AN OVERVIEW OF SAN FRANCISCO'S DEBT

WHAT IS BOND FINANCING?

Bond financing is a long-term borrowing strategy used to raise money for capital projects such as fire and police stations, affordable housing programs, hospitals, libraries, parks, and other city facilities. The City receives money upfront by selling bonds to investors. Then, over time, the City pays those investors back for the original amount borrowed plus interest. Because capital projects provide a public benefit that will last many years, bond financing allows the City and its taxpayers to pay for that benefit over the useful life of the capital improvement, rather than needing to pay for potentially large dollar costs all at once.

Types of Bonds. There are two major types of bonds – General Obligation Bonds and Revenue Bonds.

General Obligation Bonds issued by the City must be approved by the voters. The City issues general obligation bonds to pay for capital projects that benefit the citizens of the City. When general obligation bonds are approved and sold, they are repaid by property taxes.

Revenue Bonds are used to pay for capital projects, such as major improvements to an airport, water system, garage, or other large public facilities that generate revenue which can be pledged to pay debt service. When revenue bonds are approved and sold, they are generally repaid from revenues generated by the bond-financed projects (e.g. usage fees or parking fees). Under the City's Charter, revenue bonds must be approved by the voters, subject to certain exceptions. For example, revenue bonds issued to finance MTA, SFPUC, Port or Airport capital projects and secured solely by each department's revenues are not subject to voter approval.

WHAT DOES IT COST TO BORROW?

The City's cost to borrow money depends on the total dollar amount borrowed, the interest rate on the borrowed amount, and the number of years over which the debt will be repaid. When the City issues bonds, the borrowed money is typically repaid over a period of 20 to 30 years. Assuming an average interest rate of 6%, the cost of paying off debt over 20 years is about $1.74 for each dollar borrowed – $1 for the amount borrowed and 74 cents for the interest. These payments, however, are spread over the 20-year period. Therefore, inflation reduces the effective cost of borrowing because the future payments are made with cheaper dollars. For example, assuming a 4% annual inflation rate, the cost of paying off debt in today's dollars would be about $1.18 for every $1 borrowed.

THE CITY'S CURRENT DEBT SITUATION

Debt Payments. During fiscal year 2023-2024 property taxpayers in the City budgeted approximately $646 million to pay principal and interest on outstanding general obligation bonds of the City and the other issuers of general obligation bond debt—these are the Bay Area Rapid Transit District (BART), the San Francisco Community College District (SFCCD), and the San Francisco Unified School District (SFUSD). The net property tax rate for the year to provide for debt requirements was 17.77 cents per $100 of assessed valuation, or an estimated $1,231 on a home assessed at $700,000, reflecting a $7,000 homeowner's exemption.

Legal Debt Limit. The Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. The Charter limit is 3% of the *assessed value* of taxable property in the City—or currently about $10.6 billion—and voters give the City *authorization* to issue bonds within this limit. Bonds that have been issued and not yet repaid are considered *outstanding*. As of June 30, 2024, there was $2.2 billion in outstanding City general obligation bonds, which is approximately 0.6% of the City's assessed value for fiscal year 2024-25. There is an additional $1.6 billion of City general obligation bonds that are *authorized but unissued*. If these bonds were issued and outstanding, the total debt burden would be 1.1% of the assessed value of taxable property.

Bonds issued by BART, SFCCD, and SFUSD do not increase the City's debt burden for the purposes of the Charter limit. However, these bonds are repaid from the same property tax base as City general obligation bonds (see Prudent Debt Management below). Moreover, while the overall property tax rate may change based on several factors, the City's current debt management policy is to keep the rate from City bond issuances below the 2006 property tax rate by issuing new bonds as older bonds are retired and the tax base grows. This policy applies only to general obligation bonds issued by the City, and not to those issued by other governments, such as BART, SFCCD, and SFUSD.

Prudent Debt Management. Even though the City is well within its legal debt limit for issuing new general obligation bonds, bond rating agencies consider additional factors when assessing how the City's debt burden affects its overall financial health. For example, Standard & Poor's (S&P) identifies an "overall net debt ratio" by calculating the sum of the City's net direct debt and overlapping debt—debt issued by other local agencies which leverage the City's tax base—as a percentage of the City's assessed value. S&P states that a ratio higher than 10% will have a negative impact on a city's bond rating and a score below 3% will have a positive impact on a city's bond rating. As of Spring 2024, the City's overall net debt ratio is approximately 2.5%. **While this ratio suggests a relatively low debt burden, the City will continue to monitor its debt profile to set priorities for future debt issuances and to maintain strong credit ratings.**

CITIZEN OVERSIGHT OF GENERAL OBLIGATION BONDS

Voters must approve the purpose and amount of the money to be borrowed through bonds. Bond money may be spent only for the purposes approved by the voters.

For general obligation bonds issued by the City and County of San Francisco, the Citizens' General Obligation Bond Oversight Committee reviews and reports on how bond money is spent. The nine seats of the Committee are appointed by the Mayor, Board of Supervisors, Controller, and Civil Grand Jury. If the Committee finds that bond money has been spent for purposes not approved by the voters, the Committee can require corrective action and prohibit the sale of any authorized but unissued bonds until such action is taken. The Board of Supervisors can reverse the decisions of the committee by a two-thirds vote. The Controller may audit any of the City's bond expenditures.

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