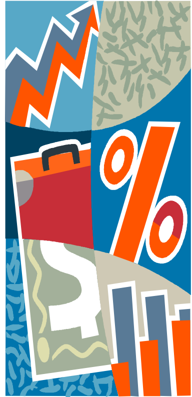
What does it cost to borrow?

The City's cost to borrow money depends on the interest rate on the debt and the number of years over which it will be repaid. Large debt, such as bonds, is usually paid off over a period of 10 to 35 years. As an example, at an interest rate of 6%, the cost of paying off debt over 20 years would be about $1.73 for each dollar borrowed–$1 for the dollar borrowed and 73 cents for the interest. However, these payments, are spread over the 20-year period, so the cost is adjusted for inflation. That adjustment reduces the effective cost because the future payments are made with cheaper dollars.



What is the legal debt limit?

The City Charter limits the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3% of the assessed value of property in the City–or about $2.8 billion in 2002-03. Bonds are issued in installments, as the money is needed, so frequently the amount of bonds outstanding is less than the amount authorized by the voters.

City's Current Municipal Bond Ratings

General Obligation Bonds		**Lease Revenue Bonds**	
Moody's:	Aa3	Moody's:	A1
S&P	AA	S&P	AA-
Fitch:	AA	Fitch:	A+

Ratings for Revenue Bonds vary by project.

As of August 2002
Source: Mayor's Office of Public Finance

Developed by the Controller's Office – City Projects Group with assistance from the Mayor's Office of Public Finance – Rev. September 2002

BOND FINANCING BASICS

City & County of San Francisco

What is "bond financing"?

Bond financing is a type of long-term borrowing used to raise money for projects. The City receives money by selling bonds to investors. The City must pay back the amount borrowed plus interest to those investors.

The money raised from bond sales is used to pay for large capital projects such as fire and police stations, affordable housing programs, schools, museums and other City facilities. The City uses bond financing because these buildings will last many years and their large dollar costs are difficult to pay for all at once.

What types of bonds are issued?

The City issues two major types of bonds: General Obligation and Lease Revenue.

General Obligation Bonds are used to pay for projects that benefit citizens–such as public office buildings, libraries, health care, fine arts or educational facilities–but that do not raise revenue (for example, police stations or schools are not set up to pay for themselves). G.O. bonds must be approved by a two-thirds vote. When sold, they are repaid by a property tax levy. G.O. bonds carry the highest bond rating and produce the lowest borrowing cost.

Revenue Bonds are used to finance capital projects and acquisitions that will generate money. They are paid back from the revenues generated by the bond-financed projects. For example, the airport can finance a major expansion through revenue bonds that will be paid back from landing fees charged to airlines that use the improvements. Revenue bonds carry a lower bond rating and higher interest cost.

When are bonds needed?

To determine if bonds are needed, City bond-issuing departments complete an analysis with the assistance of their own departmental finance staff or Mayor's Office of Public Finance. The analysis is reviewed by the Capital Improvements Advisory Committee, the Board of Supervisors and the Budget Analyst. In many cases, the City's Charter requires the question of whether to issue a bond to be subject to a popular vote.

How are bonds issued?

General obligation bonds are most often issued in series. The timing of each series of bonds depends primarily on the need to pay for contracts and, to a lesser degree, on market factors.

The amount is determined by how much the department expects to spend during a 2-year period or less. The 2-year timeframe conforms with IRS guidelines for issuing tax-exempt debt and helps to manage the tax burden on property owners.

Revenue bonds are sold much the same way as general obligation bonds, however, because they pay for a stand-alone project–the revenues from which are used to pay back the bonds– they are generally sold in a single series.

What is lease revenue financing?

The City sometimes asks voter for approval to enter into lease financing arrangements. The City wants to borrow money, but intends to pay it back through its regular revenues and not by increasing property taxes or other specific revenues like water bills to pay for this debt. For example, lease financing arrangements are used to buy police cars, fire trucks and other large equipment. Money is borrowed from the regular City budget to pay lease/purchase for several years and the City owns the vehicles at the end of the lease. This allows the City to spread the cost of assets that will last several years or more.