



DATE: June 20, 2023

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Refunding Certificates of Participation: Adopt Resolutions Authorizing Issuance of Certificates of Participation in an Amount Not to Exceed \$55 Million to Refinance Prior Lease Payment Obligations

RECOMMENDATION

That Council adopts: 1) the two resolutions authorizing the Hayward City Council and the Board of Directors of the Hayward Public Financing Authority (the “City”) to authorize delivery and sale of 2023 Refunding Certificates of Participation (“Refunding Certificates of Participation”) in the principal amount not to exceed \$55 million to refinance the City’s 2015 Certificates of Participation and 2014 Lease Agreement; and 2) the resolution authorizing and approving the recommended revisions to the City’s Debt Management and Debt Disclosure Policies.

SUMMARY

This report provides analysis of refunding the 2015 Certificates of Participation and 2014 Lease Agreement to yield potential savings. Under current market conditions, the City’s municipal advisor (NHA Advisors) and underwriter (BoFA Securities, Inc.) estimate annual savings from a potential refunding of the 2015 Certificates of Participation to be approximately \$720,000 per year and net present value savings to be approximately \$1.9 million. Under current market conditions, it is estimated that a potential refunding of the 2014 Lease Agreement would result in a slight net present value loss. Staff and NHA Advisors continue to discuss the benefits of refunding the 2014 Lease Agreement.

For Council’s consideration, this report also includes recommended revisions to the Debt Management Policy and Debt Disclosure Policy to ensure compliance with current Government Code, and industry best practices.

BACKGROUND

In August 2014, the City entered into a Lease Agreement dated August 1, 2014 (the “2014 Lease Agreement”), with the Public Property Financing Corporation of California (the “Corporation”), for the purpose of financing a new Fire Station No. 7 and a Firehouse Health

Clinic to be located at the same site as Fire Station No. 7, under which the City agreed to pay semiannual lease payments (the "2014 Lease Payments") to the Corporation. The Corporation assigned its right to receive the 2014 Lease Payments to Umpqua Bank ("Umpqua Bank"). The City may prepay the 2014 Lease Payments on any date, without a prepayment premium. As of September 1, 2023, the 2014 Lease Agreement will have an outstanding principal balance of \$2,482,104.

In October 2015, the Authority and the City entered into a Lease Agreement, dated August 1, 2015 (the "2015 Lease Agreement"), for the purpose of financing the acquisition and construction of a number of capital improvements, including, but not limited to, (i) a new library and community learning center, (ii) improvements to existing fire stations and (iii) complete street rehabilitation and slurry seal repairs (collectively, the "2015 Project"), under which the City agreed to pay semiannual lease payments (the "2015 Lease Payments") to the Authority. The Authority assigned its rights to receive the 2015 Lease Payments to The Bank of New York Mellon Trust Company, N.A. (the "2015 Trustee"), and the 2015 Trustee executed and delivered the \$67,535,000 City of Hayward 2015 Certificates of Participation (Capital Projects) (the "2015 Certificates of Participation"). The 2015 Certificates of Participation can be prepaid on November 1, 2023, and any date thereafter, without premium. As of September 1, 2023, the 2015 Certificates of Participation will have an outstanding principal balance of \$52,245,000.

DISCUSSION

Under current market conditions, the City's municipal advisor (NHA Advisors) and underwriter (BofA Securities, Inc.) estimate annual savings from a potential refunding of the 2015 Certificates of Participation to be approximately \$720,000 per year and net present value savings to be approximately \$1.9 million (3.5% of the unpaid principal amount of the 2015 Certificates of Participation). It is anticipated that the refinancing will not require a debt service reserve fund. As a result, a refunding of the 2015 Certificates of Participation will also allow for the release of the debt service reserve fund for the 2015 Certificates of Participation, which has a balance of approximately \$5.5 million and that may be used to contribute to the refunding and, as a result, reduce the principal amount of the Refunding Certificates of Participation.

Under current market conditions, it is estimated that a potential refunding of the 2014 Lease Agreement would result in a slight net present value loss. Staff will continue monitoring this potential refunding since there are economies of scale to including it in the refunding of the 2015 Certificates of Participation. Even though it is unlikely that there will be significant savings from refunding the 2014 Lease Agreement, the City could elect to refund the 2014 Lease Agreement to unencumber the leased asset securing this financing (Police Station, located at 300 West Winton Avenue). Otherwise, the 2014 Lease Agreement would not be refunded unless it generates positive savings.

To ensure that the City is in compliance with Government Code regulations, and industry best practices, staff recommends several revisions to the Debt Management Policy and Debt Disclosure Policy (Attachments IX and X).

STRATEGIC ROADMAP

This agenda item does not directly relate to any of the six priorities outlined in the Council's Strategic Roadmap.

FISCAL IMPACT

Measure C savings from the refunding of the 2015 COPs is projected to be about \$720,000 annually, and net present value savings to be approximately \$1.9 million.

While the 2014 Lease Agreement would result in a slight net present value loss, the City could elect to refund the 2014 Lease Agreement to unencumber the leased asset securing this financing (Police Station, located at 300 West Winton Avenue). If the City decided not to refund and unencumber the leased assets, then the 2014 Lease Agreement would not be refunded unless it generates positive savings.

PUBLIC CONTACT

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

NEXT STEPS

Staff anticipates that a public offering of the Refunding Certificates of Participation will offer the most cost-effective financing outcome for the City. Pending City Council approval of the base financing documents at this meeting, staff will work with the financing team to finalize the underlying financing documents and develop the credit package and preliminary official statement ("POS") necessary to obtain a credit rating and access the capital markets. At the first City Council meeting in September, the City Council will be asked to approve the POS and bond purchase contract, and the City will enter the capital markets shortly thereafter.

Given the recent turmoil in the financial markets, the resolutions preserve the possibility of proceeding on a private placement basis if staff concludes it would be more cost-effective than a public offering.

Prepared and Recommended by: Nicole Gonzales, Director of Finance

Approved by:



Kelly McAdoo, City Manager