

Debt Obligations

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



The City finances approximately 80.0 percent of its capital needs related to the City's Water and Wastewater Funds through debt offerings. An estimated \$145.0 million for the Wastewater System and an estimated \$150.0 million for the City's Water System for new capital needs are expected to be financed through bond issuances in May/June 2009 to meet Water and Wastewater CIP needs for the following 12 to 18 months. In addition, the City expects to restructure certain short-term interim note borrowings into long-term debt obligations.

City of San Diego's existing long term debt obligations¹:

Projected Outstanding Principal as of June 30, 2009

- General Obligation Bonds: \$6.3 million
- General Fund backed Lease-Revenue Obligations: \$537.3 million
- Water and Wastewater System Obligations: \$2.17 billion

Fiscal Year 2010 Projected Debt Service

- General Obligation Bonds: \$2.3 million
- General Fund backed Lease-Revenue Obligations: \$43.6 million
- Water and Wastewater System Obligations: \$171.2 million

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

Debt Obligations

City of San Diego's General Obligation Bond Ratings as of March 2009

- Standard & Poor's: A, Positive Outlook
- Fitch Ratings: A+, Stable Outlook
- Moody's Investors Service: A2, Stable Outlook

City of San Diego's Bond Ratings: Water and Wastewater ratings as of March 2009

Water (Senior/Subordinate)

- Moody's Investors Service: A1/A2, Stable Outlook
- Fitch Ratings: AA-/A+, Stable Outlook
- Standard & Poor's: AA-/A+, Stable Outlook

Wastewater

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

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

The following table summarizes the City's projected outstanding long-term bond obligations as of June 30, 2009, and the projected debt/lease payment for each outstanding issuance for Fiscal Year 2010.

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SUMMARY OF DEBT OBLIGATIONS

		Projected Principal Outstanding 6/30/2009	Projected FY 2010 Debt/Lease Payment	Final Maturity	Primary Funding Source
GENERAL OBLIGATION BONDS					
1991	San Diego General Obligation Bonds (Public Safety Communications Project)	\$6,315,000	\$2,327,798	FY 2012	Property Tax
Subtotal General Obligation Bonds		\$6,315,000	\$2,327,798		
GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS					
Certificates of Participation					
1996A	Certificates of Participation Balboa Park/ Mission Bay Park Improvements Program	\$6,685,000	\$3,531,735	FY 2011	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	\$8,050,000	\$884,778	FY 2022	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	\$8,655,000	\$758,099	FY 2024 ⁽¹⁾	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension	\$2,770,000	\$0 ⁽²⁾	FY 2010	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	\$56,275,000	\$5,769,853	FY 2027	Stadium Revenue & Transient Occupancy Tax
1998	Convention Center Expansion Authority	\$168,065,000	\$13,700,968	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	\$22,280,000	\$1,617,570	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	\$12,120,000	\$1,151,574	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	\$149,390,000	\$11,320,750	FY 2032	Centre City Development Corporation
2009A	Various Capital Improvement Projects (Deferred Maintenance)	\$103,000,000	\$4,875,545 ⁽³⁾	FY 2019	General Fund Revenue
Subtotal General Fund Backed Lease-Revenue Obligations		\$537,290,000	\$43,610,872		
TOTAL GENERAL FUND OBLIGATIONS		\$543,605,000	\$45,938,670		
WASTEWATER AND WATER SYSTEM OBLIGATIONS⁽⁴⁾					
Wastewater System Obligations					
1993	Sewer Revenue Bonds	\$160,220,000	\$16,319,985	FY 2023	Net Wastewater System Revenues
1995	Sewer Revenue Bonds	\$255,305,000	\$23,581,080	FY 2025	Net Wastewater System Revenues
1997	Sewer Revenue Bonds	\$190,510,000	\$16,637,223	FY 2027	Net Wastewater System Revenues
1999	Sewer Revenue Bonds	\$255,960,000	\$20,508,698	FY 2029	Net Wastewater System Revenues
2009A	Sewer Revenue Bonds (estimate) ⁽⁵⁾	\$412,580,000	\$29,053,306	FY 2039	Net Wastewater System Revenues
Subtotal Wastewater System Obligations		\$1,274,575,000	\$106,100,292		
Water System Obligations					
1998	Water Certificates of Undivided Interest	\$141,320,000	\$6,885,522	FY 2028	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	\$272,845,000	\$27,299,110	FY 2032	Net Water System Revenues
2009A	Water Revenue Bonds, Refunding Series 2009A ⁽⁶⁾	\$157,190,000	\$8,679,420	FY 2039	Net Water System Revenues
2009B	Water Revenue Bonds, Series 2009B (estimate) ⁽⁷⁾	\$324,000,000	\$22,269,552	FY 2039	Net Water System Revenues
Subtotal Water System Obligations		\$895,355,000	\$65,133,604		
TOTAL WATER AND WASTEWATER SYSTEM OBLIGATIONS		\$2,169,930,000	\$171,233,896		

⁽¹⁾ The 2003 Balboa Park/Mission Bay Park Refunding Series consists of two underlying leases: the North Course Torrey Pines lease (terminates in FY 2009), and the House of Charm lease (terminates in FY 2024).

⁽²⁾ The final debt service payment is due on 9/1/2009; the associated lease payment to the Trustee is budgeted in FY 2009, and due to the Trustee on 6/1/2009.

⁽³⁾ Interest only payments.

⁽⁴⁾ In addition to outstanding bonds, the Water and Wastewater Systems have outstanding State Revolving Fund (SRF) loan obligations. Currently, the Water System has one SRF loan; the principal outstanding as of 6/30/09 is an estimated \$18.0 million. The Wastewater System has 11 SRF loans; the principal and interest outstanding as of 6/30/09 is an estimated \$81.9 million.

⁽⁵⁾ 2009A Bonds to be issued in May 2009. Estimates based on projections as of February 2009 and assumed to include repayment of the 2007A Notes in an amount of \$223.8 million and \$145.0 million to meet new CIP needs.

⁽⁶⁾ Includes the refunding of the 1998 Certificates of Participation in an amount of \$94.2 million and the repayment of the 2007 Note in an amount of \$57.0 million.

⁽⁷⁾ 2009B Bonds to be issued in June 2009. Estimates based on projections as of February 2009 and assumed to include repayment of the 2008A Notes in an amount of \$150.0 million and \$150.0 million to meet new CIP needs.

Debt Obligations

In addition to long-term debt obligations, the City annually issues the annual Tax and Revenue Anticipation Notes (TRAN) in June to meet General Fund cash flow needs for the following fiscal year in anticipation of the receipt of property tax revenues later in the fiscal year. In order to meet Fiscal Year 2009 cash flow needs, the City borrowed \$135.0 million on July 1, 2008, in three note portions with six, seven, and ten month maturities. The City will repay the Fiscal Year 2009 TRAN out of current year revenues, 100 percent of which will be set aside and repaid by April 30, 2009. The City expects to meet its cash flow needs for Fiscal Year 2010 via a public offering in June 2009.

The City's **Equipment and Vehicle Financing Program** provides a mechanism for the lease purchases



of essential equipment in addition to pay-as-you-go funding. The lease purchases are typically over a three to ten-year term and based on useful life expectancy of the equipment.

State Revolving Fund (SRF) Loans are a low interest loan program for the construction of water and wastewater infrastructure projects offered by the State of California. Generally, these loans are low cost interest loans over a 20-year term. The terms of the

loans differ somewhat between Water and Wastewater Enterprises. As of February 2009, Wastewater has 11 outstanding SRF loans; these loans require the department to contribute 16.7 percent of the loan amount and receive 83.3 percent in loan proceeds from the State. Given that the Enterprise pays back 100 percent of the loan, the effective interest rate on the loan is calculated at approximately 2 percent. The Water Enterprise currently has one outstanding loan with an effective interest rate of 2.5 percent. No department contribution on the loan amount was required.

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

Debt Obligations

The San Diego Housing Commission's Multifamily 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 multi-family 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.



