Bond Case Briefs

Municipal Finance Law Since 1971

California Supreme Court Rules in Favor of City of San José in Pension Obligation Bond Validation Action: Kutak Rock

On December 18, 2025 the California Supreme Court provided an early Christmas present to California municipalities in a unanimous decision affirming that the issuance of pension obligation bonds does not violate California's Constitutional debt limit. In doing so, the Supreme Court upheld trial court and appellate court rulings in favor of the City of San José. In the decision, the Supreme Court held that unfunded pension liability is an obligation imposed by law and that municipalities have discretion in determining how to address that obligation, including through the issuance of pension obligation bonds. The City of San José had argued that the issuance of pension obligation bonds does not create a new debt at all (but merely repackages an existing unfunded pension liability). The Supreme Court did not find it necessary to delve deeply into that argument, holding that, even if it accepted the argument of challengers (led by the Howard Jarvis Taxpayers Association) that pension obligation bonds represent a new debt, the debt can be issued without voter approval under the "obligation imposed by law" exception to the Constitutional debt limit.

The Taxpayers Association argued that pension obligation bonds do not meet the "obligation imposed by law" exception because no law requires the issuance of bonds to address unfunded pension liability. But the Supreme Court turned down this argument, holding that municipalities have discretion to determine how to manage obligations that are imposed by law.

The City of San José is a charter city whose voter-approved charter requires the City to fund pension benefits for employees in an actuarially sound manner. The City's position that it was compelled to fund its unfunded pension liability was understandably focused on the language of its charter. It remains to be seen whether the Supreme Court will accept the argument that the obligation of non-charter cities and other public agencies to fund their unfunded pension liabilities constitutes an "obligation imposed by law" for Constitutional debt limit purposes even if their pension plans were voluntarily created. Two such pension obligation bond cases (for the cities of Oxnard and Escondido) are currently pending before the Supreme Court, with both cities also having bested the Taxpayers Association at trial and on appeal. Certain Government Code provisions support the argument that pension plans, once created, must be maintained in an actuarially sound manner. The Oxnard and Escondido cases were stayed pending the San José decision. Watch this space for resolution of those cases by the California Supreme Court in 2026 now that San José has been decided.

Kutak Rock LLP's public finance group has served on numerous occasions as bond and disclosure counsel to public agencies throughout California and nationwide on pension obligation bond issuances. Please contact Cyrus Torabi in Kutak Rock's Irvine office for further information about the City of San José ruling or pension obligation bonds generally.

Kutak Rock LLP

December 22, 2025

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com