SESSION FOUR

Long-term Financing Options

DAVID BRODSLY
Managing Director
KNN Public Finance

GRANT CARSON
Debt Capital Markets Specialist
City and County of San Francisco

MELISSA SHICK
Managing Director
KNN Public Finance

The Right Long-Term Financing Solution Fits the Context

- Debt is not a resource; it is a tool for managing future resources
  - Accelerates delivery of a capital project vs. having to accumulate cash
    - Earlier service delivery
    - Savings when cost of borrowing is lower than construction inflation
  - Spreads cost of capital project over more of useful life of the asset
    - Generational equity
- Any debt issuance should be <u>preceded by</u> a longer-term financial plan that considers:
  - The project
  - Overall capital needs
  - The appropriate revenue sources to finance the project
  - The “right” combination of existing resources (i.e., pay-as-you-go) and future resources (debt)
- And after that, you can start talking about the specific tools of finance: bonds, loans, and all that jazz…

Projects are Often Funded with Multiple Resources

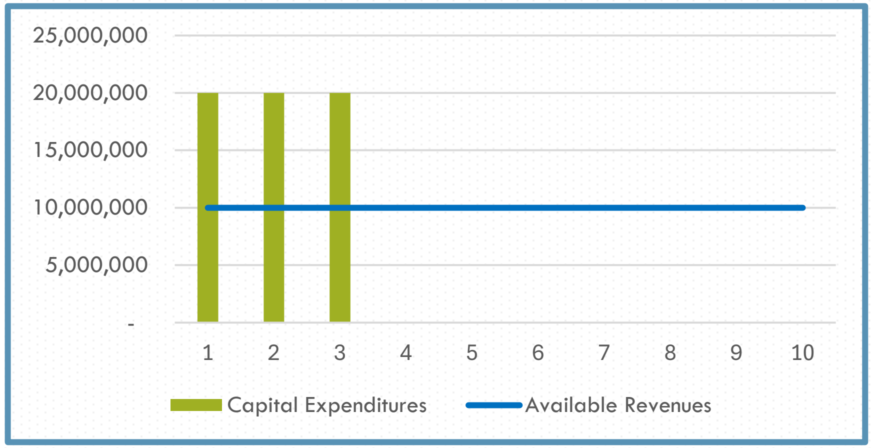
PROJECT FUNDING SOURCES

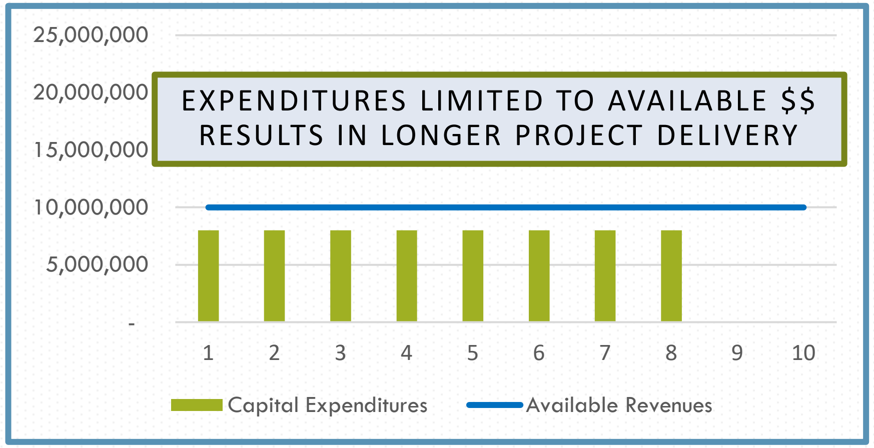
	AVAILABLE REVENUES/ CASH BALANCES	FEDERAL/STATE GRANTS OR LOANS	BORROW: BONDS, LOANS, NOTES
CHARACTERISTICS	• Available source of money or “Pay-As-You-Go” funds • Used for small and recurring capital projects	• “Free” money (with strings attached) • Used to offset funding gap of any capital project	• Future revenues leveraged to provide upfront project funding • Used for large capital projects
CONSIDERATIONS	• Projects built slowly over time • Opportunity cost of funds (i.e. lost interest earnings)	• Application process can be drawn-out and competitive • Timing of funds can be uncertain • May require oversight or thorough review	• Interest and financing costs • Staff resources required for financing process

Financing plans often involve a mix of pay-go, grant funding, and financing

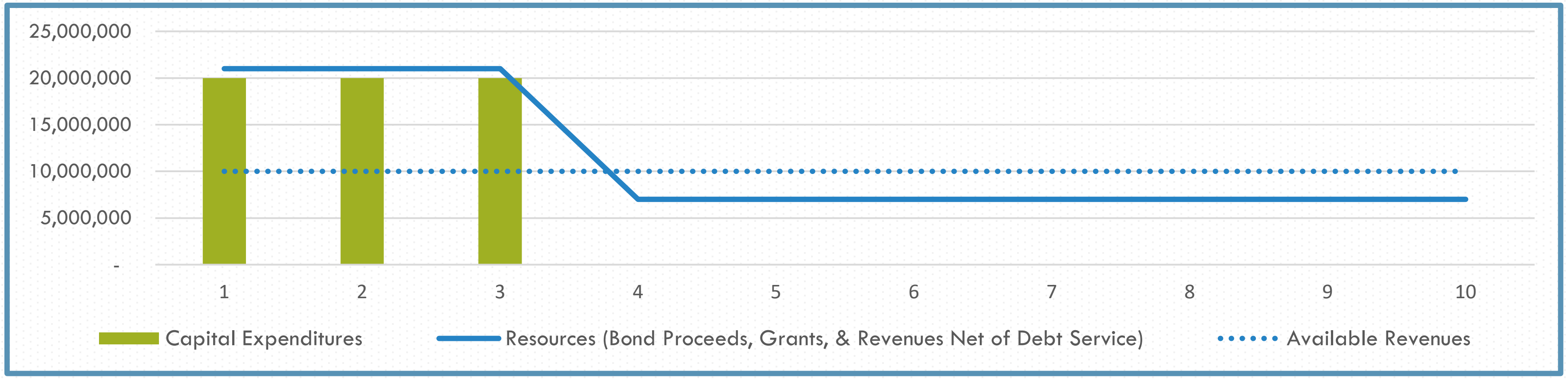
Why is Debt Utilized to Fund Projects?

CAPITAL EXPENDITURES ARE GREATER THAN AVAILABLE REVENUES





<u>**BONDING**</u> ACCELERATES FUTURE REVENUES TO DELIVER PROJECTS



Public Agency Debt is Typically Tax-Exempt

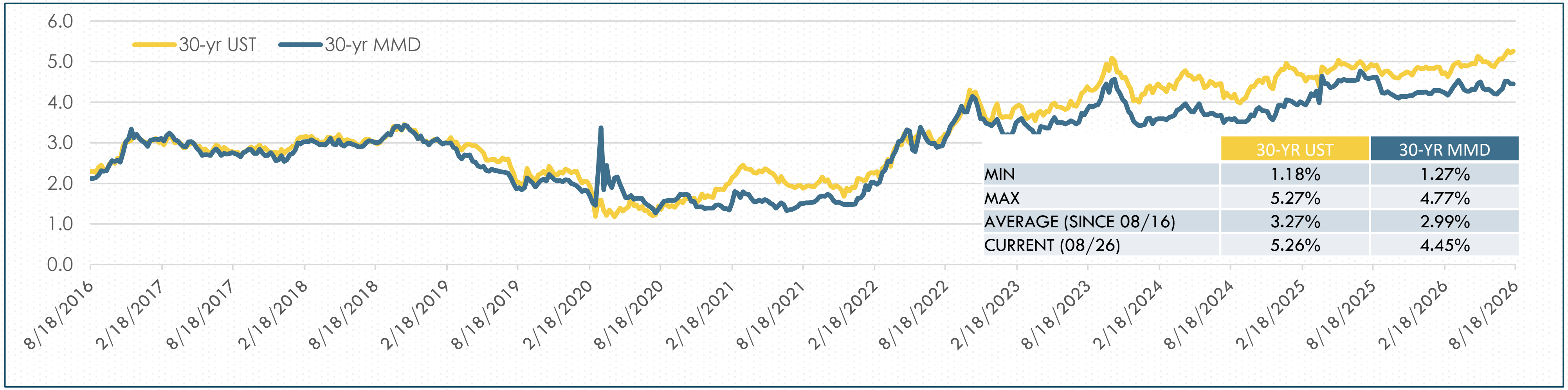
- Public agencies benefit from tax-exemption
  - Most municipal bonds issued for infrastructure or capital improvements qualify to be issued on a tax-exempt basis

- Bondholders do not pay Federal income tax on interest earnings
  - Investors will purchase tax-exempt bonds at lower yields than taxable bonds
  - Allows a municipal issuer to raise capital at comparatively lower interest rates as compared to taxable (such as corporate) bonds

There are reasons that a public agency may issue taxable debt!

- **Use of proceeds for non-exempt uses**
- **Financing flexibility**
- **Advance refunding of outstanding obligations**

TAX-EXEMPT (MMD) VERSUS TAXABLE (UST) INTEREST RATES: TEN-YEAR HISTORY



	30-YR UST	30-YR MMD
MIN	1.18%	1.27%
MAX	5.27%	4.77%
AVERAGE (SINCE 08/16)	3.27%	2.99%
CURRENT (08/26)	5.26%	4.45%

Tax-Exempt Bond Proceeds & IRS Requirements

- **Purpose**
  - For governmental purposes – not for private use
- **Spending & Reasonable Expectation Test**
  - Expectation at issuance that bond proceeds will be expended over a specified period:
    - At least 5% of the bond proceeds spent within 6 months of issuance
    - And 85% of the bond proceeds spent within three years
- **Earnings**
  - Certain invested proceeds may not earn arbitrage (earnings rate > borrowing rate)
- **Certifications & Responsibilities**
  - Certification of compliance required to be made by issuer at time of issuance – i.e., tax certificate
  - Record keeping of the expenditure of bond proceeds in case there is an audit by the IRS

A Plan of Finance Determines the Timing & Amount of Debt

Identify Project Needs and Funding Resources

- Assess project readiness and environmental approvals
- Prioritize project(s) from CIP – i.e., high, medium, and low
- Determine project cost expectations
- Identify available cash, revenues, or outside funding sources

Develop Financial/Cash Flow Model

- Estimate amount and timing of annual capital expenditures
- Establish PAYGO and cash balance targets
- Identify amount and timing of “unfunded” or bonding need
- Group potential bond financings to satisfy IRS expenditure test requirements to access lower tax-exempt rates

Project Repayment Sources for Annual Debt Service

- Prepare pro forma debt service numbers and evaluate debt affordability
- Evaluate legally available and/or pledged revenues for debt repayment
- Coverage requirements

Available Revenue Sources Determine the Type of Debt

COMMON GOVERNMENTAL REVENUE SOURCES

- General Fund revenues
- Enterprise revenues
- New voter-approved taxes
- User fees and charges
- Other?

THE SOURCE OF REPAYMENT WILL NARROW THE TYPE OF "DEBT" YOUR AGENCY CAN INCUR

- General Obligation Bonds
- Special Tax Bonds

- Lease Revenue Bonds
- Certificates of Participation
- Revenue Bonds

Debt Comes in All Shapes and Sizes…

- Public Offering
- Private Placement

- State & Federal Loans

- Tax-Exempt
- Taxable

- Bonds, Notes, Certificates of Participation

- Fixed Rate
- Variable Rate

So…What is "Debt?"

- US Constitution delegates municipal affairs to the states
- State law governs a local agency's ability to raise revenue and commit it to long term obligations
- California Constitutional Debt Limitation restricts true "indebtedness"

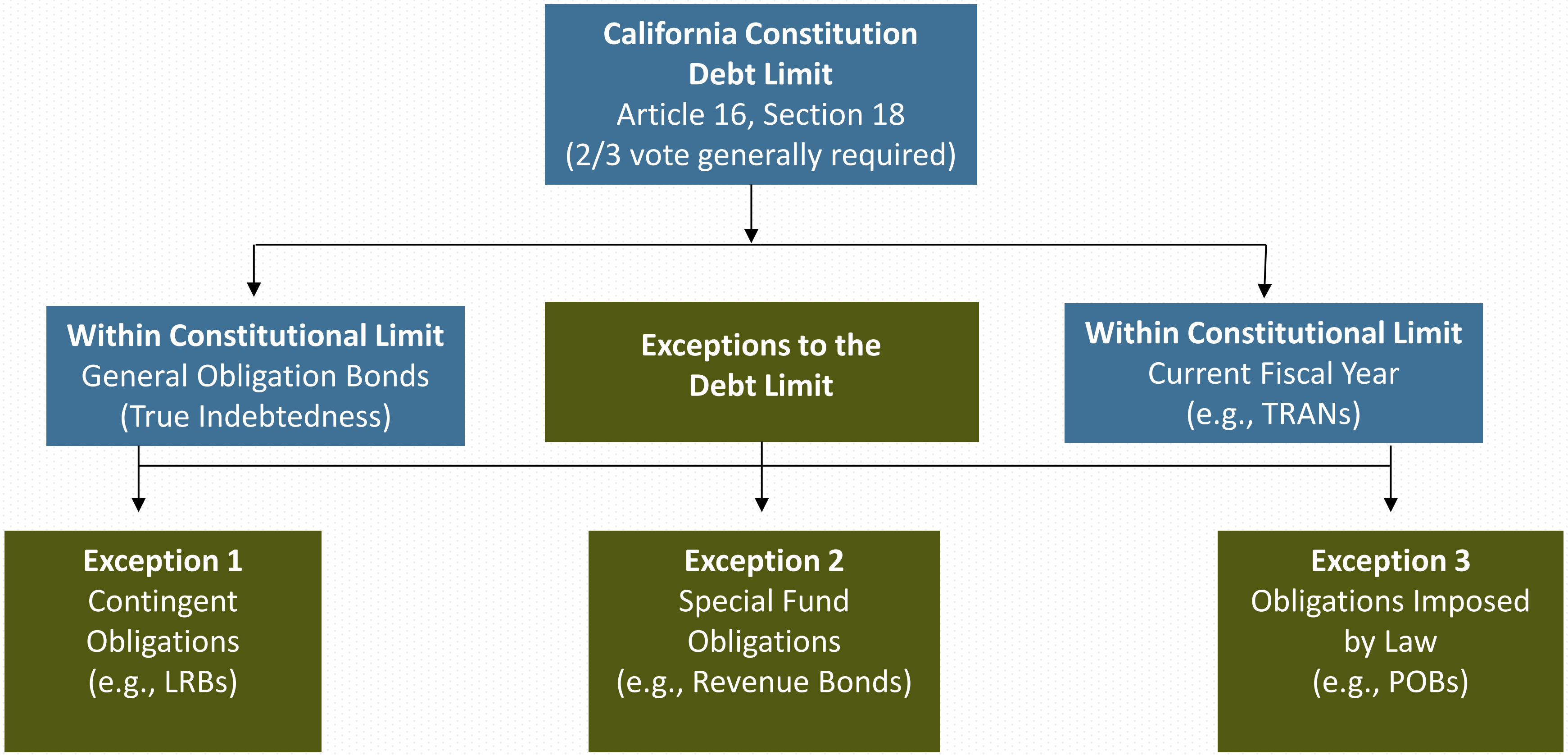
ARTICLE 16 PUBLIC FINANCE SEC. 18. No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the qualified electors thereof, voting at an election to be held for that purpose…; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and also provision to constitute a sinking fund for the payment of the principal thereof…

What is Debt…in California?

- California courts have identified a number of "exceptions" allowing issuance of debt-like securities if they meet the requirements set forth in their judicial opinions

"I have never been more struck by the good sense and the practical judgment of the Americans than in the manner in which they elude the numberless difficulties resulting from their… Constitution." Alexis de Tocqueville, 1835

What is Debt…In California?
Exceptions to the Voter-Approval Requirement



The Type of Debt an Agency Issues is Driven by the Project Type and Revenue Pledge

TYPES OF BONDS

	GENERAL OBLIGATION	LEASE OBLIGATION	ENTERPRISE REVENUE	SPECIAL TAX REVENUE	SPECIAL TAX ON PROPERTY	SPECIAL ASSESSMENT
REVENUE PLEDGE	"Full faith and credit" of issuer Secured by property taxes	Lease payments for use of government asset; paid from general fund	Net revenue of a specified enterprise, such as water, sewer, solid waste, or parking	Bonds paid from a direct pledge of an add-on / special tax (typically sales tax)	Lien on property; bonds paid from tax levied in addition to normal 1% ad valorem tax	Lien on property; bonds paid from annual assessment on property that benefits
VOTE?	2/3rds vote threshold; Schools may be 55%	**No public vote required**	**No public vote required**	2/3rds vote threshold	2/3rds vote of property owners by acreage or by vote of registered voters	50% + 1 vote of assesses, weighted by amount of assessment

Bonds or COPs?

- Bonds are a debt
  - Usually have a statutory basis, such as GO, revenue bonds, assessment bonds

- Certificates of Participation (COPs) were created to address situations where statutory authority was limited for debt that otherwise met the constitutional debt limit exception
  - Originally used to avoid statutory restrictions on lease revenue bonds, such as requirement for competitive sale and maximum interest rates
  - Are based on a contract that is legal under one of the "debt limit exceptions"

- While most common for lease obligations, COPs can also be used for special fund obligations
  - Commonly used by general law cities to avoid 1941 Act voter requirements for enterprise revenue bonds

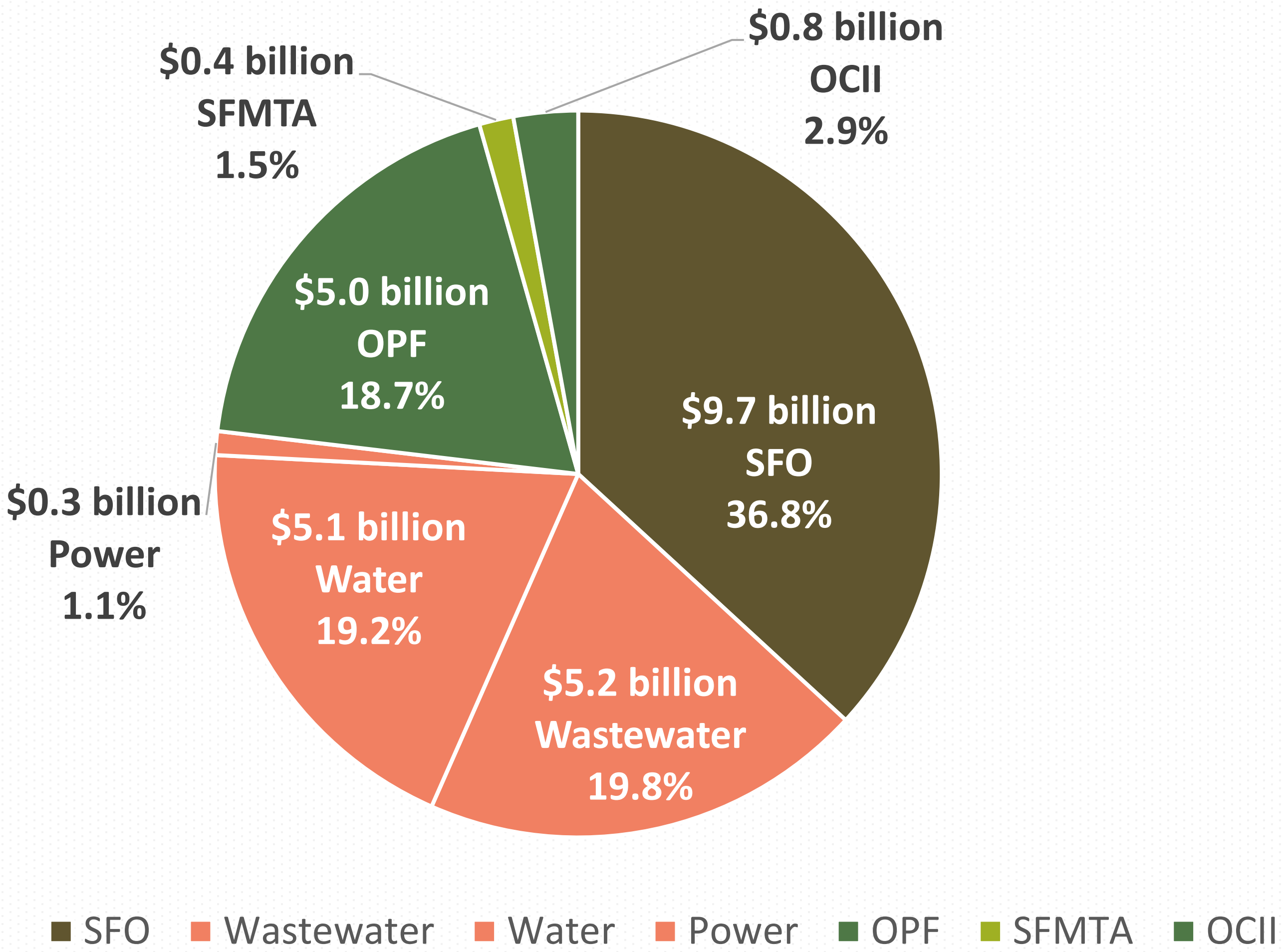
- **Bottom line**: Not much substantive difference between a "Bond" and a "COP"

City and County of San Francisco: Long-Term Borrowing Programs

TYPES OF BORROWING PROGRAMS

	OFFICE OF PUBLIC FINANCE PROGRAMS			0THER AGENCY PROGRAMS	
	GENERAL OBLIGATION	LEASE OBLIGATION	SPECIAL TAX ON PROPERTIES & TAX INCREMENT	ENTERPRISE REVENUE	OCII
PROJECTS FUNDED:	• Affordable Housing • Streets & Roads • Parks & Recreation • Seismic & Earthquake Safety	• Administration & Other Facilities • Convention Center • Affordable Housing • Streets & Roads • Various City Capital Improvements	• Transbay Transit Center • Treasure Island • Mission Rock Facilities & Services	• Water & Sewer System Projects • Airport & Port Infrastructure • Transit Improvements	• Project Area Infrastructure • Affordable Housing

San Francisco Outstanding Debt



*Outstanding amounts as of June 30, 2025.

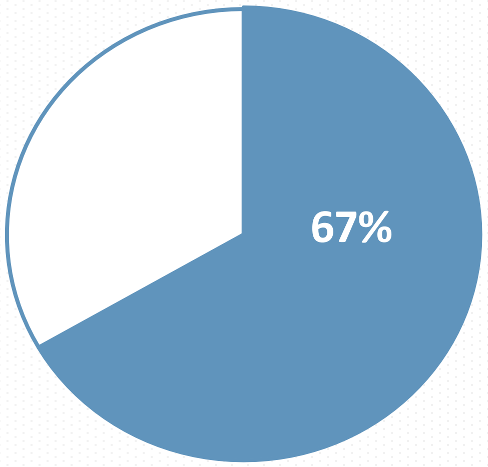
- Various agencies and departments within San Francisco issue debt
- $26 billion is among the various issuing entities as follows:
  - $10.6BN Public Utilities Commission
  - $9.7BN San Francisco Airport
  - $5.0BN Office of Public Finance
  - $0.8BN Office of Community Investment & Infrastructure (Successor Agency)
  - $0.4BN Municipal Transportation Agency
  - $0.03BN Port

Voter Approved Indebtedness: General Obligation Bonds

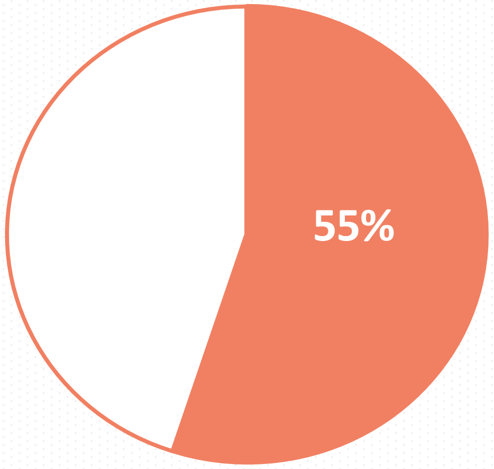
- True "indebtedness" under Constitutional debt limit
- Secured by special levy of ad valorem taxes
  - Generates additional revenue to pay debt service on bonds issued for capital improvements
- Approved by 2/3 majority vote
  - Proposition 39 school bonds approved by 55% majority

VOTER APPROVAL THRESHOLDS

Cities and Special Districts



School Districts



San Francisco GO Bond Programs

- Under the State Constitution and San Francisco's City Charter, City bonds secured by ad valorem property taxes ("GO Bonds") can only be authorized by two-thirds approval of the voters

- San Francisco voters have authorized the issuance of $7.2 billion in GO Bonds

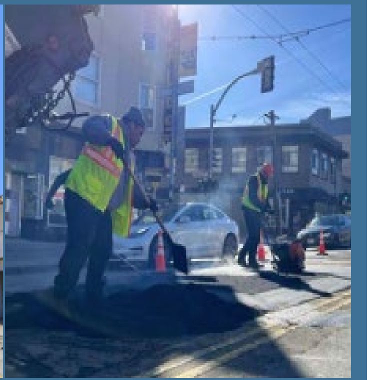
- The City has issued $5.5 billion in GO Bonds under voter-approved authorizations – with $1.7 billion of authorized but unissued GO debt

- The City has also issued $1.0 billion of GO <u>Refunding</u> Bonds to refinance outstanding GO Bonds

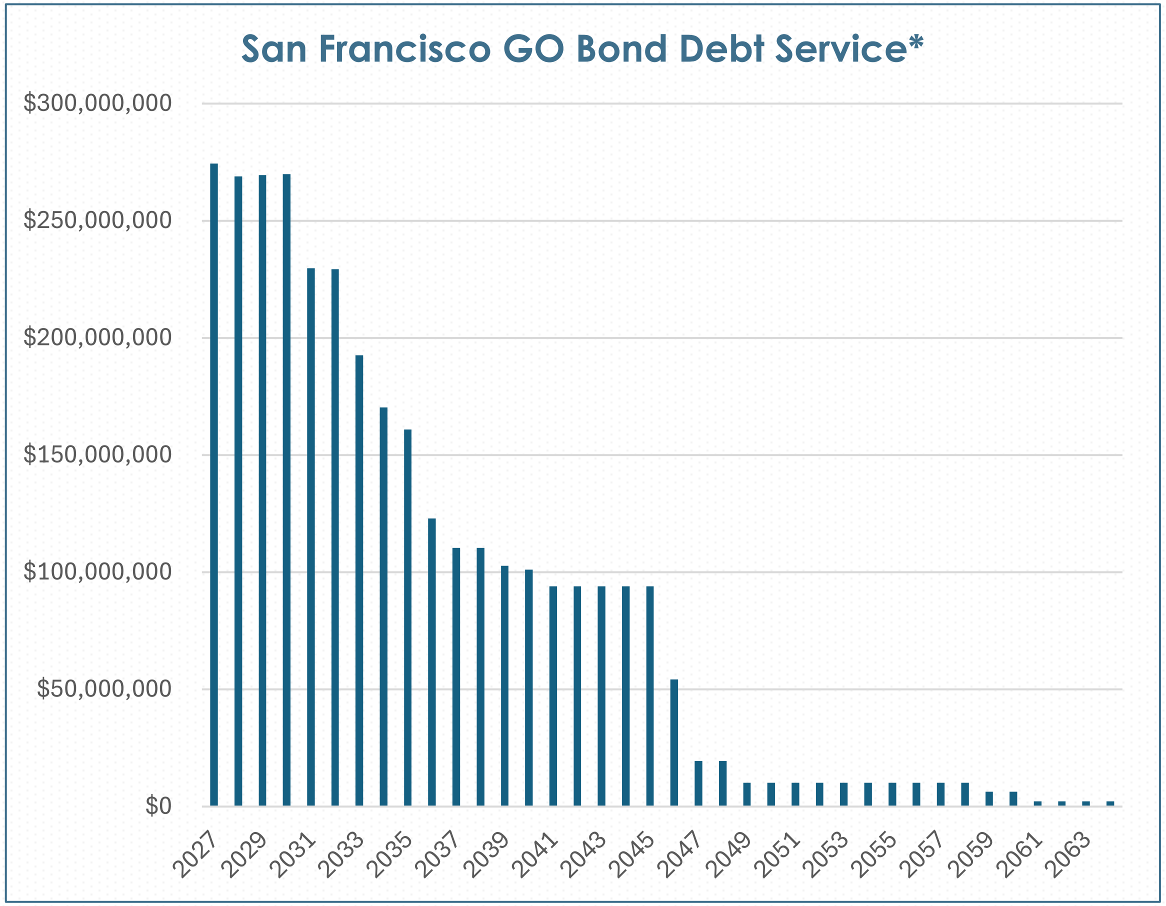
San Francisco GO Bond Programs
(CONTINUED)

BOND AUTHORIZATION	ELECTION DATE	AUTHORIZED AMOUNT *	BONDS ISSUED*	AUTHORIZED & UNISSUED*
Seismic Safety Loan Program & Reauthorization for Affordable Housing	11/03/92 11/08/16	$350,000,000	$302,535,450	$47,464,550
Clean & Safe Neighborhood Parks	02/05/08	$185,000,000	$185,000,000	--
San Francisco General Hospital & Trauma Center Earthquake Safety	11/04/08	$887,400,000	$887,400,000	--
Earthquake Safety & Emergency Response Bond	06/08/10	$412,300,000	$412,300,000	--
Road Repaving & Street Safety	11/08/11	$248,000,000	$248,000,000	--
Clean & Safe Neighborhood Parks	11/06/12	$195,000,000	$195,000,000	--
Earthquake Safety & Emergency Response Bond	06/03/14	$400,000,000	$400,000,000	--
Transportation & Road Improvement	11/04/14	$500,000,000	$500,000,000	--
Affordable Housing Bond	11/03/15	$310,000,000	$310,000,000	--
Public Health and Safety Bond	06/07/16	$350,000,000	$350,000,000	--
Embarcadero Seawall & Earthquake Safety	11/06/18	$425,000,000	$208,690,000	$216,310,000
Affordable Housing Bond	11/05/19	$600,000,000	$492,460,000	$107,540,000
Earthquake Safety & Emergency Response Bond	03/03/20	$628,500,000	$385,515,000	$242,985,000
Health & Recovery Bond	11/04/20	$487,500,000	$374,805,000	$112,695,000
Affordable Housing Bond	03/05/24	$300,000,000	$147,230,000	$152,770,000
Health, Safe and Vibrant SF Bond	11/05/24	$390,000,000	$83,635,000	$306,365,000
Earthquake Safety and Emergency Response Bond	06/02/26	$535,000,000	$0	$535,000,000
TOTAL:		$7,203,700,000	$5,482,570,450	$1,721,129,550

*As of July 1, 2026



San Francisco GO Bond Program Management



*As of July 1, 2026

- **City Charter Limitations:** City GO Bond par may not exceed 3% of assessed value

CITY CHARTER GO BOND LIMIT ($ in billions)	
FY 2025-26 Total Net AV	$357.80
Outstanding City GO Bonds*	$2.36
City GO Bonds as a % of Net AV	0.70%

- **Policy Limitations:** City Tax Rate levy for **GO Bond debt service** may not exceed 0.12%

CITY POLICY TAX RATE LIMIT ($ in billions)	
FY 2025-26 Total Net AV	$357.80
Maximum City Tax Rate Levy	0.12%
FY 2025-26 Maximum GO Bond Debt Service	$0.429

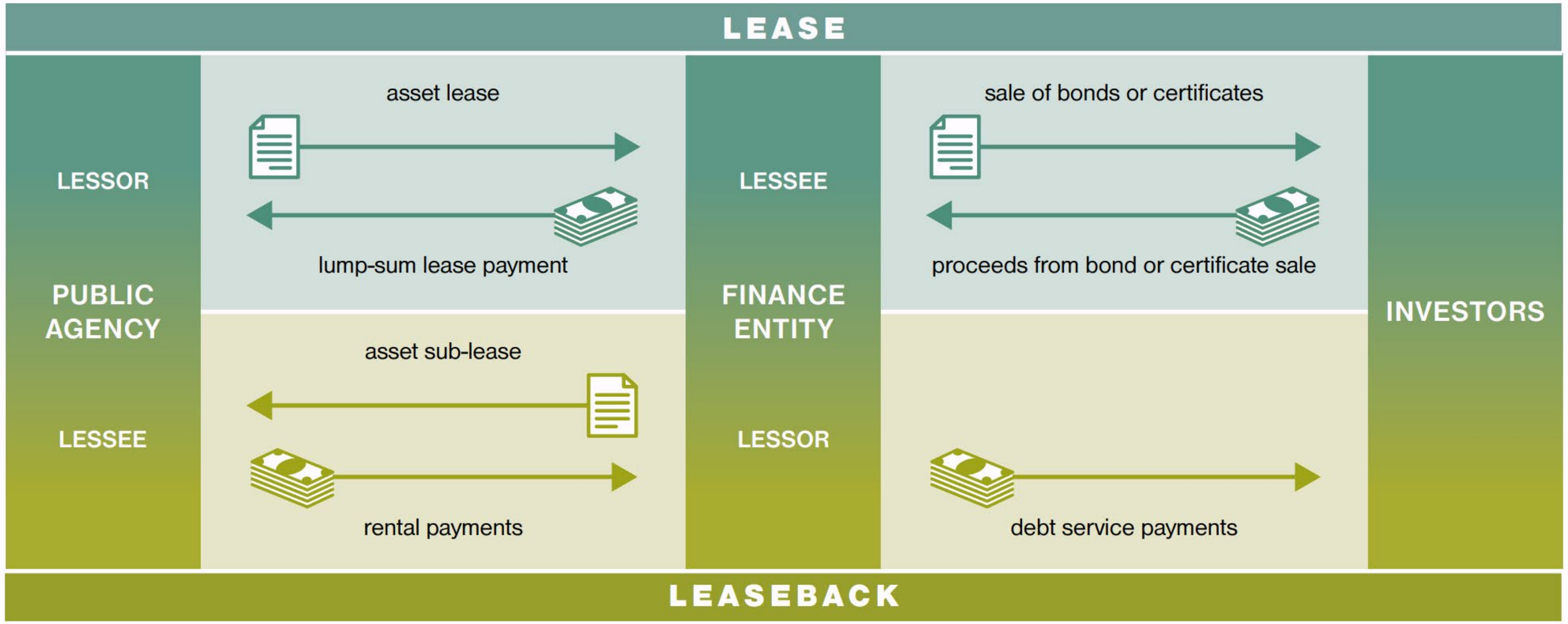
Exception 1: Lease Obligations

- Lease rules in California commonly referred to as “Offner-Dean,” after the two key California Supreme Court cases
  - Payment for “beneficial use and occupancy” of leased facilities in that year
  - Payment **abated** with loss of use and occupancy
  - No acceleration of future rent in the case of a payment failure
  - Rent cannot exceed “fair rental value” of leased assets

- Payable from “legally available funds”
  - In practice, this means general fund revenues

- Overcoming Abatement Risk
  - Capitalizing interest payments until project is complete
  - Asset transfer—lease leaseback of existing asset
  - Insurance
  - Reserve Fund

Lease Financing Mechanics



- Issuer leases an asset to a financing entity as leasing partner
- Issuer then subleases asset back, and agrees to make lease payments for use of property
- Lease payments serve as debt service on Lease Revenue Bonds or COPs
- Trustee can sue for rent if issuer does not make payments when asset available for use

San Francisco Lease Obligation Debt

LEASE BORROWING PROGRAM (AS OF 7/1/26)

GENERAL FUND CERTIFICATES OF PARTICIPATION ("COPs")	
City COPs Issued Under the Master Indenture:	$910,320,000
Other COPs Issued Under Separate Indentures:	$493,835,000
TOTAL CITY COPs:	$1,404,155,000

OTHER LEASE OBLIGATIONS	
Lease Purchase Financings	$1,848,731
Lease Revenue Bonds Moscone Convention Center (Variable Rate)	$26,200,000
Lease Revenue Bonds Other City Projects	$11,755,000
TOTAL OTHER LEASE DEBT:	$39,803,731

- The issuance of General Fund COPs is an important component of the ongoing delivery of the City's Capital Plan
- The City's COP issuances generally fund/finance the City's general infrastructure needs and funding vehicles tend to include both short-term and long-term approaches
  - Commercial Paper Certificates of Participation
  - Certificates of Participation
- Uses of available City assets as Leased Property
  - Asset transfer
  - Project lease
- Over the next ten years, the City's Capital Plan anticipates the approval and issuance of approximately $480 million of COPs

San Francisco Master Lease Borrowing Program

MASTER LEASE BORROWING PROGRAM

- The City utilizes its Master Lease to finance various City capital projects; larger standalone projects may utilize a separate financing lease supported by the project itself
- Leased Property comprised of four essential City properties
    - The City may designate additional property as Leased Property, or substitute other improved real property for all or part of the Leased Property

CITY MASTER LEASE

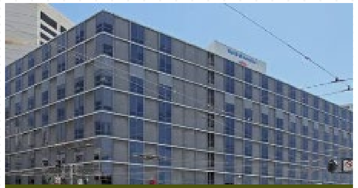
Total Value of Master Lease Leased Property	$1.4 Billion
Total Outstanding Master Lease COPs	$910 Million
Authorized but Unissued Master Lease COPs	$611 Million

Base Rental Payments = Lease Payments = Debt Service Payments

	Certificates				
Payment Date	**Principal**	**Interest**	**Total**	**Parity Certificates Debt Service[(1)]**	**Total Annual Fiscal Year Debt Service**
4/1/2026	$14,140,000	$4,929,056.94	$19,069,056.94	$40,570,450.00	$59,639,506.94
10/1/2026	-	6,419,250.00	6,419,250.00	26,187,200.00	-
4/1/2027	11,900,000	6,419,250.00	18,319,250.00	40,867,625.00	91,793,325.00
10/1/2027	-	6,121,750.00	6,121,750.00	25,839,250.00	-
4/1/2028	12,495,000	6,121,750.00	18,616,750.00	41,233,975.00	91,811,725.00
10/1/2028	-	5,809,375.00	5,809,375.00	25,537,025.00	-
4/1/2029	13,120,000	5,809,375.00	18,929,375.00	41,504,850.00	91,780,625.00
10/1/2029	-	5,481,375.00	5,481,375.00	25,235,550.00	-
4/1/2030	13,775,000	5,481,375.00	19,256,375.00	41,801,450.00	91,774,750.00
10/1/2030	-	5,137,000.00	5,137,000.00	24,924,925.00	-
4/1/2031	14,465,000	5,137,000.00	19,602,000.00	42,120,025.00	91,783,950.00
10/1/2031	-	4,775,375.00	4,775,375.00	24,588,750.00	-
4/1/2032	15,185,000	4,775,375.00	19,960,375.00	33,195,150.00	82,519,650.00
10/1/2032	-	4,395,750.00	4,395,750.00	24,348,312.50	-
4/1/2033	15,945,000	4,395,750.00	20,340,750.00	33,393,187.50	82,478,000.00
10/1/2033	-	3,997,125.00	3,997,125.00	24,101,156.25	-
4/1/2034	16,740,000	3,997,125.00	20,737,125.00	33,631,731.25	82,467,137.50
10/1/2034	-	3,578,625.00	3,578,625.00	16,963,743.75	-
4/1/2035	17,580,000	3,578,625.00	21,158,625.00	31,678,143.75	73,379,137.50
10/1/2035	-	3,139,125.00	3,139,125.00	16,657,193.75	-
4/1/2036	18,460,000	3,139,125.00	21,599,125.00	29,808,743.75	71,204,187.50
10/1/2036	-	2,677,625.00	2,677,625.00	16,369,043.75	-
4/1/2037	19,385,000	2,677,625.00	22,062,625.00	27,808,671.88	68,917,965.63
10/1/2037	-	2,193,000.00	2,193,000.00	16,124,646.88	-
4/1/2038	20,355,000	2,193,000.00	22,548,000.00	28,036,946.89	68,902,593.77
10/1/2038	-	1,684,125.00	1,684,125.00	15,878,246.89	-
4/1/2039	21,370,000	1,684,125.00	23,054,125.00	28,279,887.51	68,896,384.40
10/1/2039	-	1,149,875.00	1,149,875.00	15,625,212.51	-
4/1/2040	22,435,000	1,149,875.00	23,584,875.00	28,528,593.76	68,888,556.27
10/1/2040	-	589,000.00	589,000.00	15,409,543.76	-
4/1/2041	23,560,000	589,000.00	24,149,000.00	28,730,775.01	68,878,318.77
10/1/2041	-	-	-	15,191,725.01	-
4/1/2042	-	-	-	16,122,675.00	31,314,400.01
10/1/2042	-	-	-	15,330,575.00	-
4/1/2043	-	-	-	15,981,531.25	31,312,106.25
10/1/2043	-	-	-	15,485,781.25	-
4/1/2044	-	-	-	15,828,675.00	31,314,456.25
10/1/2044	-	-	-	138,900.00	-
4/1/2045	-	-	-	7,083,900.00	7,222,800.00
Total	**$270,910,000**	**$119,225,806.94**	**$390,135,806.94**	**$966,143,768.85**	**$1,356,279,575.79**

LAGUNA HONDA HOSPITAL

SAN BRUNO JAIL COMPLEX



ONE SOUTH VAN NESS

MOSCONE CENTER NORTH

Exception 2: Special Fund Obligations

- Debt limitation interpreted to define restricted "debt" as being paid out of general taxes (traditionally, property taxes)
  - Does not apply to debt that is paid for out of special revenues and used to finance an asset which is part of a project or system generating such revenues
  - Enterprise fund revenue debt, paid out of service fees and other user charges
- Concept expanded to all "special funds"
  - Special taxes, fees, assessments
- If special fund revenues are insufficient, there can be no obligation of local agency to pay debt service
  - Lack of a pledge of taxes a key fact distinguishing special fund obligations under California law
  - General Fund revenues usually cannot be transformed into special funds for purpose of securing debt

TYPES OF LIMITED OBLIGATION BONDS

I. Special Tax (on Property) and Assessment Bonds

II. Special Fund Bonds
   - Tax Increment Bonds
   - Sales Tax Revenue Bonds

III. Enterprise Revenue Bonds

I. Special Tax & Assessment Bonds

- **Basic premise**
  - Public agency sponsors creation of special district - Property owners agree to a charge on property to fund certain facilities
- **Bond financing**
  - Bonds generate up-front funds for capital projects
  - Repaid with special taxes or assessments levied annually on property tax bill
  - Issuer may foreclose on delinquent parcels
  - In the event of a foreclosure, land value serves as ultimate collateral securing repayment

BENEFITS & CONSIDERATIONS

Benefits

- New revenue stream created for projects
- No payment obligation for public agency

Considerations

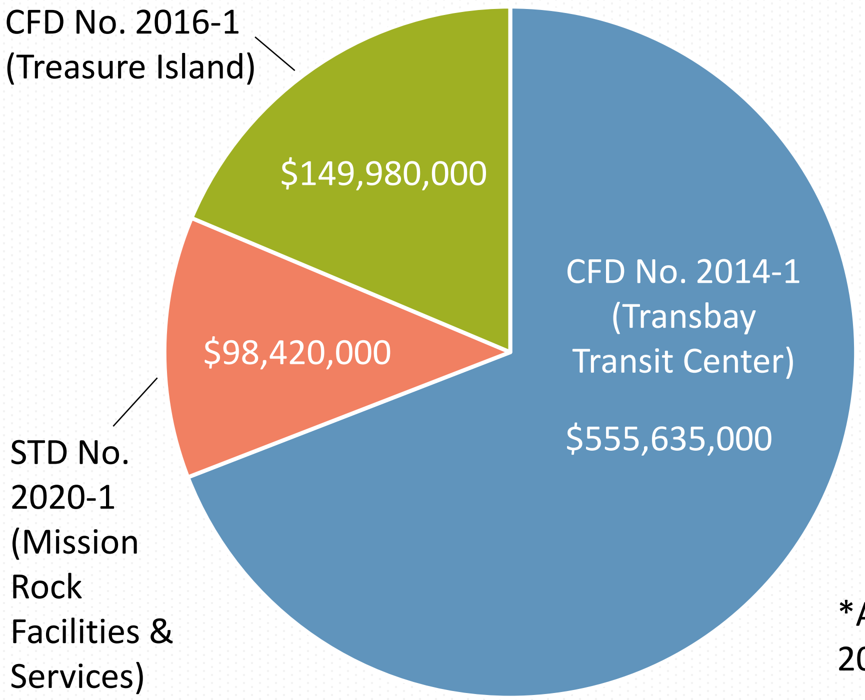
- Requires formation of district, which takes time, and voter (often property owner)-approval
- Development projects can be risky (e.g., hard to finance) in early stages
- Assessment spreads vulnerable to legal challenge

Special Tax & Assessment Bonds (CONTINUED)

	COMMUNITY FACILITIES DISTRICT (CFD)	ASSESSMENT DISTRICT (AD)
Statute	Mello-Roos Act of 1982	1915 Act/1913 Act
Security	Annual special tax on property tax roll	Annual assessment levied on property tax roll
Vote	2/3rds vote of undeveloped property owners (if less than 12 registered voters) or registered voters	Less than 50% majority protest (Protest Hearing)
Scope	Capital projects with "specific capital projects and maintenance benefits" only	Direct and special benefit improvements, no general public benefit
Spread of Lien	"Reasonable" spread of costs in special tax formula Dynamic payment obligation, can change as development proceeds	Spread must be proportional to benefit Fixed payment obligation

San Francisco Special Tax Bonds

SAN FRANCISCO CFD & STD BONDS*



*As of Jul
2026

Total Special Tax Bonds: $804,035,000

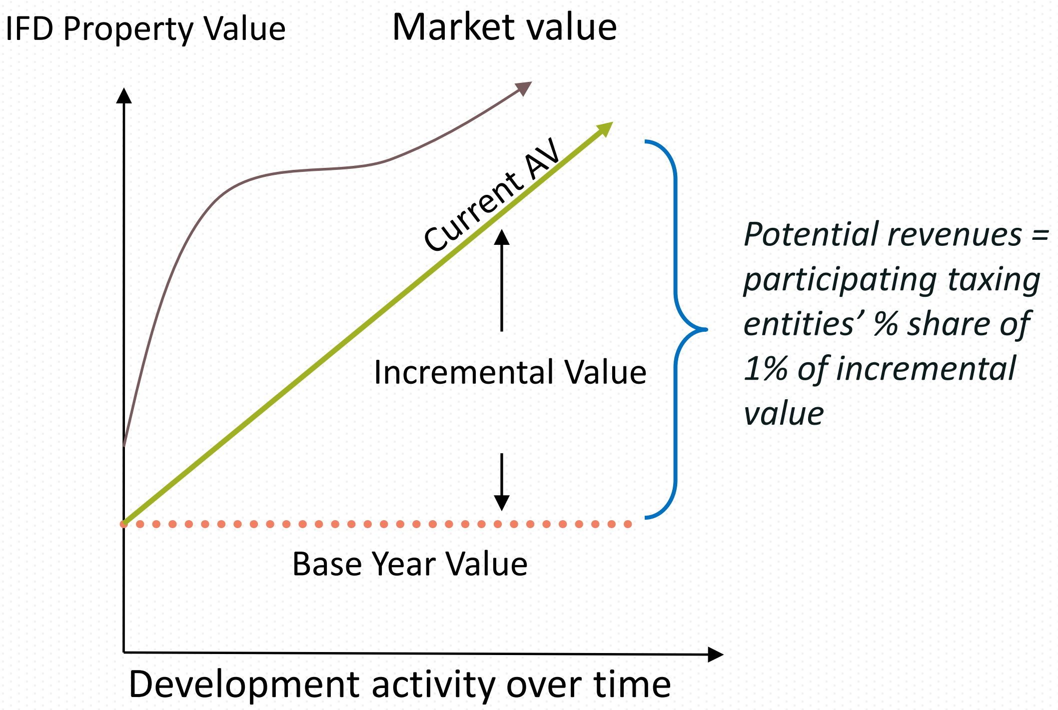
- **Special Tax District (STD)**
  - Mission Rock
- **Community Facilities District (CFD)**
  - Transbay Transit Center

II. Special Fund Bonds

- Tax-Increment Bonds
  - Secured by dedicated share of property tax (tax increment)
  - While redevelopment bonds were limited by dissolution, replaced by more limited Enhanced Infrastructure Financing District (EIFD) bonds
- Sales Tax Revenue Bonds for special purposes or by special districts
  - Payable from and secured by revenues from the imposition of a sales and use tax on retail transactions within the issuer's boundaries
- Conduit Agency Bonds
  - To provide tax-exempt financing for certain “exempt” private activities, secured by a loan to entity

Tax Increment Bonds

- **Three primary statutory vehicles in California**
  - Enhanced Infrastructure Financing District (EIFD)
  - Infrastructure and Revitalization Financing District (IRFD)
  - Infrastructure Financing District (IFD)



BENEFITS & CONSIDERATIONS

When Used?

- For large-scale projects with significant rezoning and net fiscal benefit
- For projects that address infrastructure deficiencies and have long-term maintenance commitments
- Typically, in combination with other tools, like a CFD

Considerations

- Limited, passive revenue stream
- No tax increment revenue until growth occurs; assessed values lag development activity
- Tax increment revenues decline if assessed values decline
- Often limited geographic area with concentrated tax base

San Francisco Tax Increment Bonds

TREASURE ISLAND IRFD

Purpose: Captures property tax increment to issue bonds that pay for public improvements, transportation infrastructure, and affordable housing

Project Areas: Covers five specific zones—Project Area A on Yerba Buena Island and Project Areas B, C, D, and E on Treasure Island

Formation: Adopted on January 31, 2017, via Board of Supervisors Ordinance No. 21-17 following a public hearing and landowner vote

Bond Authorizations: The City has periodically authorized and issued tax increment revenue bonds under this district to maintain ongoing construction of facility infrastructure and affordable housing

- As of July 1, 2026 $63.98 million IRFD No. 1 Bonds are outstanding

The Treasure Island Infrastructure and Revitalization Financing District (IRFD) No. 1 is a special financing district formed by the City and County of San Francisco in January 2017 to fund critical public infrastructure and affordable housing for the Treasure Island/Yerba Buena Island Development Project.

Sales Tax Revenue Bonds

- **Direct pledge of sales tax revenues** requires 2/3 voter approval
    - Most sales tax revenue bonds are issued by countywide transportation authorities

- General sales taxes (majority approval) can be used to pay debt service on **general fund lease debt**
    - **Example:** City passes a general sales tax measure for various purposes, including police and fire
    - **Project:** New police administration building
    - **Financing Vehicle:** General Fund lease debt
    - **Debt Service Payment:** Sales tax from special fund transferred to General Fund to offset

BENEFITS & CONSIDERATIONS

Benefits

- Broad-based tax support for public improvements
- Generates new revenue source to repay debt; no support from general fund

Considerations

- Time, expense and uncertain outcome of election
- Voter authorization of sales tax required: general tax (majority voter approval) v. special tax (2/3 voter approval)
- Sales tax increase

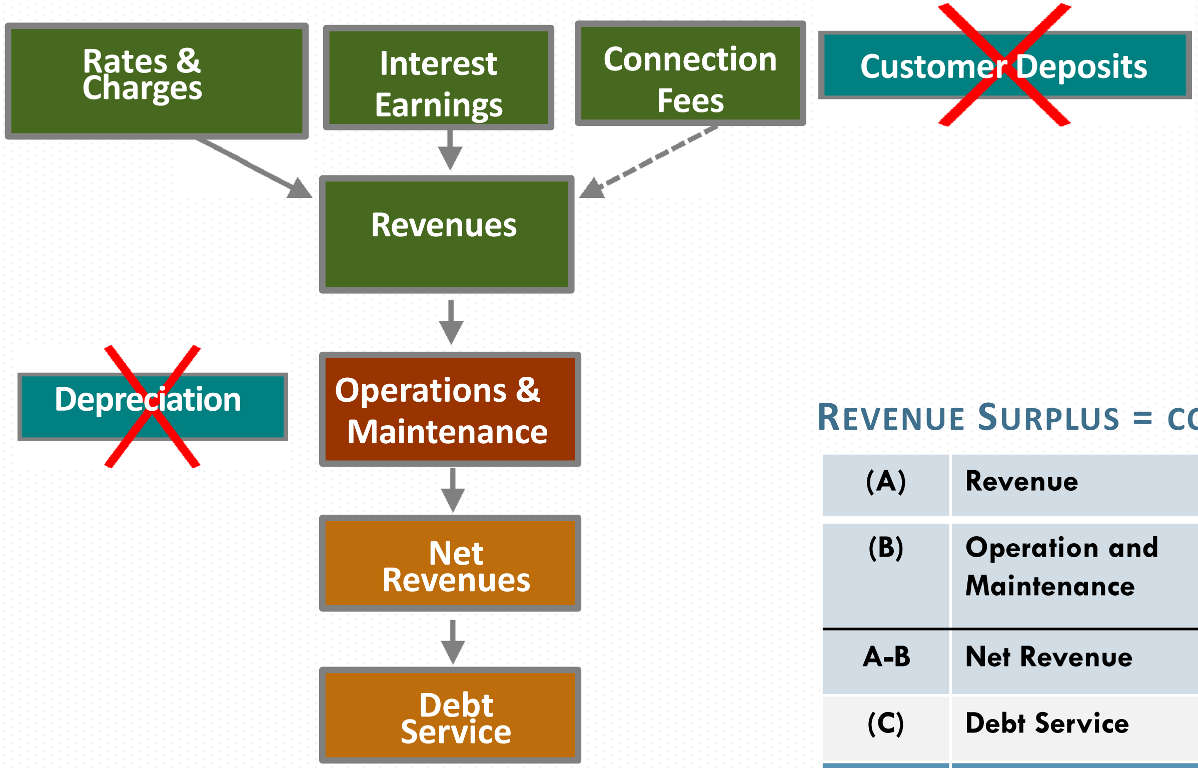
III. Enterprise Revenue Bonds

- Public agencies sell bonds secured by the following enterprises:
  - **Utilities:** Water, wastewater, electric, solid waste
  - **Transportation:** Airports, ports, toll roads, streets & roads, bridges

- Specific revenue stream pledged to bonds
  - Usually for a separate enterprise fund or separate agency supported by user fees
  - Enterprise typically consists of an entire revenue-generating system

- Revenue bond features
  - Rate covenants to maintain minimum coverage requirement
  - Requirements for issuing additional parity debt (Additional bonds test)

III. Enterprise Revenue Bonds (CONTINUED)



CAPITAL PROJECT COSTS PAID AFTER DEBT SERVICE

REVENUE SURPLUS = COVERAGE

(A)	Revenue	$10,000,000
(B)	Operation and Maintenance	7,000,000
A-B	Net Revenue	$3,000,000
(C)	Debt Service	1,500,000
(A-B)/C	Debt Service Coverage (Net)	2.0x

REVENUE BOND SECURITY PLEDGE

- **Net Revenue Pledge**: fees and charges of enterprise after payment of operations and maintenance (excluding depreciation); no security interest in physical assets of enterprise
- **Rate Covenant:** issuer commits to charge rates sufficient to pay debt service with a coverage cushion; may require rate increases in future with Proposition 218 process
- **Additional Bonds Test:** limits subsequent financings secured by same revenues

Exception 3: Obligation Imposed by Law

- **Debt is a non-contingent obligation of General Fund**
- **Pension Obligation Bonds ("POBs")**
  - Most common use of this vehicle
  - Taxable bonds used to extinguish all or a portion of an agency's unfunded pension liability
  - Proceeds are deposited with retirement association, resulting in potential investment gains or losses - risk arbitrage
  - Recent case law provides precedent that agencies can rely on in the issuances of POBs
- **Judgment Obligation Bonds ("JOBs")**
  - AB 218 has resulted in a flood of litigation against local governments across California, prompting the consideration of JOBs to lessen the financial impacts on public programs and services

CITY OF SAN JOSÉ V. HOWARD JARVIS TAXPAYERS ASSOCIATION (DECEMBER 2025)

- California Supreme Court unanimously upheld the City of San José's authorization of the issuance of up to approximately $3.5 billion in POBs to refund the City's unfunded actuarial pension liability ("UAL"), holding that—even if the bonds constitute "new" debt—the issuance falls within the exception to the constitutional debt limitation for an "obligation imposed by law" … therefore:
- POBs do not require two-thirds voter approval under Article XVI, section 18(a) of the California Constitution
- The constitutional debt limit does not constrain the discretion over how to address such obligation, including by choosing to issue POBs without a vote

QUESTIONS?

DAVID BRODSLY
Managing Director
KNN Public Finance

GRANT CARSON
Debt Capital Markets Specialist
City and County of San Francisco

MELISSA SHICK
Managing Director
KNN Public Finance