



DATE: May 18, 2022

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT: Annual Review of City Issued Debt

RECOMMENDATION

That the Committee accepts this report on the status of City Issued Debt.

SUMMARY

This report provides an update on the City's issued debt and includes the City's most recent credit rating issued by Fitch Ratings in September 2021.

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 the 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 2022 budget process or 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 6/30/2022
Certificate of Participation	\$64,849,301
Private Placement Bonds	\$3,039,736
Lease-Purchase Agreements	\$606,339
Special Tax Bonds (CFDs only) & Limited Obligation Improvement Bonds (LID only)	\$4,648,014
Internal Fund to Fund Loans	\$2,938,681
Tax Allocation Bonds (Successor Agency Only)	\$27,791,442
Total Government Activity Debt	\$103,873,513
State Water Resources Control Board (SWRCB) Loan	\$33,964,623
Revenue Bonds	\$2,000,000
Loans Payable (Energy Efficient Loan)	\$2,967,033
Total Business-Type Activity Debt	\$38,931,656
Total City-Issued Long-Term Debt	\$142,805,169

City-Issued Debt

Attachment II provides a basic summary of the debt the City currently maintains. The City's Annual Comprehensive Financial Report (ACFR) 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, that 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 \$3.8 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 \$3.8 billion. However, if the City's debts were subject to this limit, the City has issued \$86.8 million of outstanding debt, which is approximately \$3.7 billion below the limit.
- The City's projected General Bonded Debt Outstanding as of June 30, 2022, will total \$86.8 million and represents 0.34% of taxable property value or \$536 per capita.

Debt Limit Computation (projected June 30, 2022) –

Total FY 2022 projected assessed valuation	\$ 25,838,089,368
Debt limit (15% of assessed value)	\$ 3,875,713,405
Amount of legal debt applicable to the debt limit	\$ 86,841,453

Legal debt margin (if Hayward were a general law city)	\$ 3,875,713,405
Amount above or (below) Legal Debt Margin	(\$ 3,788,871,952)

New Debt

While the City acted as a conduit for issuing debt for other agencies, it has not authorized or issued new debt of its own in FY 2022.

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.

In September 2021, Fitch Ratings reviewed the rating of the City of Hayward and concluded that there should be no change to the existing rating or rating outlook. This credit rating issuance reaffirmed the City of Hayward has a rating of AA+ with a positive financial outlook.

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 ROADMAP

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 Committee and City Council on the funding status.

Prepared by: Nicholas Mullins, Management Analyst II
Nicole Gonzales, Deputy Director of Finance

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