



ADOPTED
Budget
FISCAL YEAR **2023**

VOLUME 1

Debt Obligations



MAYOR TODD GLORIA



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Debt Obligations

Under the direction of the Chief Financial Officer, with attention to current economic and municipal bond market conditions, priority funding needs, revenue capacity for repayment, and debt affordability, 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 projects that address life, safety, regulatory requirements, and legally mandated needs, or could impact the core operation of a critical facility or asset, as well as any Mayoral and City Council priority. Close coordination of capital planning and debt planning ensures maximum benefits are achieved with 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 Obligations²¹

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. Lease Revenue Bonds are primarily applied for financing General Fund capital projects.

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 General Obligation (GO) Related/Issuer Credit Ratings and credit ratings on outstanding Lease Revenue Bonds and Revenue Bonds are as follows:

Table 1: Credit Ratings as of June 2022

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
General Fund Bond Obligations			
GO Related/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
Wastewater System Bonds (Subordinate Bonds)	AA	Not Rated	AA
Outlook	Stable	--	Stable

²¹Does not reflect debt obligations of City Agencies (examples include City as the Successor Agency to the Redevelopment Agency), Community Facilities Districts or Special Assessment Districts. See the City's Fiscal Year 2021 Annual Comprehensive Financial Report for a complete list of outstanding liabilities of the City and its related agencies.

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	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Wastewater System Bonds (Subordinate Bonds) Outlook	AA Stable	Not Rated --	AA Stable
Water System Bonds (Senior Bonds) Outlook ²²	AA Stable	Aa2 Stable	Not Rated --
Water System Bonds (Subordinate Bonds) Outlook	AA- Stable	Aa3 Stable	Not Rated --

Other Outstanding Debt Obligations

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 (SRF) 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 is utilizing SRF funding for various water, wastewater, and stormwater system projects. The City has secured WIFIA Loans for the Water Utility portion of Phase I of the Pure Water Program and expects to secure a WIFIA loan to finance critical stormwater infrastructure improvements.

Commercial Paper Notes provide an as needed interim borrowing tool to meet the cash flow needs of capital improvement projects. Commercial Paper notes are issued on a short-term basis as capital spending occurs. Water and General Fund Commercial Paper Note Program notes mature up to 270 days from issuance, and the notes hold short term rates of interest. Commercial Paper obligations are refinanced with long term bonds.

- Water Commercial Paper Notes Program– 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– In 2018, the City established a General Fund Lease Revenue Commercial Paper Note Program. This program finances General Fund capital expenditures including infrastructure projects, equipment and vehicle purchases. 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. 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 essential equipment and projects via lease-to-own or lease purchase agreements.

- The City has entered into lease-to-own agreements. These long-term agreements have been executed with twenty (20) to thirty (30) year repayment terms.
- 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

²² In addition, the Water System Senior Bonds are rated by Kroll Bond Rating Agency with an AA+ Rating and a Stable outlook.

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and span various lease terms. Examples include 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.

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.

Table 2: Summary of Debt Obligations summarizes the City's projected outstanding debt obligations described above as of June 30, 2022, and the projected bond debt/lease payment for each outstanding issuance for Fiscal Year (FY) 2023.

Table 2: Summary of Debt Obligations

		Principal Outstanding 6/30/2022	Projected FY 2023 Debt/Lease Payment	Final Maturity	Primary Funding Source
General Fund Bonds, Capital Leases, and Commercial Paper Note Obligations					
Lease Revenue Bonds					
2012A	General Fund CIP Bonds	\$ 3,605,000	\$ 1,918,500	FY 2024	General Fund
2012B	Fire & Life Safety Refunding Bonds	\$ 11,395,000	\$ 1,396,169	FY 2032	Safety Sales Tax
2013A	General Fund CIP Bonds; 2003 Old Town Light Rail Extension Refunding	\$ 28,585,000 \$ 1,035,000	\$ 2,151,331 1,060,875	FY 2043 FY 2023	General Fund Transient Occupancy Tax
2013B	2003 Balboa Park/Mission Bay Park Refunding	\$ 1,400,000	\$ 733,000	FY 2024	Transient Occupancy Tax
2015A & B	General Fund CIP Bonds	\$ 94,300,000	\$ 6,899,000	FY 2045	General Fund
2016	Ballpark Refunding Bonds	\$ 73,120,000	\$ 9,291,500	FY 2032	Transient Occupancy Tax
2018A	Series 2010A Refunding Bonds; 1996A Stadium Bonds	\$ 81,925,000 \$ 18,515,000	\$ 6,682,450 4,045,371	FY 2039 FY 2027	General Fund Capital Outlay Fund
2020A	General Fund CIP Refunding Bonds	\$ 59,100,000	\$ 2,250,758	FY 2042	General Fund
2020A	Convention Center Expansion Refunding Bonds	\$ 67,700,000	\$ 12,094,581	FY 2028	Transient Occupancy Tax
2021A	General Fund CIP Bonds	\$ 117,145,000	\$ 7,226,350	FY 2052	General Fund
Total Lease Revenue Bonds		\$ 557,825,000	\$ 55,749,886		

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		Principal Outstanding 6/30/2022	Projected FY 2023 Debt/Lease Payment	Final Maturity	Primary Funding Source
General Fund Supported Capital Leases					
	Equipment and Vehicle Financing Program	\$ 75,888,697	\$ 21,769,320	FY 2031	Fleet Replacement Fund and General Fund
	101 Ash Street Capital Lease ²³	\$ 79,722,999	\$ 6,416,724	FY 2037	General Fund
	Civic Center Plaza Capital Lease	\$ 46,339,943	\$ 3,859,376	FY 2035	General Fund
	Qualified Energy Conservation Bonds Equipment Lease ²⁴	\$ 3,968,262	\$ 1,201,793	FY 2026	Street Light Energy and Maintenance Cost Savings
	Other Capital Leases ²⁵	\$ 15,509,012	\$ 2,058,665	FY 2033	General Fund
Total General Fund Supported Capital Leases		\$ 221,428,913	\$ 35,305,878		
General Fund Commercial Paper Notes²⁶					
	General Fund Commercial Paper Notes Program (not to exceed \$88.5 million)	\$ -	\$ 314,544		General Fund
Total General Fund Commercial Paper Notes		\$ -	\$ 314,544		
California Energy Resources Conservation and Development Commission (CEC) Loans					
	CEC Loans	\$ 1,467,796	\$ 508,078	FY 2029	General Fund
Total CEC Loans		\$ 1,467,796	\$ 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	\$ 242,720,000	\$ 84,008,150	FY 2027	Net Wastewater System Revenues
2016A	Sewer Revenue Refunding Bonds	\$ 270,130,000	\$ 13,506,500	FY 2039	Net Wastewater System Revenues
2022A	Sewer Revenue Bonds ²⁷	\$ 168,250,000	\$ 10,937,396	FY 2052	Net Wastewater System Revenues

²³ Since the City is currently unable to occupy 101 Ash, lease payments have been abated since September 1, 2020. Lease payments are appropriated in the General Fund and are currently being set aside in a special fund until the City is able to occupy the building.

²⁴ Full lease payment. Does not include estimated \$140,664 in federal subsidy to offset the lease payment.

²⁵ Other Capital Leases include General Electric Street Lights and IT Hardware.

²⁶ The FY 2023 interest costs are an estimate based on the projected note issuance activity through 2022. Figures do not reflect fees of \$424,266, which are required for Commercial Paper program operation.

²⁷ On May 18, 2022, the City issued \$168,250,000 Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Bonds, Series 2022A. Proceeds from the Series 2022A Bonds were used to reimburse \$105.9 million in CIP expenditures; and provide an additional \$84.1 million for Wastewater CIP expenses through approximately the end of Calendar Year 2023.

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		Principal Outstanding 6/30/2022	Projected FY 2023 Debt/Lease Payment	Final Maturity	Primary Funding Source
	Sewer State Revolving Fund Loans ²⁸	\$ 132,880,305	\$ 11,422,270	FY 2052	Net Wastewater System Revenues
Total Sewer Revenue Bond and Loans		\$ 813,980,305	\$ 119,874,316		
Water Revenue Bonds and Federal and State Loans					
2016A	Subordinated Water Revenue Bonds	\$ 36,765,000	\$ 2,612,725	FY 2046	Net Water System Revenues
2016B	Subordinated Water Revenue Refunding Bonds	\$ 370,930,000	\$ 39,114,125	FY 2040	Net Water System Revenues
2018A	Subordinated Water Revenue Bonds	\$ 231,140,000	\$ 16,025,675	FY 2048	Net Water System Revenues
2020A	Senior Water Revenue Bonds	\$ 211,945,000	\$ 12,419,050	FY 2050	Net Water System Revenues
2020B	Senior Water Revenue Refunding Bonds	\$ 97,650,000	\$ 9,939,786	FY 2033	Net Water System Revenues
	Water State Revolving Fund Loans	\$ 72,748,576	\$ 6,901,967	FY 2050	Net Water System Revenues
	WIFIA Loan – Pure Water Program (\$614 million)	\$ 100,000,000	\$ 4,500,000	FY 2059	Net Water System Revenues
Total Water Revenue Bonds and Federal and State Loans		\$ 1,121,178,576	\$ 91,513,328		
Water Revenue Commercial Paper Notes					
	Subordinated Commercial Paper Notes Program (not to exceed \$250 million) ²⁸	\$ 195,092,000	\$ 2,100,000		Net Water System Revenues
Total Water Revenue Commercial Paper Note		\$ 195,092,000	\$ 2,100,000		
SANDAG Commercial Paper Notes					
	SANDAG Commercial Paper Notes Program (not to exceed \$40 million) ²⁹	\$ 26,167,000	\$ 150,000		TransNet Revenue
Total SANDAG Commercial Paper Notes		\$ 26,167,000	\$ 150,000		

²⁸ In April 2022, the City entered into Sewer SRF Loans totaling \$664.3 million for the Pure Water project. The Fiscal Year 2023 projection includes a projected debt service for the Pure Water SRF loans of approximately 2.4 million, which is based on anticipated draws and repayment requirements.

²⁹ The Fiscal Year 2023 interest costs are an estimate based on the projected note issuance activity through 2023. Figures do not reflect projected fees of \$1.1 million, which are required for Commercial Paper program operation and include fees for the Letter of Credit, Commercial Paper Dealers, and other associated costs.



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