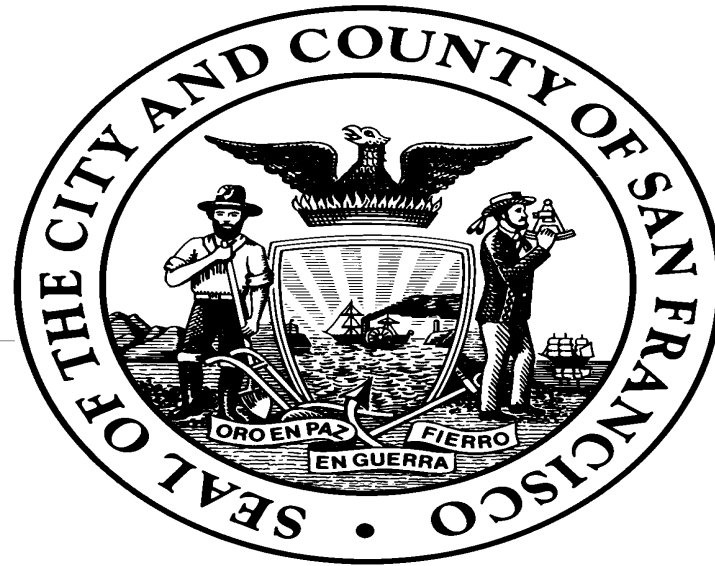


# **Introduction to Municipal Bonds & City Debt Issues**



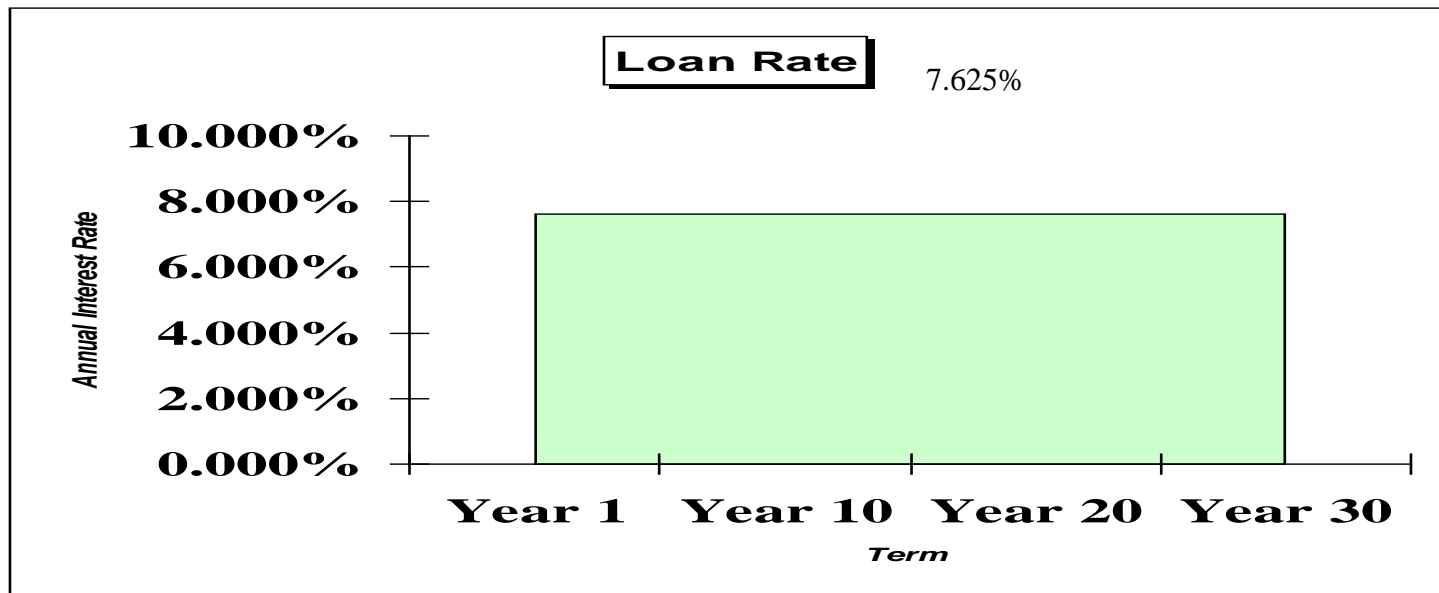
**Controller's Office of Public Finance  
City and County of San Francisco  
February 3, 2015  
[www.sfgov.org/opf](http://www.sfgov.org/opf)**

# Table of Topics

1. What is Public Debt
  1. Standard Debt Mechanisms
  2. What is Public Debt
  3. What are Public Debt Instruments
2. What is Financed with Public Debt
3. When Should Debt Be Used
4. Characteristics of General Obligation Bonds
5. How Does a Project Become Financed?

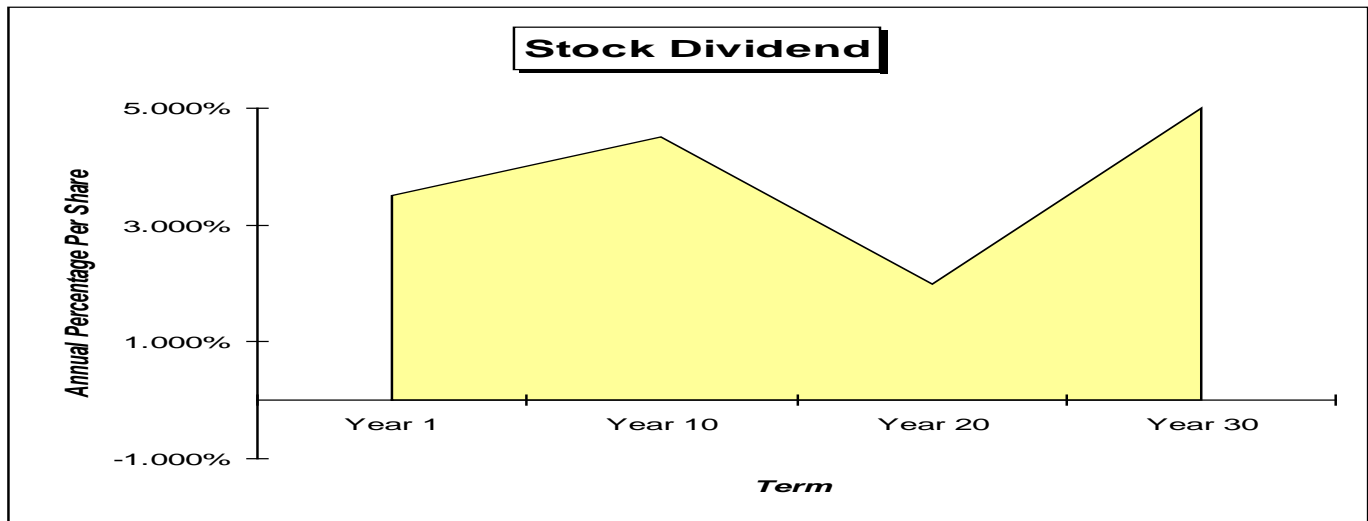
## Standard Debt Mechanisms

- Loans:
  - \* interest rate applies to entire borrowed amount
  - \* may be one investor or multiple investors
  - \* principal repaid with interest as scheduled
  - \* all investments made for a single, final stated maturity
  - \* typically require posting of collateral



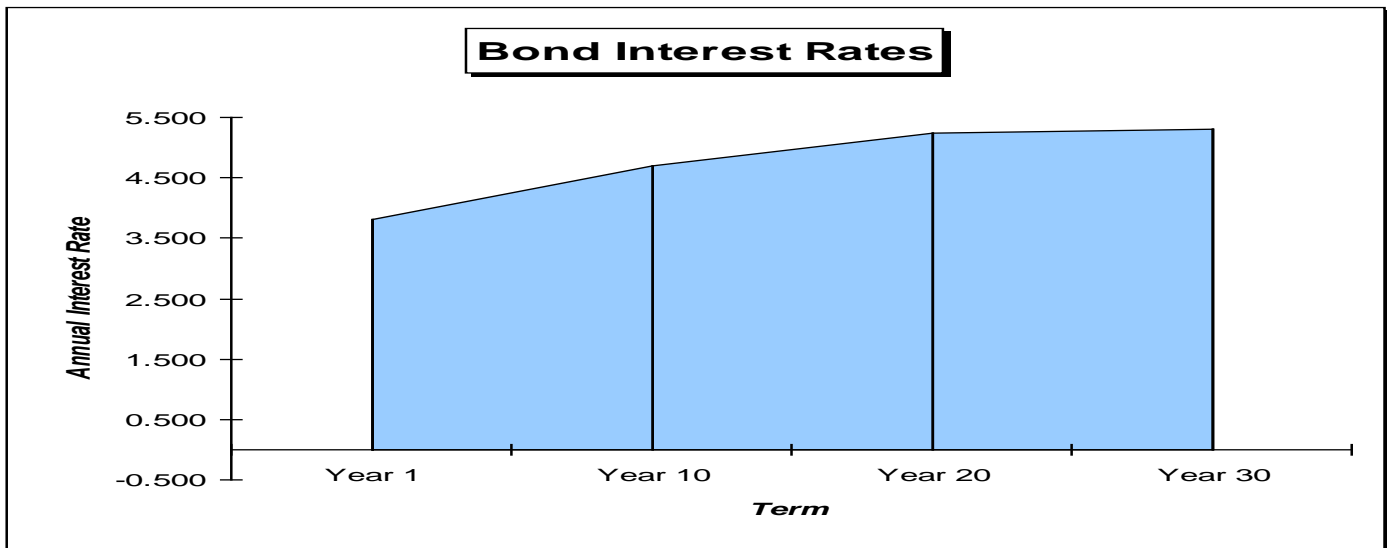
## Standard Debt Mechanisms (*cont'd*)

- Stocks: \* no set interest rate
  - \* multiple investors
  - \* investment represents ownership interest ... Not A Loan!
  - \* participate in profits; no interest paid
  - \* no set schedule for return on investment
  - \* no set annual payment



## Standard Debt Mechanisms (*cont'd*)

- Bonds: \* multiple interest rates
  - \* multiple maturities
  - \* multiple investors
  - \* principal repaid with interest
  - \* investors have different needs



## What is *Public Debt*?

- Definition: Financing of public facilities and public improvements
- in California, each political subdivision must have either express or implied statutory authority
- is typically tax-exempt at the local (if any), state and federal income tax levels
- highly regulated
  - IRS – tax privilege/subsidy
  - SEC – not directly regulated but subject to anti-fraud provision of securities law
  - State law – use of taxes for repayment
  - Local law – use of taxes and burden to future generations

# What is Financed with Public Debt?

- ✓ Airports: terminals, parking, runways
- ✓ Bridges, highways, roadways, tunnels, toll roads
- ✓ Community infrastructure (roads, lighting, schools, etc.)
- ✓ Drainage or flood improvements
- ✓ Fire protection (stations, equipment, etc)
- ✓ Garbage disposal: landfills, recycling centers, etc.
- ✓ Harbors, beaches, marinas, ports
- ✓ Hospitals, health centers, convalescent and mental care
- ✓ Housing: public, affordable, workforce, low-income, supportive
- ✓ Libraries
- ✓ Parking garages, lots, meters
- ✓ Public power and alternative energies
- ✓ Recreation and park facilities including open space
- ✓ Redevelopment in “blighted” areas
- ✓ Schools, colleges, universities
- ✓ Transit: buses, subways, light rail, train
- ✓ Veteran’s facilities
- ✓ Water, sewer, stormwater, irrigation or reclamation systems

## When Should Debt be Used?

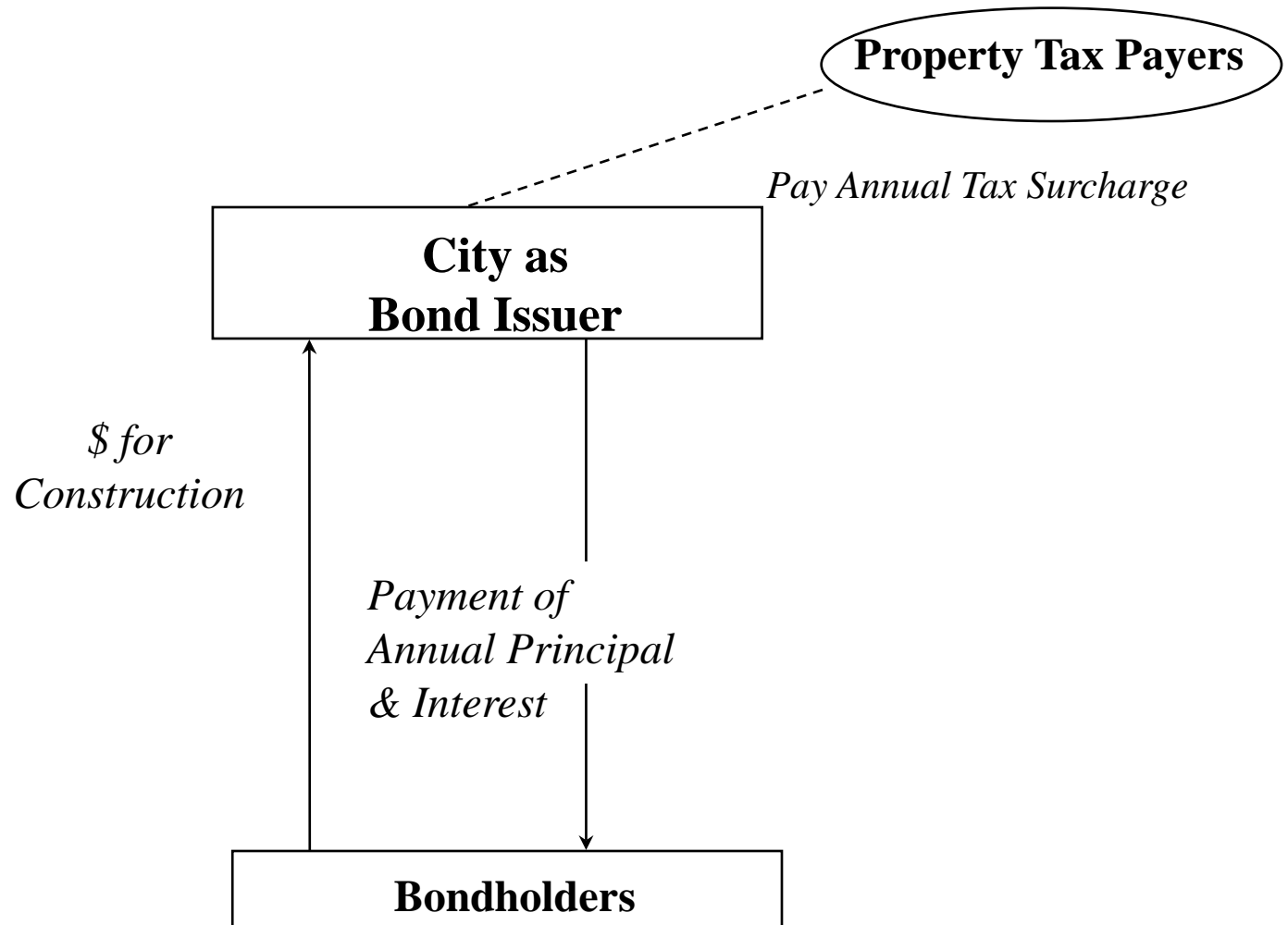
- capital improvement
  - real property
  - equipment
- operating expense (pension liability, prepaid services)
- pay-as-go or pay-as-use (intergenerational equity)
- cost-benefit analysis
- political expediency
- affordability



# Municipal Bond Issuance Types

- General Obligation Bonds  
(General Fund)
- Lease Revenue Bonds  
(General Fund)
- Certificates of Participation  
(General Fund or Enterprise Fund)
- Enterprise Revenue Bonds  
(Airport, Housing Authority, Municipal Transportation Authority, Port Commission, Public Utilities Commission)
- Tax Increment Bonds/ Infrastructure Finance District (IFD)  
(Successor Agency to the SF Redevelopment Agency)

# General Obligation Bonds



## General Obligation Bonds (*cont'd*)

- Qualifies in all respects as DEBT
- Investors are “secured creditors”
- Debt repayment is secured by City property taxes
- City is legally obligated to levy taxes to repay debt
- Project to be funded is not significant to investor
- Underlying tax base (wealth, growth in tax base, other liens and obligations) is hugely important
- Carries highest bond rating
- Produces lowest borrowing cost (interest rate)
- Regulated by State law & City Charter
- Proceeds can only be used for real property pursuant to State Constitution
- GO Bonds must be sold by Competitive Sale pursuant to State Constitution

## Authority for G.O. Issuance

- Charter Section 9.106
  - defers to State law
  - sets cap at 3% of AV on taxable real and personal property
- Article XIII A, Sections 1(b)(2) and 2(a)
  - requires super-majority (2/3) vote
  - gives Issuer ability to levy property taxes for debt repayment that are “unlimited in rate and amount”
- City Administrative Code Sections 3.21-3.23 inclusive (CPC)

## General Obligation Debt Capacity

Net Assessed Value (FY 2014-15)	\$181,809,981,276
3% Cap on Outstanding Obligations	\$5,454,299,438
General Obligation Bonds Outstanding (1/01/2015)	\$2,093,703,783
<hr/>	
Utilized Capacity (01/01/2015)	1.15%
Available Debt Capacity	\$3,360,595,655
<hr/>	
Authorized & Unissued Bond	\$1,285,099,550

# General Obligation Bonds (as of January 2015)

## CITY AND COUNTY OF SAN FRANCISCO General Obligation Bonds (as of December 31, 2014)

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u> <sup>1</sup>	<u>Authorized &amp; Unissued</u> <sup>2</sup>
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$25,193,783	\$284,684,550
Branch Library Facilities Improvement (11/7/00)	2008A	31,065,000	24,190,000	
Clean & Safe Neighborhood Parks (2/5/08)	2008B	42,520,000	33,450,000	
	2010B	24,785,000	11,960,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	58,010,000	8,695,000
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	99,150,000	
	2010A	120,890,000	58,335,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	184,380,000	
	2014A	209,955,000	198,680,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	72,285,000	
	2012A	183,330,000	145,205,000	
	2012E	38,265,000	35,415,000	
	2013B	31,020,000	27,235,000	
	2014C	54,950,000	54,950,000	25,215,000
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	59,385,000	
	2013C	129,560,000	113,730,000	44,145,000
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	63,175,000	123,030,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	100,670,000	299,330,000
Transportation and Road Improvement (11/4/14)				500,000,000
<b>SUB TOTALS</b>		<b>\$1,888,665,450</b>	<b>\$1,574,848,783</b>	<b>\$1,285,099,550</b>
<b><u>General Obligation Refunding Bonds:</u></b>				
Series 2006-R1 issued 10/31/06		\$90,690,000	\$45,725,000	
Series 2006-R2 issued 12/18/06		66,565,000	25,650,000	
Series 2008-R1 issued 5/29/08		232,075,000	35,200,000	
Series 2008-R2 issued 5/29/08		39,320,000	21,195,000	
Series 2008-R3 issued 7/30/08		118,130,000	118,130,000	
Series 2011-R1 issued 11/9/11		339,475,000	272,955,000	
<b>SUB TOTALS</b>		<b>886,255,000</b>	<b>518,855,000</b>	
<b>TOTALS</b>		<b>\$2,774,920,450</b>	<b>\$2,093,703,783</b>	<b>\$1,285,099,550</b>

<sup>1</sup> Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

<sup>2</sup> Of the \$35,000,000 authorized by the Board of Supervisors in February 2007, \$30,315,450 has been drawn upon to date pursuant to the Credit Agreement described under "General Obligation Bonds ."

Source: Office of Public Finance, City and County of San Francisco.

# General Obligation Bonds versus Revenue Bonds

- Unlimited ad valorem tax versus service charges & fees from users, etc.
- Competitive versus negotiated sale
- Security: Full faith and credit versus coverage test and contracts
- G.O. carries the highest bond rating
- G.O. produces the lowest borrowing cost
- Fund requirements

# Municipal Bond Ratings: G.O. versus Revenue Bonds

## Type of Bond

## Rating

SF G.O. Bonds

Moody's: Aa1  
S&P: AA+  
Fitch: AA

SFMTA Revenue Bonds

Moody's: Aa2  
S&P: AA



# Bond Funds: G.O. versus Revenue Bonds

## General Obligation Bonds

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**Project Fund**  
(held by City)

**Repayment Fund**  
(held by City)

## Revenue Bonds

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**Project Fund**  
(held by City/Trustee)

**Repayment Fund**  
(held by Trustee)

**Capitalized Interest  
Fund(Optional)**  
(held by Trustee)

**Reserve Fund**  
(held by Trustee)

# How Does A Project Become Financed?

1. Department initiates capital planning proposal
2. Project deliberations begin (CEQA, design, documentation, budget estimate, etc.)
3. Submits Bond Report to CPC pursuant to Administrative Code
4. CPC forwards proposal to Board of Supervisors
5. Board holds two separate, distinct hearings pursuant to State Constitution
6. Ballot Measure passes by 2/3 Vote of electorate
7. Project deliberations continues (bid, construction contract, etc.)
8. Office of Public Finance (OPF) reviews cash needs, sizes bonds
9. Department submits Bond Accountability Report
10. City Attorney & OPF manages documentation

## How Does A Project Become Financed, cont'd?

11. Resolution, Supplemental Appropriation & bond documentation heard by Commission (if any) then Board of Supervisors; signed by Mayor (transaction reviewed by Budget Analyst)
12. Due diligence on preliminary official statement
13. Public notice of bond sale advertised
14. Preliminary Official Statement and Notice of Sale (bid form) issued
15. Bids received at time & date certain and award based on lowest TIC
11. Documentation completed
12. Bonds “settled” 2 weeks after commitment
13. Debt administration: budgeting, expenditure, disclosure & reporting compliance
14. On going reporting to Citizens General Obligation Bond Oversight Committee

## Use of Municipal Bonds

- Match payment of project costs with benefit
- identify source of repayment for bonds: levy taxes, enterprise revenues or leverage future fee collections (General Fund)
- Acquisition or improvement of a tangible asset

### General Obligation Bonds

- Project is a publicly-owned facility accessible to all taxpayers
- Proceeds limited to the “acquisition or improvement to real property”
- Project timeline can accommodate a lengthy election process