



DATE: March 20, 2019

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT: Annual Review of City Issued Debt

RECOMMENDATION

That the Committee reviews and provides comment on this report.

SUMMARY

This report provides an annual review of the City's issued debt and includes the City's most recent credit rating issued by Moody's Investor Service in May 2018.

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 include sections summarizing the City's debt. Throughout the year, this information comes in various forms to City Council and the Committee; however, this report is meant to provide a comprehensive summary of the entire portfolio.

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 2019 budget process or separate resolution. Debt service payments of previously issued debt, as well as planned issuances, are budgeted and approved annually by City 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)
- Internal Fund to Fund Loans
- Tax Allocation Bonds (Successor Agency only)

City-Issued Long-Term Debt	Debt as of 6/30/2019
Certificate of Participation	\$ 79,058,939
Revenue Bonds	\$ 4,000,000
Private Placement Bonds	\$ 4,086,667
California Energy Commission (CEC) Loan	\$ 2,584,237
Lease-Purchase Agreements	\$ 2,170,579
State Water Resources Control Board (SWRCB) Loan	\$ 48,502,095
Special Tax Bonds (CFDs only) & Limited Obligation Improvement Bonds (LID only)	\$ 5,851,643
Internal Fund to Fund Loans	\$ 3,167,508
Tax Allocation Bonds (Successor Agency Only)	\$ 37,834,019
Total City-Issued Long-Term Debt	\$ 187,255,688

City-Issued Debt

Attachment II provides a basic summary of the debt the City currently maintains. The City's Comprehensive Financial Report (CAFR) 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 \$3.4 billion. The City does not have any bonded debt that is subject to this limitation – resulting in a legal bonded debt margin of the entire \$3.4 billion. However, if the City's debts were subject to this limit, the City has issued \$90.4 million of outstanding debt, which is approximately \$3.3 billion below the limit.
- The City's projected General Bonded Debt Outstanding as of June 30, 2019 will total \$90.4 million and represents .40% of taxable property value or \$558 per capita.

Debt Limit Computation (projected June 30, 2019) –

Total FY 2019 projected assessed valuation (<i>less</i> exemptions)	\$ 22,385,452,432
Debt limit (15% of assessed value)	\$ 3,357,817,865
Amount of legal debt applicable to the debt limit	\$ 90,350,182
<u>Legal debt margin (if Hayward were a general law city)</u>	<u>\$ 3,357,817,865</u>
Amount above or (below) Legal Debt Margin	(\$ 3,267,467,682)

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 2019.

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 May 2018, Moody's Investor Service issued a rating of AA- assigning a negative outlook primarily attributed to the City's large and growing pension related liabilities and future projected pension cost increases in coming year. Many agencies across the state and country have experienced similar rating actions. Prior to the May 2018 rating, Fitch Ratings issued an AA rating for the Certifications of Participation (COPs) (Capital Projects).

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 City Council the funding status.

Prepared by: Nicole Gonzales, Budget Officer

Recommended by: Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager