



**DATE:** April 20, 2021  
**TO:** Mayor and City Council  
**FROM:** Director of Finance  
**SUBJECT:** Informational Report on the Annual Review of City Issued Debt

### **RECOMMENDATION**

That the Council receives the Annual Review of City Issued Debt report.

### **SUMMARY**

This report provides an update of the City's issued debt and includes the City's most recent credit rating issued by Fitch Ratings in October 2020.

### **BACKGROUND**

The City of Hayward, like most cities and municipal agencies, incurs and manages debt as part of the normal course of business, leveraging different financing instruments to provide immediate access to funding for significant capital projects, equipment, and other specific projects. City staff prepares informational sections included in the City's annual budget document and the annual financial statements that summarize the City's debt. Throughout the year, this information comes in various forms to the Council and the Council Budget and Finance Committee (CBFC); however, this report is meant to provide a comprehensive summary of the entire debt portfolio. The CBFC reviewed a draft of this report at their March 17, 2021 regular meeting.

### **DISCUSSION**

The City uses debt to finance the cost of capital improvements through various debt instruments (see list below). Debt service payments are generally made on an installment basis, typically annually or semiannually. This document contains debt service information for the General Fund and all other funds, including anticipated debt issuances that will be issued prior to the end of the fiscal year as have been approved by Council during the FY 2021 budget process or by separate resolution. Debt service payments of previously issued debt, as well as planned issuances, are budgeted and approved annually by the Council – these obligations are funded through identified tax and/or fee supported revenues that include the General Fund, Enterprise Funds, and Internal Service Funds.

*Debt Instruments* – The City and Successor Agency of the Hayward Redevelopment Agency currently maintain the following types of debt:

- Certificates of Participation
- Revenue Bonds
- Private Placement Bonds
- California Energy Commission (CEC) Loan
- Lease-Purchase Agreements
- State Water Resources Control Board (SWRCB) Loan
- Special Tax Bonds (CFD only) & Limited Obligation Improvement Bonds (LID only)
- Tax Allocation Bonds (Successor Agency only)
- Loans Payable (Energy Efficient Loan)

City-Issued Long-Term Debt	Debt as of 6/30/2021
Certificate of Participation	\$63,006,930
Private Placement Bonds	\$14,876,662
Lease-Purchase Agreements	\$827,276
Special Tax Bonds (CFDs only) & Limited Obligation Improvement Bonds (LID only)	\$5,010,776
Internal Fund to Fund Loans	\$3,016,479
Tax Allocation Bonds (Successor Agency Only)	\$30,630,057
<b>Total Government Activity Debt</b>	<b>\$117,368,180</b>
State Water Resources Control Board (SWRCB) Loan	\$36,083,947
Revenue Bonds	\$2,630,000
Loans Payable (Energy Efficient Loan)	\$3,487,665
<b>Total Business-Type Activity Debt</b>	<b>\$42,201,612</b>
<b>Total City-Issued Long-Term Debt</b>	<b>\$159,569,792</b>

### City-Issued Debt

The City’s Annual Comprehensive Financial Report (ACFR<sup>1</sup>) and annual budget document both contain further detail on the various debt issuances with explanations of uses and sources of funds. Hayward is a charter city and, as such, legally does not have a debt limit. A useful tool for comparison to peer agencies, who are subject to this limit, is to calculate what the legal debt limit and margin would be **if** Hayward were a general law city. This calculation and information are described below.

### Debt Limit & Margin

- The legal bonded debt limit for the City is \$3.3 billion. The City does not have any bonded debt that is subject to this limitation – resulting in a legal bonded debt margin of

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<sup>1</sup> The City is working to switch the acronym CAFR to ACFR consistent with guidance from GASB and GFOA due to the similarities this acronym presents with a derogatory racial slur in South African English:  
<https://tax.thomsonreuters.com/news/gasb-advances-talks-to-eliminate-offensive-slur-from-acronym-for-comprehensive-annual-financial-report/>

the entire \$3.3 billion. However, if the City's debts were subject to this limit, the City has issued \$92.1 million of outstanding debt, which is approximately \$3.2 billion below the limit.

- The City's projected General Bonded Debt Outstanding as of June 30, 2021 will total \$92.1 million and represents 0.41% of taxable property value or \$568 per capita.

*Debt Limit Computation (projected June 30, 2021) –*

Total FY 2021 projected assessed valuation	\$ 22,139,497,137
Debt limit (15% of assessed value)	\$ 3,320,924,571
Amount of legal debt applicable to the debt limit	\$ 92,109,571
Legal debt margin (if Hayward were a general law city)	\$ 3,320,924,571
Amount above or (below) Legal Debt Margin	(\$ 3,228,815,000)

New Debt

While the City acted as a conduit on issuing debt for other agencies, it has not authorized or issued new debt of its own in FY 2021.

Credit Ratings

Credit ratings are opinions about credit risk; they are published by a rating agency that has analyzed the City's ability and willingness to meet its financial obligations in accordance with the terms of the debt obligations. Credit ratings have a significant impact on the interest rate the City will pay when issuing debt. In October 2020, Fitch Ratings issued a rating of AA+ assigning a positive outlook primarily attributed to the City's strong revenue growth prospects, moderate long-term liability, moderately-elevated fixed costs, and historically strong reserves. A critical component of the rating agency review is the City's financial management status - i.e., appropriate reserve levels, plans to reduce liabilities, fiscal policies, etc. If the City fails to maintain these areas of fiscal control, the City could see a reduction in future ratings.

**ECONOMIC IMPACT**

There is no economic impact associated with this report as it is informational only.

**FISCAL IMPACT**

There is no fiscal impact associated with this report as it is informational only.

**STRATEGIC INITIATIVES**

This agenda item is a routine operational item and does not relate to any Council's Strategic Initiatives.

**SUSTAINABILITY FEATURES**

There are no sustainability features associated with this report as it is informational only.

## **PUBLIC CONTACT**

The agenda for this item was posted in compliance with the California Brown Act.

## **NEXT STEPS**

Staff will continue to actively monitor the City's debt levels and report annually to the Council Budget and Finance Committee and full City Council.

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