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City of San José v. Howard Jarvis Taxpayers Association

Supreme Court of California - December 18, 2025 - P.3d - 2025 WL 3674317

Municipality filed complaint for validation of issuance of pension obligation bonds and related agreements that were aimed to address unfunded liabilities in municipality's retirement plans.

Taxpayer advocacy groups filed answer to complaint for validation, alleging that municipality lacked authority to issue bonds and seeking declaratory judgment that resolution approving bonds and proposed issuance of bonds were invalid.

The Superior Court entered judgment validating resolution, issuance and sale of bonds, and related agreements. Advocacy groups appealed. The Court of Appeals affirmed. Review was granted.

The Supreme Court, Evan held that municipality's unfunded actuarial liability for employee pension plans represented obligation imposed by law, and therefore local debt limitation in California Constitution did not constrain municipality's discretion in how to address that obligation.

Local debt limitation in California Constitution, which prohibits cities and counties from incurring any indebtedness or liability that exceeds their income and revenue for that year, unless the indebtedness or liability has first been approved by two-thirds of the voters, does not apply to indebtedness or liability local government may incur to fulfill obligation imposed by law.

Under local debt limitation in California Constitution, which prohibits cities and counties from incurring any indebtedness or liability that exceeds their income and revenue for that year, unless the indebtedness or liability has first been approved by two-thirds of the voters, each year's income and revenue must pay each year's indebtedness and liability, and no indebtedness or liability incurred in any one year shall be paid out of the income or revenue of any future year.

Obligation imposed by law upon city or county is not indebtedness or liability within meaning of debt limitation provision in California Constitution, which prohibits cities and counties from incurring any indebtedness or liability that exceeds their income and revenue for that year; rather, local debt limitation is confined to those forms of indebtedness and liability which may have been created by voluntary action of officials in charge of affairs of such city.

Municipality's unfunded actuarial liability for employee pension plans represented obligation imposed by law, and therefore local debt limitation in California Constitution, which prohibits cities and counties from incurring any indebtedness or liability that exceeds their income and revenue for that year, did not constrain municipality's discretion in how to address that obligation; whether to amortize unfunded actuarial liability over period of years, pay it as lump sum, attempt to pay it out of current revenues at time pension benefits had to be paid, or some combination of those, was not affected by local debt limitation provision.

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