

FISCAL YEAR
2021

The City of
SAN DIEGO

Debt Obligations



— **ADOPTED BUDGET** —

MAYOR KEVIN L. FAULCONER

Debt Obligations



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Debt Obligations

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Under the direction of the Chief Financial Officer, with attention to current economic and municipal bond market conditions and funding needs, the City executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes timely debt service payments. As described in the City's Five-Year Capital Infrastructure Planning Outlook, the City's priority needs include major infrastructure investments in streets, sidewalks, water quality, libraries, parks, public safety and other high-priority neighborhood projects. Close coordination of capital planning and debt planning ensures that the maximum benefit is achieved with the limited capital funds. Reliance on short term and long-term financing instruments can facilitate better allocation of resources and increased financial flexibility to meet the City's infrastructure funding needs.

City of San Diego's Outstanding Debt Obligations¹ Long Term Bond Obligations

Lease Revenue Bonds are lease obligations secured 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. These obligations do not constitute indebtedness under the State constitutional debt limitation and are not subject to voter approval. Payments to be made under valid financing leases are payable only in the year in which usage 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 obligations payable from revenues generated by an enterprise, such as water or wastewater utilities, public golf courses or parking facilities. The City's outstanding utility Revenue Bonds are payable solely from the City's Water or Wastewater Enterprise Funds and are not secured by any pledge of ad valorem taxes or General Fund revenues by the City.

The City's Implied General Obligation (GO) / Issuer Credit Ratings and credit ratings on outstanding Lease Revenue Bonds and Revenue Bonds are as follows:

Table 1: Credit Ratings as of June 2020

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
General Fund Bond Obligations			
Implied GO/Issuer Credit Rating	AA	Aa2	AA
Outlook	Stable	Stable	Stable
Lease Revenue Bonds	AA-	Not Rated	AA-
Outlook	Stable	--	Stable
Public Utilities Bond Obligations			
Wastewater System Bonds (Senior Bonds)	AA	Not Rated	AA+
Outlook	Stable	--	Stable
Water System Bonds (Senior Bonds) Outlook ²	AA	Aa2	Not Rated
	Stable	Stable	--

¹ Does not reflect debt obligations of City Agencies (including City as the Successor Agency to the Redevelopment Agency), Community Facilities Districts or Special Assessment Districts. See the City's Fiscal Year 2019 Comprehensive Annual Financial Report for a complete list of outstanding liabilities of the City and its related agencies.

² In addition, the Water System Senior Bonds are rated by Kroll Bond Rating Agency with a AA+ Rating and a Stable outlook.

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	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Water System Bonds (Subordinate Bonds)	AA-	Aa3	Not Rated
Outlook	Stable	Stable	--

Other Short and Long-Term Debt Instruments

Federal and State Infrastructure Loans are an important funding source for capital projects in addition to the bond and commercial paper note proceeds. State Revolving Funds (SRFs) and the federal Water Infrastructure Finance and Innovation Act (WIFIA) program make low-cost long-term loans available to local agencies to fund certain public clean water infrastructure projects. The City has utilized low cost SRF funding for various water and wastewater projects, and the City secured a WIFIA Loan for the Water Utility portion of Phase I of the Pure Water Program.

California Energy Resources Conservation and Development Commission (CEC) Loans are energy conservation loans received for streetlight light-emitting diode (LED) retrofits. Repayments are made from the General Fund functions that benefit from the facility improvements.

Commercial Paper Notes provide an as needed borrowing tool to meet the cash flow needs of capital improvement projects. Commercial Paper notes are issued on a short-term basis as capital project spending occurs. The Water and General Fund Commercial Paper Note Program note maturity ranges between one and six months and up to 270 days, and the notes hold short term rates of interest. Commercial Paper obligations are ultimately refinanced with long term debt.

- Water Commercial Paper Notes Program (not-to-exceed \$250.0 million at any time) – In 2017, the City established a Water Revenue Commercial Paper Notes Program utilized to finance Water Utility capital projects. The program costs and issuance expenses are paid by the Water Utility Fund.
- General Fund Commercial Paper Note Program (not-to-exceed \$88.5 million at any time) – In 2018, the City established a General Fund Lease Revenue Commercial Paper Note Program. This program is utilized to finance General Fund capital projects and program costs and interest expenses are paid by the General Fund.
- San Diego Association of Governments (SANDAG) Commercial Paper Note Program – The City is participating with the SANDAG Commercial Paper Program to advance funds for the West Mission Bay Drive Bridge project (S00871) for up to \$40.0 million on a revolving basis to advance grant eligible expenditures until costs are reimbursed. In Fiscal Year 2021, \$13.8 million is anticipated to be funded with proceeds of the program. The program costs and issuance expenses are paid from the City's TransNet Congestion Relief Funds. The principal amount will be repaid as the grant reimburses eligible projects costs.

Capital Leases are utilized by the City to finance various equipment and projects via lease-to-own or lease purchase agreements. The City's Equipment and Vehicle Financing Program (EVFP) provides a mechanism for the lease purchase of essential equipment/vehicles in addition to pay-as-you-go funding. The repayment terms of the lease purchases or capital leases are typically five to ten-years and based on the useful life expectancy of the equipment/vehicles. These purchases include a variety of essential assets and span various lease terms. Examples include fire trucks, refuse packers, service trucks, Information Technology (IT) Projects and Equipment, and fire and police helicopters. In addition, from time to time, the City enters into capital leases via equipment vendors to finance eligible projects, and lease-to-own agreements to acquire buildings for City operations.

Debt Obligations

Table 2: Summary of Debt Obligations summarizes the City's projected outstanding debt obligations described above as of June 30, 2020, and the projected bond debt/lease payment for each outstanding issuance for Fiscal Year 2021.

Table 2: Summary of Debt Obligations

		Principal Outstanding 6/30/2020	Projected FY 2021 Debt/Lease Payment	Final Maturity	Primary Funding Source
General Fund Bonds, Capital Leases, and Commercial Paper Note Obligations					
Lease Revenue Bonds					
2012A ³	Convention Center Expansion Refunding Bonds	\$ 82,225,000	\$ 12,560,050	FY 2028	Transient Occupancy Tax
2012A ³	General Fund CIP Bonds	\$ 61,995,000	\$ 4,591,325	FY 2042	General Fund
2012B	Fire & Life Safety Refunding Bonds	\$ 13,165,000	\$ 1,390,419	FY 2032	Safety Sales Tax
2013A	General Fund CIP Bonds	\$ 30,095,000	\$ 2,153,706	FY 2043	General Fund
	2003 Old Town Light Rail Extension Refunding	\$ 2,960,000	\$ 1,064,500	FY 2023	Transient Occupancy Tax
2013B	2003 Balboa Park/Mission Bay Park Refunding	\$ 2,670,000	\$ 738,000	FY 2024	Transient Occupancy Tax
2015A & B	General Fund CIP Bonds	\$ 98,455,000	\$ 6,897,125	FY 2045	General Fund
2016	Ballpark Refunding Bonds	\$ 83,845,000	\$ 9,291,500	FY 2032	Transient Occupancy Tax
2018A	Series 2010A Refunding Bonds				
	• General Fund CIP Bonds	\$ 88,645,000	\$ 6,682,967	FY 2039	General Fund
	• 1996A Stadium Bonds	\$ 25,120,000	\$ 4,047,349	FY 2027	Stadium Fund
	• 1996B Balboa Park/Mission Bay Park Refunding COPs	\$ 1,335,000	\$ 694,430	FY 2022	Transient Occupancy Tax
2020A ⁴	General Fund CIP Refunding Bonds			FY2042	General Fund
2020A ⁵	Convention Center Expansion Refunding Bonds			FY2028	Transient Occupancy Tax
Total Lease Revenue Bonds		\$ 490,510,000	\$ 50,111,371		
General Fund Supported Capital Leases⁶					

³ Bonds were partially refunded in July 2020. Debt service for these bonds will be lowered in FY 2021 due to the refunding.

⁴ 2020A General Fund CIP Refunding Bonds were issued in July 2020, which partially refunded the 2012A General Fund CIP Bonds. The City will incur debt service on these bonds starting FY 2021. Currently this debt service is budgeted within the Projected FY 2021 Debt/Lease Payment for the 2012A General Fund CIP Bonds.

⁵ 2020A Convention Center Expansion Refunding Bonds were issued in July 2020, which partially refunded the 2012A Convention Center Expansion Refunding Bonds. The City will incur debt service on these bonds starting FY 2021. Currently this debt service is budgeted within the Projected FY 2021 Debt/Lease Payment for the 2012A Convention Center Expansion Refunding Bonds.

⁶ Does not include non-General Fund Capital Leases. In addition to the General Fund backed Capital Leases, the City has various capital leases backed by Enterprise Funds. As of June 30, 2020, the City had: (i) \$1,934,642 in outstanding principal backed by Development Services for a Project Tracking System capital lease; and (ii) \$281,369 and \$120,587 in outstanding principal for the Advanced Metering Infrastructure project capital leases payable from the Water and Wastewater system revenues, respectively.

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		Principal Outstanding 6/30/2020	Projected FY 2021 Debt/Lease Payment	Final Maturity	Primary Funding Source
	Equipment and Vehicle Financing Program	\$ 79,837,255	\$ 20,405,454	FY 2029	Fleet Replacement Fund and General Fund
	101 Ash Street Capital Lease	\$ 69,265,169	\$ 6,416,724	FY 2037	General Fund
	Civic Center Plaza Capital Lease	\$ 40,691,275	\$ 3,673,400	FY 2035	General Fund
	Qualified Energy Conservation Bonds Equipment Lease ⁷	\$ 5,816,143	\$ 1,271,255	FY 2026	Street Light Energy and Maintenance Cost Savings
	Other Capital Leases ⁸	\$ 17,216,878	\$ 1,858,665	FY 2033	General Fund
Total General Fund Supported Capital Leases		\$ 212,826,719	\$ 33,625,498		
General Fund Commercial Paper Notes⁹					
	General Fund Commercial Paper Notes Program (\$88.5 million)	\$ 38,575,000	\$ 1,300,000		General Fund
Total General Fund Commercial Paper Notes		\$ 38,575,000	\$ 1,300,000		
California Energy Resources Conservation and Development Commission (CEC) Loans					
	CEC Loans	\$ 2,406,592	\$ 508,078	FY 2029	General Fund
Total CEC Loans		\$ 2,406,592	\$ 508,078		
Public Utilities - Sewer and Water Revenue Bonds, Commercial Paper Notes, and Loan Obligations					
Sewer Revenue Bonds and Federal and State Loans					
2015	Sewer Revenue Refunding Bonds	\$ 308,435,000	\$ 14,658,900	FY 2027	Net Wastewater System Revenues
2016A	Sewer Revenue Refunding Bonds	\$ 335,515,000	\$ 80,410,900	FY 2039	Net Wastewater System Revenues
	Sewer State Revolving Fund Loans	\$ 133,144,530	\$ 10,187,083	FY 2052	Net Wastewater System Revenues
Total Sewer Revenue Bond and Loans		\$ 777,094,530	\$ 105,256,883		
Water Revenue Bonds and Federal State Loans					
2016A	Subordinated Water Revenue Bonds	\$ 38,360,000	\$ 2,613,850	FY 2046	Net Water System Revenues
2016B	Subordinated Water Revenue Refunding Bonds	\$ 423,785,000	\$ 46,315,000	FY 2040	Net Water System Revenues
2018A	Subordinated Water Revenue Bonds	\$ 239,365,000	\$ 16,022,550	FY 2048	Net Water System Revenues

⁷ Full lease payment. Does not include estimated \$202,013 in federal subsidy to off-set the lease payment.

⁸ Other Capital Leases include General Electric Street Lights and IT Hardware.

⁹ The FY 2021 interest costs are an estimate based on the projected note issuance activity through 2021. Includes interest from Commercial Paper installment at \$88.5 million and an additional \$100 million through a combination of Commercial Paper and bonds. Figures do not reflect fees of \$580,000, which are required for Commercial Paper program operation.

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		Principal Outstanding 6/30/2020	Projected FY 2021 Debt/Lease Payment	Final Maturity	Primary Funding Source
2020A	Senior Water Revenue Bonds	\$ 221,420,000	\$ 12,416,300	FY 2050	Net Water System Revenues
2020B	Senior Water Revenue Refunding Bonds	\$ 114,195,000	\$ 9,934,749	FY 2033	Net Water System Revenues
	Water State Revolving Fund Loans	\$ 80,121,763	\$ 6,102,858	FY 2050	Net Water System Revenues
	WIFIA Loan – Pure Water Program (\$614 million) ¹⁰	\$ --	\$ --		Net Water System Revenues
Total Water Revenue Bonds and Federal and State Loans		\$ 1,117,246,763	\$ 93,405,307		
Water Revenue Commercial Paper Notes					
	Subordinated Commercial Paper Notes Program (not to exceed \$250 million at any time) ¹¹	\$ 18,724,000	\$ 2,200,000		Net Water System Revenues
Total Water Revenue Commercial Paper Notes		\$ 18,724,000	\$ 2,200,000		
SANDAG Commercial Paper Notes					
	SANDAG Commercial Paper Notes Program (\$40 million)	\$ 26,167,000	\$ 654,175		TansNet Revenue
Total SANDAG Commercial Paper Notes		\$ 26,167,000	\$ 654,175		

¹⁰ The City has not yet requested disbursements and there is no principal outstanding under the WIFIA Loan.

¹¹ The FY 2021 interest costs are an estimate based on the projected note issuance activity through 2021. Figures do not reflect projected fees of \$1.05 million, which are required for Commercial Paper program operation.

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