City of San Diego
Fiscal Year 2007
Annual Budget

Debt Obligations

Debt Obligations

CITY OF SAN DIEGO'S LONG TERM DEBT OBLIGATIONS[1]:

Outstanding Principal as of June 30, 2006

- General Obligation Bonds: $12.7 million
- General Fund backed Lease-Revenue Obligations: $498.0 million
- Water and Wastewater System Obligations: $1,662.7 million

Fiscal Year 2007 Debt Service

- General Obligation Bonds: $2.8 million
- General Fund backed lease-revenue obligations: $46.8 million
- Water and Wastewater Enterprise Fund obligations: $137.7 million

CITY OF SAN DIEGO'S BOND RATINGS:

General Obligation Bond ratings as of June 30, 2006

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

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, which are, in turn, 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

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

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

Pursuant to Section 90 of the City Charter, the City may incur bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10% of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also incur bonded indebtedness for the purpose of acquiring, constructing, or completing water facilities in an amount not to exceed 15% of the total assessed valuation. The combined limit on outstanding indebtedness for both non-utility related improvements and water related improvements is an amount not to exceed 25% of the total assessed valuation.

Based on the assessed valuation as of July 1, 2006, the **legal debt limit**, as defined in Section 90 of the City Charter, was $9.0 billion (unaudited.) As of June 30, 2006, outstanding debt subject to this limit was $11.5 million (includes only the 1991 Public Safety Communications Project General Obligation Bonds. These are the only outstanding bonds for which the City levies an annual property tax.)

In accordance with Section 90.1 of the City Charter, the City issues Revenue Bonds, an obligation payable from the revenues received by the utility, for the purpose of constructing water facilities, which fall outside the legal debt limit as defined in Section 90 of the City Charter. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's wastewater system.

The table that follows summarizes the City's outstanding debt as of June 30, 2006, and the debt/lease payment for each outstanding issuance for Fiscal Year 2007.

SUMMARY OF DEBT OBLIGATIONS

		Principal Outstanding 6/30/2006	Fiscal Year 2007 Debt/Lease Payment	Final Maturity	Primary Funding Source
GENERAL OBLIGATION BONDS					
1991	San Diego General Obligation Bonds (Public Safety Communications Project)	$11,520,000	$2,329,935	FY 2012	Property Tax
1994	San Diego Open Space Facilities District No. 1 Refunding Series	$1,170,000	$438,300	FY 2009	Franchise Fees
	Subtotal General Obligation Bonds	$12,690,000	$2,768,235		
GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS					
Certificates of Participation					
1996A	Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	$15,440,000	$3,527,088	FY 2011	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/ Mission Bay Park Improvements Program	$9,180,000	$877,165	FY 2022	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	$14,000,000	$2,155,129	FY 2024[4]	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension [2]	$10,240,000	$2,929,483	FY 2010	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	$60,490,000	$5,769,248	FY 2027	Stadium Revenues & Midway/ Sports Arena Leases
1998	Convention Center Expansion Authority	$183,300,000	$13,698,665	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002A	Ballpark and Redevelopment Project	$167,560,000	$15,038,338	FY 2032	Transient Occupancy Tax
2002B	Fire and Life Safety Facilities Project	$23,780,000	$1,629,458	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	$14,050,000	$1,154,949	FY 2023	Transient Occupancy Tax
	Subtotal General Fund Backed Lease-Revenue Obligations	$498,040,000	$46,779,523		
TOTAL GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS		$510,730,000	$49,547,758		
WASTEWATER AND WATER SYSTEM OBLIGATIONS [3]					
Wastewater System Obligations					
1993	Sewer Revenue Bonds	$182,370,000	$16,321,451	FY 2023	Net Wastewater System Revenues
1995	Sewer Revenue Bonds	$284,505,000	$23,583,116	FY 2025	Net Wastewater System Revenues
1997	Sewer Revenue Bonds	$208,500,000	$16,636,013	FY 2027	Net Wastewater System Revenues
1999	Sewer Revenue Bonds	$277,330,000	$20,510,758	FY 2029	Net Wastewater System Revenues
2004	Sewer Revenue Bonds (Private Placement)	$152,000,000	$21,300,000[4]	FY 2012	Net Wastewater System Revenues
Water System Obligations					
1998	Water Certificates of Undivided Interest	$271,055,000	$21,351,114	FY 2028	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	$286,945,000	$18,031,808	FY 2032	Net Water System Revenues
TOTAL WATER AND WASTEWATER SYSTEM OBLIGATIONS		$1,662,705,000	$137,734,260		

[1] The 2003 Balboa Park/Mission Bay Park Refunding Series consists of 2 underlying leases - (a) The North Course Torrey Pines lease (which terminates in FY 2009); and (b) The House of Charm lease (which terminates in FY 2024).
[2] Fiscal Year 2006 was the last payment towards the Police Improvements Lease component of the 1994 MTDB refunding Bonds .
[3] Does not include outstanding State Revolving Fund (SRF) loan obligations pertaining to Wastewater and Water Systems.
[4] Variable rate debt. Estimated debt payments subject to change based on market conditions and LIBOR periods selected.

In addition to long term debt obligations, the City annually issues Short Term **Tax and Revenue Anticipation Notes** (TRANs) 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 June 2006, the City Council approved, via Resolution R-301527, a privately placed Note Purchase Agreement with Bank of America in an amount not-to-exceed $160 million, to meet the cash flow needs for Fiscal Year 2007. The projected monthly cash flows for Fiscal Year 2007 indicate a cash flow deficit of $142 million; pursuant to this, the City borrowed $142 million on July 3, 2006 to be repaid at maturity (August 3, 2007). The City had borrowed $145 million to meet the cash flow needs of Fiscal Year 2006, which has been paid off, with the final payment in May 2006.

The City's **Equipment and Vehicle Financing Program** provides a mechanism for the short term lease purchases of essential equipment in addition to the pay as you go basis funding. The lease purchases are typically over a three to seven year term.

From time to time, the City of San Diego Redevelopment Agency, Special Assessment or Community Facilities Districts, and the San Diego Housing Commission issue long term debt.

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.

The San Diego Housing Commission's Multifamily Bond Program administers multifamily tax-exempt financing for various projects. Based on tax exemption of the interest income on municipal bonds, the Multifamily Bond Program offers below market financing to developers of multifamily 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 of San Diego. 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, guarantees 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.