

FISCAL YEAR 2025

Volume 1
Debt Obligations

PROPOSED BUDGET

The City of
SAN DIEGO
MAYOR TODD GLORIA



HOUSING | PROTECT & ENRICH | INFRASTRUCTURE | SUSTAINABILITY | PROSPERITY



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Debt Obligations

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 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 others that can improve the quality of life of residents. Close coordination of capital planning and debt planning ensures that 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 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 lease payments that are due and payable during each Fiscal Year (FY) 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 of the City.

Other Outstanding Debt Obligations

Federal and State Infrastructure Loans are an important funding source for capital projects in addition to bond and commercial paper note proceeds. State Revolving Funds (SRF) and the federal WIFIA programs make low-cost, long-term loans available to local agencies to fund certain public clean water and economic development infrastructure projects. The City is utilizing, or has applied for, SRF funding for various water, wastewater, and stormwater system projects. The City has secured WIFIA loans to finance the Water Utility portion of Phase I of the Pure Water Program and critical stormwater infrastructure improvements. Additionally, the City has secured a California Infrastructure and Economic Development Bank ("I-Bank") loan to finance the City's organics processing facility.

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.

¹Does not reflect debt obligations of City related entities (examples include City as the Successor Agency to the Redevelopment Agency, Community Facilities Districts, or Assessment Districts). See the City's FY 2023 Annual Comprehensive Financial Report (ACFR) for a complete list of outstanding liabilities of the City and its related entities.

Debt Obligations

Capital Leases are utilized by the City to finance various essential 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 refuse packers, service trucks, Information Technology (IT) projects and equipment, and fire and police helicopters. In addition, from time to time, the City enters capital leases via equipment vendors to finance eligible projects.

Short-term Interim Financings

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. Notes for the Water and General Fund Commercial Paper Note Program mature up to 270 days from issuance, and hold short-term rates of interest. Commercial Paper obligations are refinanced with long-term bonds.

- Water Revenue Commercial Paper Notes Program: In 2017, the City established a Water Revenue Commercial Paper Notes Program to finance Water Utility capital projects. Program costs and issuance expenses are paid by the Water Utility Fund.
- General Fund Lease Revenue 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 and purchases of equipment and vehicles. Program costs and issuance expenses are paid by the General Fund.

Revolving Credit Loans are currently used by the City's Wastewater Utility to provide as-needed liquidity while the City awaits reimbursement from SRF loans related to the Wastewater Utility's Pure Water expenditures.

Table 1: General Fund Credit Ratings as of March 2024 shows the City's General Obligation (GO) Related/Issuer Credit Ratings and credit ratings on outstanding General Fund Lease Revenue Bonds and the Water Infrastructure Finance and Innovation Act (WIFIA) loan.

Table 1: General Fund Credit Ratings as of March 2024

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
GO Related/Issuer Credit Rating	AA	Aa2	AA
Outlook	Stable	Stable	Stable
Lease Revenue Bonds and WIFIA Loan ³⁰	AA-	Not Rated	AA-
Outlook	Stable	--	Stable

² Only Fitch Ratings rates the WIFIA loan.

Debt Obligations

Table 2: Summary of General Fund Debt Obligations summarizes the City's projected outstanding General Fund debt obligations, as of June 30, 2024, and the projected debt/lease payment for each outstanding issuance for FY 2025.

Table 2: Summary of General Fund Debt Obligations³

		Principal Outstanding 6/30/2024	FY 2025 Debt/Lease Payment	Final Maturity	Primary Funding Source
General Fund Bonds, Capital Leases, and Commercial Paper Note Obligations					
Lease Revenue Bonds					
2012B	Fire & Life Safety Refunding Bonds ⁴	\$9,475,000	\$1,398,569	FY 2032	Safety Sales Tax
2013A	General Fund CIP Bonds ⁴	\$26,920,000	\$2,155,831	FY 2043	General Fund
2015A & B	General Fund CIP Bonds	\$89,705,000	\$6,898,375	FY 2045	General Fund
2016	Ballpark Refunding Bonds	\$61,265,000	\$9,288,625	FY 2032	Transient Occupancy Tax
2018A	Series 2010A Refunding Bonds	\$74,790,000	\$6,679,560	FY 2039	General Fund
2018A	1996A Stadium Bonds	\$11,490,000	\$4,041,248	FY 2027	Capital Outlay Fund
2020A	Series 2012A Refunding Bonds	\$57,770,000	\$4,169,948	FY 2042	General Fund
2020A	Convention Center Expansion Refunding Bonds	\$45,875,000	\$12,099,511	FY 2028	Transient Occupancy Tax
2021A	General Fund CIP Bonds	\$113,580,000	\$7,223,600	FY 2052	General Fund
2023A	General Fund CIP Bonds	\$113,325,000	\$7,230,625	FY 2053	General Fund
2024A	General Fund CIP Bonds ⁵	\$0	\$6,700,000	FY 2055	General Fund
Total Lease Revenue Bonds		\$604,195,000	\$67,885,892		
General Fund Supported Capital Leases					
	Equipment and Vehicle Financing Program	\$73,273,933	\$21,753,650	FY 2034	Fleet Replacement Fund and General Fund
	Qualified Energy Conservation Bonds Equipment Lease ⁶	\$2,030,580	\$1,128,955	FY 2026	Street Light Energy and Maintenance Cost Savings
	Stormwater WIFIA Loan ⁷	\$0	\$1,421,232	FY 2062	General Fund
	Other Capital Leases ⁸	\$13,193,742	\$2,444,499	FY 2033	General Fund
Total General Fund Supported Capital Leases		\$88,498,255	\$26,748,336		
General Fund Commercial Paper Notes					
	General Fund Commercial Paper Notes Program (not to exceed \$88.5 million) ⁹	\$45,000,000	\$0		General Fund
Total General Fund Commercial Paper Notes		\$45,000,000	\$0		
California Energy Resources Conservation and Development Commission (CEC) Loans					
	CEC Loans	\$656,700	\$162,364	FY 2029	General Fund
Total CEC Loans		\$656,700	\$162,364		

Debt Obligations

Debt Ratio

As outlined in the City's Debt Policy, an important metric analyzed is the City's debt position with respect to General Fund supported debt securities (including lease revenue obligations) by calculating the required annual debt service/lease payment as a percentage of total General Fund revenues (Debt Ratio). This analysis includes the annual debt service/base rental payments for all the General Fund backed long-term fixed obligations of the City such as lease revenue bonds and capital leases. The analysis excludes debt liabilities of the City's related agencies, debt supported by rates and user charges (e.g., enterprise fund-backed revenue bonds), or securitization of revenue such as tobacco settlement bonds. Generally, the City strives to maintain a Debt Ratio below 10.0 percent.

It is a strong financial management practice and important planning tool to also account for pension and retiree health care (OPEB) costs, which are significant non-discretionary General Fund costs, when calculating the City's overall debt burden. Taken together, the City strives to maintain a Debt Ratio, including pension and OPEB costs, under 25 percent.

Based on the projected General Fund debt obligations, the Debt Ratio is anticipated to be 4.4 percent for FY 2025, and when combined with Pension and OPEB costs the ratio is projected to be 22.9 percent.

The City actively monitors the Debt Ratios. Additional capital financing needs, reductions in General Fund revenues, or increases in pension payments would adversely affect the Debt Ratios. For more information about the Debt Ratios and other debt affordability guidelines please see the City's Debt Policy.

Table 3: Enterprise Fund Credit Ratings as of March 2024 shows the City's credit ratings on outstanding Enterprise Fund Revenue Bonds and the Water Utility's WIFIA loan.

Table 3: Enterprise Fund Credit Ratings as of March 2024

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Public Utilities Obligations			
Wastewater System Bonds (Senior Bonds) Outlook	AA Stable	Not Rated --	AA+ Stable
Wastewater System Bonds (Subordinate Bonds) Outlook	AA Stable	Not Rated --	AA Stable
Water System Bonds (Senior Bonds) Outlook ¹⁰	AA Stable	Aa2 Stable	Not Rated --
Water System Bonds and WIFIA Loans (Subordinate Debt) ¹¹ Outlook	AA- Stable	Aa3 Stable	Not Rated --

Table 4: Summary of Enterprise Fund Debt Obligations summarizes the City's projected outstanding Enterprise Fund debt obligations, as of June 30, 2024, and the projected debt/lease payment for each outstanding issuance for FY 2025.

Debt Obligations

Table 4: Summary of Enterprise Fund Debt Obligations¹²

		Principal Outstanding 6/30/2024	FY 2025 Debt/Lease Payment	Final Maturity	Primary Funding Source
Public Utilities – Sewer and Water Revenue Bonds, Commercial Paper Notes, and Loan Obligations					
Sewer Revenue Bonds, Notes, and Federal and State Loans					
2015	Sewer Revenue Refunding Bonds	\$113,595,000	\$64,743,700	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	\$162,995,000	\$10,939,751	FY 2052	Net Wastewater System Revenues
2024A	Sewer Revenue Bonds ¹³	\$0	\$14,177,750	FY 2054	Net Wastewater System Revenues
	Sewer State Revolving Fund Loans	\$260,890,840	\$8,912,158	FY 2056	Net Wastewater System Revenues
	Sewer Revolving Credit Loan	\$0	\$2,400,000	FY 2026	Net Wastewater System Revenues
Total Sewer Revenue Bonds, Notes, and Loans		\$807,610,840	\$114,679,859		
Water Revenue Bonds and Federal and State Loans					
2016A	Subordinated Water Revenue Bonds	\$35,040,000	\$2,612,325	FY 2046	Net Water System Revenues
2016B	Subordinated Water Revenue Refunding Bonds	\$327,655,000	\$41,157,500	FY 2040	Net Water System Revenues
2018A	Subordinated Water Revenue Bonds	\$222,045,000	\$16,024,300	FY 2048	Net Water System Revenues
2020A	Senior Water Revenue Bonds	\$204,235,000	\$12,418,675	FY 2050	Net Water System Revenues
2020B	Senior Water Revenue Refunding Bonds	\$81,280,000	\$9,931,477	FY 2033	Net Water System Revenues
2023A	Senior Water Revenue Bonds	\$223,155,000	\$14,183,588	FY 2053	Net Water System Revenues
	Water State Revolving Fund Loans	\$63,660,875	\$6,737,003	FY 2057	Net Water System Revenues
	WIFIA Loan – Pure Water Program (not to exceed \$614 million)	\$350,000,000	\$8,100,000	FY 2059	Net Water System Revenues
Total Water Revenue Bonds and Loans		\$1,507,070,875	\$111,164,868		
Water Revenue Commercial Paper Notes					
	Subordinated Commercial Paper Notes Program (not to exceed \$250 million) ¹⁴	\$135,000,000	\$5,000,000		Net Water System Revenues
Total Water Revenue Commercial Paper Notes		\$135,000,000	\$5,000,000		
Refuse Disposal Enterprise Fund Loan					
	I-Bank Loan	\$40,000,000	\$2,887,736	FY 2044	Net Refuse Disposal System Revenues
Total Refuse Disposal Enterprise Fund Loan		\$40,000,000	\$2,887,736		

Debt Obligations

³ Principal Outstanding and Debt/Lease Payments are based on established debt service schedules for bonds and the Qualified Energy Conservation Bonds Equipment Lease. Principal Outstanding and Debt/Lease Payments for all other obligations (Equipment and Vehicle Financing Program, Stormwater WIFIA Loan, Other Capital Leases, General Fund Commercial Paper, and CEC Loans) are based on projections at the time of document publication and are subject to change.

⁴ The 2012B and 2013A General fund CIP Bonds are currently anticipated to be refunded in conjunction with the proposed 2024 Lease Revenue Bonds (see footnote 5). The FY 2025 Lease Payment is subject to change and contingent on the refunding of the bonds.

⁵ In July 2024, the City anticipates issuing Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2024 (Series 2024 Bonds), in an amount up to \$180 million to finance capital improvement projects. The FY 2025 Debt/Lease Payment is an estimate and subject to change based on market conditions at the time of pricing.

⁶ Represents full lease payment. Does not include an estimated \$71,979 in Federal subsidy to offset the lease payment.

⁷ On August 9, 2022, the City executed a \$359.2 million WIFIA Master Lease loan authorization with the Environmental Protection Agency (EPA) for Stormwater CIP Program. The City anticipates the loan will begin to pay debt service in FY 2025 when funds are anticipated to be drawn.

⁸ Other Capital Leases include General Electric Street Lights (principal outstanding is \$11,627,573 and debt service in FY 2025 is \$1,652,635) and IT Hardware (principal outstanding is \$1,566,169 and debt service in FY 2025 is anticipated to be \$791,864).

⁹ There are no note issuances projected for FY 2025 due to the issuance of the Series 2024 Bonds. Figures do not reflect fees of \$405,695, which are required for Commercial Paper Program operation.

¹⁰ In addition, the Water System's 2020 Senior Bonds are rated by Kroll Bond Rating Agency with an AA+ Rating and a Stable outlook.

¹¹ The WIFIA Loans are rated by Fitch Ratings with the rating reflected in the table above and Kroll Bond Rating Agency with an AA Rating and a Stable outlook.

¹² Principal Outstanding and Debt/Lease Payments are based on established debt service schedules for bonds and the I-Bank Loan. Principal Outstanding and Debt/Lease Payments for all other obligations (State Revolving Fund Loans, Sewer Revolving Credit Loan, Pure Water WIFIA Loan, and Water Revenue Commercial Paper) are based on projections at the time of document publication and are subject to change.

¹³ The City plans to issue the 2024A Sewer Revenue Bonds in July 2024 in an amount not-to-exceed \$300 million. The City anticipates debt service payments to begin in FY 2025. The FY 2025 Debt/Lease Payment is an estimate and subject to change based on market conditions at the time of pricing.

¹⁴ Figures do not include estimated fees of \$1.2 million, which are required for Commercial Paper Program operation.