

# FY: 2017

Debt Obligations



CITY OF SAN DIEGO

## PROPOSED BUDGET

MAYOR KEVIN L. FAULCONER



# Debt Obligations

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. Reliance on short term and long term financing instruments can facilitate better allocation of resources and increased financial flexibility 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 outstanding long term debt obligations<sup>1</sup>**

### ***Projected Outstanding Principal as of June 30, 2016***

- General Fund backed Lease-Revenue Bond Obligations: \$620.6 million
- Public Utilities - Wastewater (Sewer) System Obligations: \$939.5 million
- Public Utilities - Water System Obligations: \$701.0 million

## **Issuer Rating/General Fund Lease Revenue Bond Obligations Ratings as of February 2016**

- Standard & Poor's: AA/AA-, Stable Outlook
- Fitch Ratings: AA-/A+, Positive Outlook
- Moody's Investors Service: Aa2/A1, Stable Outlook

## **Public Utilities - Water and Sewer Bond Ratings as of February 2016**

### ***Water (Senior/Subordinate)***

- Standard & Poor's: AA-/Not Rated, Stable Outlook
- Fitch Ratings: AA/AA-, Stable Outlook
- Moody's Investors Service: Aa2/Aa3, Stable Outlook

### ***Sewer***

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

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 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.

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<sup>1</sup> 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.

# Debt Obligations

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 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.

**Table 1** summarizes the City's projected outstanding long-term bond obligations as of June 30, 2016, and the projected bond debt/lease payment for each outstanding issuance for Fiscal Year 2017.

**Table 1: Summary of Projected Debt Obligations**

		Projected Principal Outstanding 6/30/2016	Projected FY 2017 Debt/Lease Payment	Final Maturity	Primary Funding Source
<b>General Fund Lease Revenue Bond Obligations</b>					
<b>Lease Revenue Bonds</b>					
2007A	Ballpark Refunding Bonds <sup>1</sup>	\$ 120,500,000	\$ 11,316,250	FY 2032	Transient Occupancy Tax
2010A	Master Refunding Bonds <sup>2</sup>	\$ 144,330,000	\$ 12,989,413	FY 2040	General Fund, Stadium, Transient Occupancy Tax
2011	Qualified Energy Conservation Bonds (Broad Spectrum Street Lighting Project) <sup>3</sup>	\$ 9,258,957	\$ 1,400,670	FY 2026	Street Light Energy and Maintenance Cost Savings
2012A	Convention Center Expansion Refunding Bonds	\$ 112,980,000	\$ 12,560,450	FY 2028	Transient Occupancy Tax
2012A	Deferred CIP Lease Revenue Bonds	\$ 67,715,000	\$ 4,591,625	FY 2042	General Fund
2012B	Fire & Life Safety Refunding Bonds	\$ 16,300,000	\$ 1,383,569	FY 2032	Safety Sales Tax
2013A	General Fund CIP Bonds & 2003 Old Town Light Rail Extension Refunding	\$ 38,975,000	\$ 3,214,831	FY 2043	General Fund, Transient Occupancy Tax
2013B	2003 Balboa Park/Mission Bay Park Refunding Bonds	\$ 4,865,000	\$ 737,950	FY 2024	Transient Occupancy Tax
2015A& B	General Fund CIP Bonds	\$ 105,625,000	\$ 6,899,750	FY 2045	General Fund
<b>Total General Fund Lease Revenue Bond Obligations</b>		<b>\$ 620,548,957</b>	<b>\$ 55,094,508</b>		
<b>Public Utilities - Sewer and Water Revenue Bond Obligations<sup>4</sup></b>					
<b>Sewer Revenue Bond Obligations</b>					
2009A	Sewer Revenue Bonds	\$ 53,475,000	\$ 19,625,338	FY 2039	Net Wastewater System Revenues
2009B	Sewer Revenue Refunding Bonds	\$ 174,330,000	\$ 44,323,850	FY 2025	Net Wastewater System Revenues
2015A	Sewer Revenue Refunding Bonds	\$ 308,435,000	\$ 14,658,900	FY 2027	Net Wastewater System Revenues
2016A	Sewer Revenues Refunding Bonds	\$ 403,280,000	\$ 19,315,400	FY 2039	Net Wastewater System Revenues



# Debt Obligations

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

		Projected Principal Outstanding 6/30/2016	Projected FY 2017 Debt/Lease Payment	Final Maturity	Primary Funding Source
<b>Total Sewer Revenue Bond Obligations</b>		<b>\$ 939,520,000</b>	<b>\$ 97,923,488</b>		
<b>Water Revenue Bond Obligations</b>					
2009A	Water Revenue Bonds	\$ 148,055,000	\$ 21,964,100	FY 2039	Net Water System Revenues
2009B	Water Revenue Bonds	\$ 293,925,000	\$ 21,738,694	FY 2040	Net Water System Revenues
2010A	Water Revenue Bonds	\$ 123,075,000	\$ 6,310,475	FY 2029	Net Water System Revenues
2012A	Subordinated Water Revenue Bonds	\$ 135,970,000	\$ 11,833,850	FY 2033	Net Water System Revenues
<b>Total Water Revenue Bond Obligations</b>		<b>\$ 701,025,000</b>	<b>\$ 61,847,119</b>		

<sup>1</sup> The City is currently in the process of refunding the 2007A Ballpark Refunding Bonds which is anticipated to be completed in May 2016. Assuming the refunding is conducted, the principal outstanding as of 6/30/2016 is estimated to be \$105.4 million and Debt Service for Fiscal Year 2017 is estimated to be \$9.5 million. The Fiscal Year 2017 Proposed Budget assumes the City's obligation of the \$9.5 million.

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

<sup>3</sup> Full lease payment. Does not include estimated \$320,000 in federal subsidy to off-set the lease payment.

<sup>4</sup> In addition to bonds, the Water and Wastewater Systems have outstanding State Revolving Fund (SRF) loan obligations. Based on February 2016 projections, the Water System SRF loans have a projected outstanding principal loan balance as of June 30, 2016 of approximately \$64.9 million. The Wastewater System SRF loans have a projected outstanding principal loan balance as of June 30, 2016 of approximately \$126.0 million.

The City's **Equipment and Vehicle Financing Program** provides a mechanism for the lease purchase of essential equipment in addition to pay-as-you-go funding. The terms of the lease purchases are typically over a three-year to ten-year term and based on useful life expectancy of the equipment. The projected outstanding principal for various lease purchase obligations is estimated to be \$42.7 million on June 30, 2016. These purchases span various lease terms and cover a variety of essential purpose assets. Examples include: fire trucks, refuse packers, service trucks, IT Projects and Equipment, Automated Water Meter Infrastructure, GPS equipment, fire and police helicopters, 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 and the program is managed by the State. Compared to traditional bond financings, the interest rates for SRF loans are lower and also have shorter repayment terms. The Public Utilities Department utilizes the SRF loan program to fund capital improvements in addition to traditional tax-exempt bond offerings.

## Special Assessment and Community Facilities (Mello-Roos) Districts

Under various provisions of State law, the City has established several **Special Assessment and Community Facilities (Mello-Roos) Districts**. There are currently two Special Assessment Districts and four Community Facilities Districts established by the City with outstanding debt. The 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 properties. The projected outstanding principal amounts are \$5.3 million for Special Assessment Districts and \$93.6 million for Community Facilities Districts. These bonds are not fiscal obligations of the City.

## Debt Obligations

Additional information about these districts and the associated special taxes and assessments can be found on the City's Community Facilities Districts & 1913/1915 Act Assessment Districts Webpage.