


OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 7, 2014

CAO File No. 0670-00001-0000
Council File No. 13-0600
Council District: All

To: The Mayor
The City Council

From: Miguel A. Santana, City Administrative Officer



Reference: Council File 13-0600

Subject: **Special Study on the City's Debt Capacity**

SUMMARY

As part of the 2013-14 Adopted Budget, the City Council instructed the City Administrative Officer (CAO) to report back on the City's current debt capacity and how much we have issued in bonds.

Every year, the CAO prepares the Statement of Bonded Indebtedness as an informational schedule to the Adopted Budget (see Attachment 1). As of July 1, 2013, the City had \$5.977 billion of debt outstanding, \$1.76 billion in General Fund and \$4.217 billion supported by special funds, property taxes or assessments. As the City issues debt throughout the fiscal year, the CAO updates the debt charts to ensure capacity for major projects and to show that the proposed debt issuance does not exceed the City's debt ceilings.

The City's Financial Policies, Debt Management Section, describes the City's debt ceilings as follows:

Ratio	Ceiling
Total Direct Debt Service as Percent of General Revenues (voter Approved)	15% ¹
Non-voted Direct Debt Service as Percent of General Fund Revenues (non-voter approved)	6% ²

¹ The ratio of debt service payments to General Fund revenues for voter-approved debt shall be no more than 15% including the percent for non-voter approved debt.

² The 6% ceiling may be exceeded only in the following situations: (1) if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5% or, (2) there is not a guaranteed revenue stream but the 6% ceiling will only be exceeded for one year.

Direct debt includes all debt that is repaid from the General Fund or from any tax revenues deposited into special funds not supporting revenue bonds, such as General Obligation bonds and City-wide parcel tax bonds. "General Revenues" consist primarily of the General Fund, as well as the revenues to the special funds supporting direct debt.

As of December 30, 2013, the City's direct (voter approved) debt ratio is 8.14% and the non-voted direct debt (non-voter approved) ratio is 4.86% (see Attachment 2 for debt charts). The non-voted direct debt ratio is the debt ceiling for the City's General Fund debt: Municipal Improvement Corporation of Los Angeles (MICLA), Convention Center Exhibition and Convention Center Authority, and Judgment Obligation bonds. For 2013-14, the General Fund capacity is \$290 million in bonds. This amount will increase as bonds are repaid and as General Fund revenues grow (see Attachment 3 for debt capacity over the next five years).

Currently, there are two large real property projects in the very early conceptual stages that have the potential of using all of the City's non-voter approved debt capacity. These projects are: a new municipal facility at the Parker Center site, and an alternate proposal (Plan B) for the large scale improvement of the Convention Center should the efforts of AEG to bring a NFL team to the City, and build a new convention center and stadium fail. Both projects together could cost as much as \$700 million.

The City's Debt Management Policies were last revised in April 2005. Since then, the municipal market has changed significantly due to the Great Recession resulting in regulatory changes. The CAO is in the process of reviewing the Debt Management Policies and will report back to the Budget and Finance Committee with recommendations to revise and update the policies to incorporate best practices that have evolved since 2005, including the best use of General Fund debt.

This report is in compliance with the City's Financial Policies

RECOMMENDATION

That the City Council receive and file this report.

FISCAL IMPACT STATEMENT

This report has no fiscal impact on the General Fund as no funding is involved.

MAS:NRB:09140183

Attachments:

- Attachment 1 Statement of Bonded Indebtedness
- Attachment 2 Debt Charts
- Attachment 3 Debt Capacity

ATTACHMENT 1

Statement of Bonded Indebtedness

STATEMENT OF BONDED INDEBTEDNESS AND OTHER OBLIGATIONS

Charter Section 312(g) requires that the budget provide all essential facts regarding the bonded and other indebtedness of the City government. Under the California Constitution, the City may issue general obligation bonds subject to the approval of two-thirds of the voters voting on the bond proposition. General obligation bonds represent an indebtedness of the City secured by its full faith and credit. An ad valorem tax on real property is levied to pay principal and interest on general obligation bonds. The City may also levy special taxes on real property based on the size of improvements (rather than assessed valuation) with two-thirds voter approval. These taxes may secure bonded obligation. The City may issue revenue bonds under the State 1941 Act with approval by 50 percent plus one of the voters. Under the new City Charter, the City may establish its own procedures for issuing revenue bonds. Under State law, the City may also enter into long-term lease obligations without obtaining voter approval. Lease revenue bonds and certificates of participation may be issued which are secured by such lease-purchase agreements. Under various sections of State law, the City may establish assessment or Mello-Roos districts and issue bonds for infrastructure improvements. The bonds are secured solely by the properties in the district. The table below summarizes the outstanding general obligation bonded indebtedness of the City, judgment obligation bonds, lease revenue bonds, certificates of participation, special tax bonds, revenue bonds and special assessment and Mello-Roos districts.

	Voter Authorization	Amount Issued as of 7/1/13 ¹	Remaining Authorization	Amount Outstanding as of 7/1/13 ²	Projected Issuance 2013-14	Debt Service 2013-14
General Obligation Bonds ³	\$ 2,523,948,000	\$ 2,463,448,000	\$ 60,500,000	\$ 1,103,285,000	\$ --	\$ 160,695,451
Seismic Improvements	376,000,000	376,000,000	--	37,413,853	--	13,515,634
Fire Safety Improvements	60,000,000	60,000,000	--	3,229,645	--	2,404,715
Police Facilities	176,000,000	176,000,000	--	14,513,841	--	6,308,300
Branch Library Facilities	53,400,000	53,400,000	--	4,494,500	--	2,595,402
Zoo Facilities	47,600,000	47,600,000	--	16,307,866	--	2,959,392
Library Facilities	178,300,000	178,300,000	--	92,298,735	--	12,627,015
Fire Facilities	378,506,000	378,506,000	--	176,513,070	--	25,700,044
Animal Shelter Facilities	154,142,000	154,142,000	--	69,182,496	--	10,625,069
Citywide Security	600,000,000	600,000,000	--	319,125,061	--	46,132,500
Storm Water Projects	500,000,000	439,500,000	60,500,000	370,205,933	--	37,827,380
Judgment Obligation Bonds	N/A	349,205,000	N/A	51,360,000	--	9,030,425
Lease Obligations	N/A	2,404,178,000	N/A	1,371,670,000	100,000,000	209,727,998
Hollywood Theater COPs	N/A	43,210,000	N/A	33,555,000	--	3,609,163
Pershing Square (Mello-Roos)	N/A	8,500,000	N/A	3,640,000	--	531,963
Convention Center Lease Obligations	N/A	629,850,000	N/A	354,640,000	--	48,355,025
Staples Arena	N/A	45,580,000	N/A	30,850,000	--	3,845,138
Special Parcel Tax Bonds						
Police Communications	235,000,000	235,000,000	--	20,090,000	--	--
DEBT SERVICE TO GENERAL FUND REVENUES AND SPECIAL TAXES** (% of Revenues)						\$ 435,795,163 8.3%
Revenue Bonds						
Wastewater	\$ 3,500,000,000	\$ 2,804,035,000	\$ 695,965,000	\$ 2,589,115,000	\$ 80,000,000	\$ 203,300,202
Solid Waste Resources	N/A	494,620,000	N/A	316,270,000	--	45,207,494
Parking	N/A	120,605,000	N/A	80,935,000	--	8,606,495
Special Assessment/Mello-Roos ⁴						
Fire Safety Improvement	N/A	96,411,176	N/A	1,325,248	--	501,473
Playa Vista	N/A	135,000,000	N/A	121,865,000	--	7,994,540
Cascades Business Park/ Golf Course ⁵	N/A	11,750,000	N/A	4,660,000	--	632,200
Legends at Cascades	N/A	6,000,000	N/A	5,910,000	--	337,675
Landscaping and Lighting (Proposition K) ⁶	N/A	44,290,000	N/A	20,240,000	--	3,055,339

Notes:

¹ Does not include refundings, only new money bond issues.

² Total General Fund debt outstanding is \$ 2,969,090,000. Total outstanding City debt including revenue and assessment obligations is \$ 6,109,410,248.

³ The Charter limits general obligation indebtedness to 3.75% of assessed valuation. Outstanding general obligation indebtedness as of June 30, 2012 was 0.30% of assessed valuation. The ratio for June 30, 2013 is estimated at 0.27%.

⁴ Backed solely by assessments on participating properties.

⁵ Formerly known as "Silver Oaks."

⁶ Voters approved Proposition K which provides for a levy of \$25 million for 30 years that will be used to pay debt service as well as finance projects on a pay-as-you-go basis.

**Based on projected revenues for 2012-13 plus incremental revenue from self-supporting debt, including General Obligation Bonds, Police Communication Bonds and the Staples Arena debt.

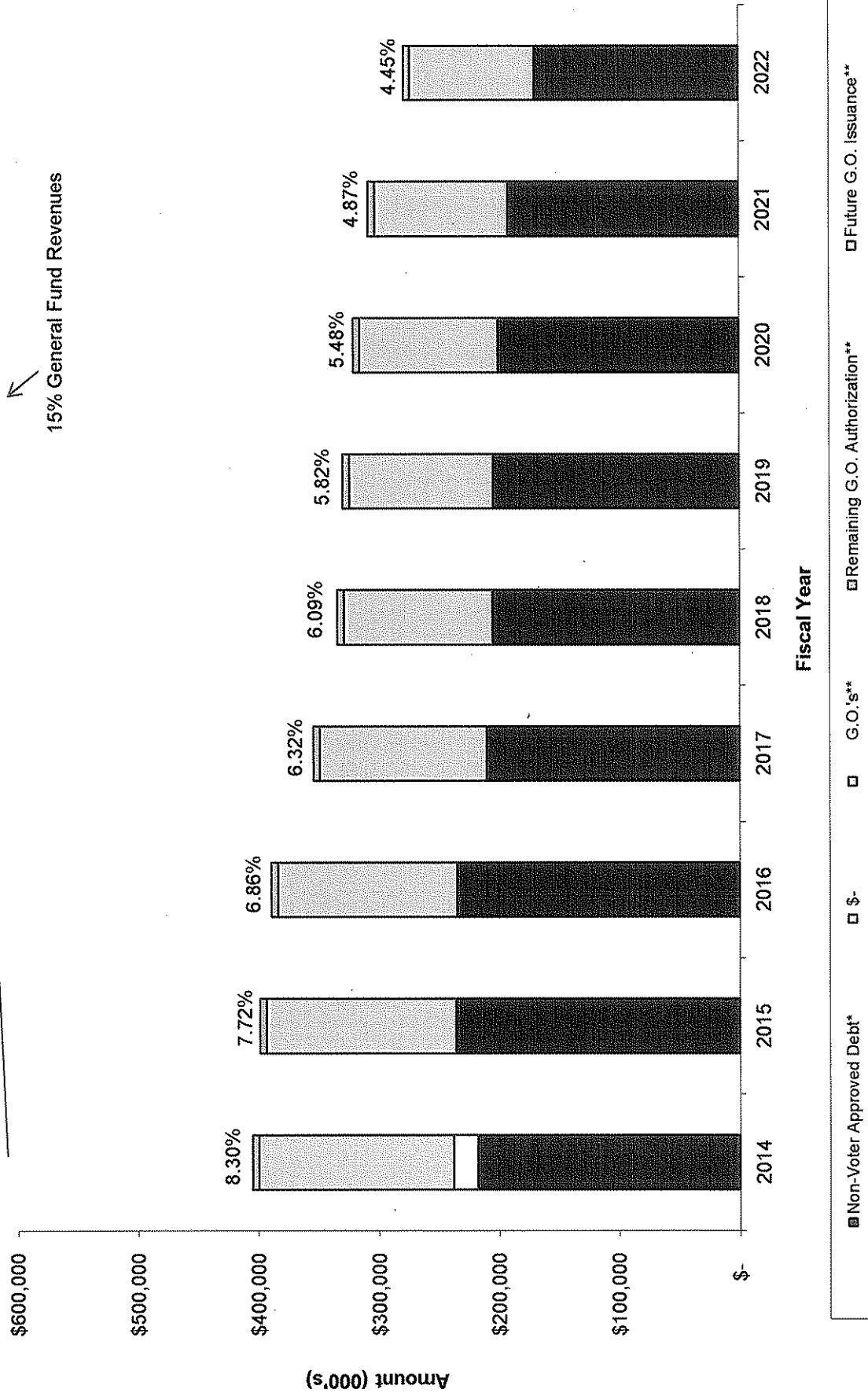
ATTACHMENT 2

**Debt Charts
As of December 2013**

VOTER APPROVED AND NON-VOTER APPROVED DEBT

December 2013

Debt Service to Special Taxes and General Fund Revenues (2% Projected Growth Beginning in Fiscal Year 2019)



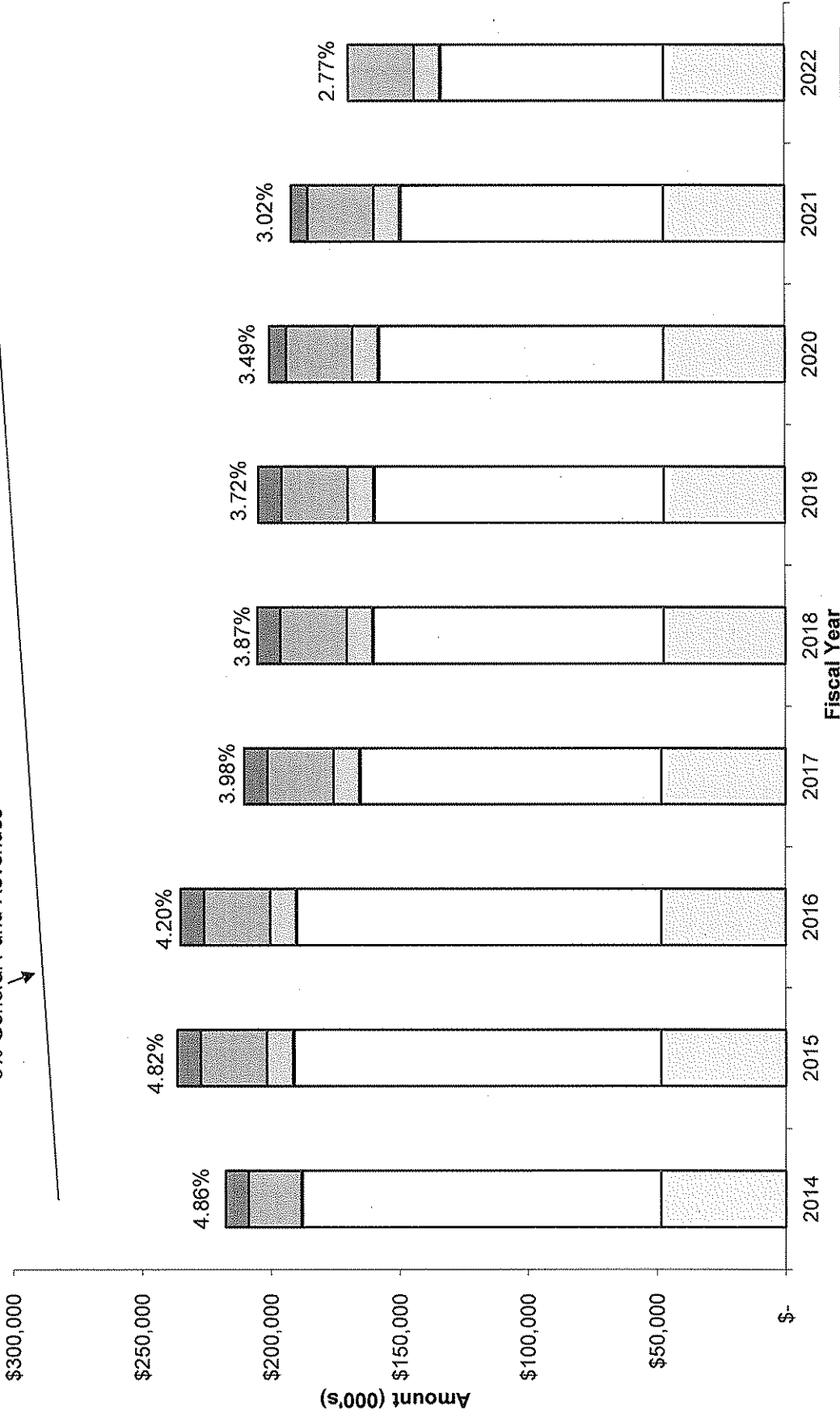
* Includes Judgment Obligation Bonds, Convention Center, MICLA bond issuances, and MICLA Commercial Paper Program and Refundings.
 ** Voter-Approved Debt.

NON-VOTER APPROVED DEBT December 2013

Debt Service to General Fund Revenues (2% Projected Growth Beginning in Fiscal Year 2019)

For every 0.1%, approximately \$26 million in project funding may be issued (at 5.5% over 15 years).

6% General Fund Revenues



- Convention Center
- Current MICLAs
- Commercial Paper
- Future MICLAs (CP Refundings)
- MICLA 2012
- Judgment Obligation Bonds

ATTACHMENT 3

Five-Year Debt Capacity

Five-Year General Fund Debt Capacity

	2014	2015	2016	2017	2018
Ratio	4.86%	4.82%	4.20%	3.98%	3.87%
Approx. Amount	\$290 m	\$300 m	\$460 m	\$525 m	\$550 m

Note:

Assumptions: revenue from Budget Outlook; 5.5% interest rate; 15 year average life