency, administered by the City's Redevelopment Division, the Centre City Development Corporation (CCDC), and the Southeastern Economic Development Corporation (SEDC), the authority to issue Tax Allocation Bonds as a means for financing redevelopment projects. The Tax Allocation Bonds are secured by allocation of tax increment revenues collected within a redevelopment project area. The bonds are special obligations of the Redevelopment Agency and are not a debt of the City, the State, or any of their political subdivisions other than the Redevelopment Agency.

In addition to the long-term bond issuances, the City and the City of San Diego Redevelopment Agency have outstanding Housing and Urban Development loan obligations to be repaid from the future Community Development Block Grant entitlements and other sources of revenues.

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 San Diego Housing Commission's Multi-Family Bond Program administers multifamily tax-exempt financing for various projects. By utilizing the tax exempt interest income earned from municipal bonds, the Multifamily Bond Program offers below market financing to developers of multifamily rental projects that set aside a portion of the units in their projects as affordable housing. Activities eligible for financing include new construction, acquisition, and rehabilitation of projects located in the City. The bonds do not constitute a debt or liability of the City, the Housing Authority, or the Housing Commission. The security for bond repayment is limited to specific private revenue sources, such as project revenues, guaranteed by the credit provider, or the value of the projects themselves. The program is self-supporting and the developers are responsible for paying the costs associated with each financing agreement.

Annual Tax Appropriations Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (the Gann Initiative) and added Article XIIIB to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIIIB. This legislation required the governing bodies of each local jurisdiction in California to establish a Tax Appropriations Limit on or before June 30 of each year for the following fiscal year. The Tax Appropriations Limit was based on actual appropriations during the Fiscal Year 1978-79, and was increased each year using the growth in population and inflation.

On June 5, 1990, California voters approved Proposition 111, amending Article XIIIB. Proposition 111 allowed local jurisdictions to choose the annual adjustment factors. The adjustment factors include the growth in the California per capita income, or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city.

The Tax Appropriations Limit is applicable only to proceeds of taxes. Further, appropriations that are excludable and do not count against the limit are debt service on voter-approved debt and qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds $100,000).

The adjustment factors used for the computation of the Tax Appropriations Limit are released by the California Department of Finance in May and the City is then required to establish the Tax Appropriations Limit on or before June 30 of each fiscal year. The City Council has the option to choose one of three adjustment factors allowed under Proposition 111 to establish the limit.

In June 2007, the City Council adopted a resolution, establishing the Tax Appropriations Limit for Fiscal Year 2008 at $1,264,717,843. In accordance with Proposition 111 guidelines, the Fiscal Year 2008 Appropriations Limit was calculated by adjusting the prior year's tax appropriations limit using an adjustment factor. The adjustment factor utilized was based on the percent change in assessed valuation of new non-residential construction within the City (8.20 percent) and the population factor based on the percent growth in the county's population (1.22 percent). Using the Fiscal Year 2008 Annual Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be $811,846,618, which was $452.9 million lower than the Gann Limit.