

# 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 timely debt service payments. Reliance on bond instruments is an equitable means of financing projects and represents an important component of the City's Five-Year Financial Outlook for the General Fund and the Public Utilities Department's capital planning for meeting the City's infrastructure needs.

## City of San Diego's existing long term debt obligations<sup>1</sup>

### *Projected Outstanding Principal as of June 30, 2011*

- General Obligation Bonds: \$2.2 million
- General Fund backed Lease-Revenue Obligations: \$506.1 million
- Public Utilities - Water System Obligations: \$844.5 million
- Public Utilities - Wastewater System Obligations: \$1.2 billion

## City of San Diego's General Obligation Bond Ratings as of March 2011

- Standard & Poor's: A, Stable Outlook
- Fitch Ratings: AA-, Stable Outlook
- Moody's Investors Service: Aa3, Stable Outlook

## General Fund Backed Certificates of Participation and Lease Revenue Bond Ratings as of March 2011

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

## Public Utilities - Water and Wastewater Bond Ratings as of March 2011

### *Water (Senior/Subordinate)*

- Standard & Poor's: AA-/A+, Stable Outlook
- Fitch Ratings: AA/AA-, Stable Outlook
- Moody's Investors Service: Aa2/Aa3, Stable Outlook

### *Wastewater*

- Standard & Poor's: A+, Stable Outlook
- Fitch Ratings: AA, Stable Outlook
- Moody's Investors Service: Aa3, 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.

<sup>1</sup> Does not reflect debt obligations of City Agencies (Redevelopment Agency and Housing Authority), Community Facilities Districts or Special Assessment Districts.

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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.

**Table 1** summarizes the City's projected outstanding long-term bond obligations as of June 30, 2011, and the projected debt/lease payment for each outstanding issuance for Fiscal Year 2012.

**Table 1: Summary of Debt Obligations**

		Projected Principal Outstanding 6/30/2011	Projected FY 2012 Debt/Lease Payment	Final Maturity	Primary Funding Source
<b>General Obligation Bonds</b>					
1991	San Diego General Obligation Bonds (Public Safety Communications Project) <sup>1</sup>	\$ 2,240,000	\$ 2,314,480	FY 2012	Property Tax
<b>Subtotal General Obligation Bonds</b>		<b>\$ 2,240,000</b>	<b>\$ 2,314,480</b>		
<b>General Fund Backed Lease-Revenue Obligations</b>					
<b>Certificates of Participation</b>					
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	\$ 7,725,000	\$ 757,844	FY 2024	Transient Occupancy Tax
<b>Lease Revenue Bonds</b>					
1998	Convention Center Expansion Authority	\$ 156,785,000	\$ 13,700,688	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	\$ 21,150,000	\$ 1,629,325	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	\$ 10,745,000	\$ 1,153,574	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	\$ 142,115,000	\$ 11,322,000	FY 2032	Redevelopment Agency (Centre City Development Corporation)
2010A	Master Refunding Bonds <sup>2</sup>	\$ 167,610,000	\$ 13,052,725	FY 2040	General Fund, Stadium, & Transient Occupancy Tax
<b>Subtotal General Fund Backed Lease-Revenue Obligations</b>		<b>\$ 506,130,000</b>	<b>\$ 41,616,156</b>		

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**Table 1: Summary of Debt Obligations (Cont'd)**

		Projected Principal Outstanding 6/30/2011	Projected FY 2012 Debt/Lease Payment	Final Maturity	Primary Funding Source
<b>Total General Fund Obligations</b>		<b>\$ 508,370,000</b>	<b>\$ 43,930,636</b>		
<b>Public Utilities - Wastewater and Water System Obligations<sup>2</sup></b>					
<b>Wastewater System Obligations<sup>3</sup></b>					
2009A	Sewer Revenue Bonds	\$ 439,890,000	\$ 36,274,881	FY 2039	Net Wastewater System Revenues
2009B	Sewer Revenue Refunding Bonds	\$ 562,885,000	\$ 57,706,488	FY 2025	Net Wastewater System Revenues
2010A	Sewer Revenue Refunding Bonds	\$ 161,930,000	\$ 8,501,325	FY 2029	Net Wastewater System Revenues
<b>Total Wastewater System Obligations</b>		<b>\$ 1,164,705,000</b>	<b>\$ 102,482,694</b>		
<b>Water System Obligations<sup>3</sup></b>					
2002	Subordinated Water Revenue Bonds	\$ 243,520,000	\$ 27,296,456	FY 2033	Net Water System Revenues
2009A	Water Revenue Bonds, Refunding Series 2009A	\$ 155,045,000	\$ 8,679,925	FY 2039	Net Water System Revenues
2009B	Water Revenue Bonds	\$ 322,815,000	\$ 21,734,969	FY 2040	Net Water System Revenues
2010A	Water Revenue Bonds	\$ 123,075,000	\$ 6,310,475	FY 2029	Net Water System Revenues
<b>Total Water System Obligations</b>		<b>\$ 844,455,000</b>	<b>\$ 64,021,825</b>		
<b>McGuigan Settlement</b>					
2010	McGuigan Settlement Modification	\$ 32,762,082	\$ 8,993,762	FY 2015	General Fund and Misc. Special Funds

<sup>1</sup> The 1991 G.O. Bonds will be paid off on July 15, 2011.

<sup>2</sup> The 2010A Master Refunding Bonds refunded the outstanding short-term 2009A Deferred CIP Bonds, the 1996B Balboa Park/Mission Bay Park Refunding COPs and the 1996A Qualcomm Stadium Bonds.

<sup>3</sup> In addition to bonds, the Water and Wastewater Systems have outstanding State Revolving Fund (SRF) loan obligations. Currently, the Water System has one SRF loan; the outstanding loan balance as of June 30, 2011 is estimated at \$16.6 million. The Wastewater System has 11 SRF loans; the outstanding loan balance as of June 30, 2011 is an estimated \$69.8 million.

In addition to long-term debt obligations, annually the City issues Tax and Revenue Anticipation Notes (TRANS) 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.

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. Some examples of purchases made using this mechanism include fire trucks and other public safety vehicles, refuse packers, service trucks, fire and police helicopters, telecommunications equipment for public safety departments, and the City's Enterprise Resource Planning System.

**State Revolving Fund (SRF) Loans** is a low interest loan program for the construction of water and wastewater infrastructure projects. SRF debt service payments are factored into debt service

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coverage ratios as defined by applicable water and wastewater bond indentures. Compared to traditional bond financings, the City may realize substantial savings from lower interest rates and shorter repayment terms of the SRF Loans. The loans are administered by the benefiting department. The Public Utilities department actively utilizes the SRF loan program to fund capital improvements in addition to traditional tax-exempt bond offerings.

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 Department, 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 provisions of State law, the City has established several **Special Assessment and Community Facilities** (Mello-Roos) **Districts**. Such districts or the City, acting as a conduit issuer, have issued 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 repaid through revenues generated by the annual levy of special assessments or special taxes on the benefiting properties. These bonds are not City obligations.