



DATE: June 7, 2023

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 by Fitch Ratings in September 2022.

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 2023 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 6/30/2023
Certificates of Participation	\$59,769,643
Private Placement Bonds	\$2,670,608
Lease-Purchase Agreements	\$378,788
Special Tax Bonds (CFDs only) & Limited Obligation Improvement Bonds (LID only)	\$4,216,302
Internal Fund-to-Fund Loans	\$2,859,318
Tax Allocation Bonds (Successor Agency Only)	\$27,311,791
<i>Total Government Activity Debt</i>	<i>\$97,206,450</i>
State Water Resources Control Board (SWRCB) Loan	\$30,774,236
Revenue Bonds	\$1,350,000
Loans Payable (Energy Efficient Loan)	\$2,604,581
<i>Total Business-Type Activity Debt</i>	<i>\$34,728,817</i>
Total City-Issued Long-Term Debt	\$131,935,267

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, 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 \$80.3 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, 2023 will total \$80.3 million and represents 0.36% of taxable property value or \$495 per capita.

Debt Limit Computation (projected June 30, 2023) –

Total FY 2023 projected assessed valuation	\$ 22,385,452,432
Debt limit (15% of assessed value)	\$ 3,357,817,865
Amount of legal debt applicable to the debt limit	\$ 80,280,030
Legal debt margin (if Hayward were a general law city)	\$ 3,357,817,865
Amount above or (below) Legal Debt Margin	(\$ 3,277,537,835)

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 2023.

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 2022, 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.

NEXT STEPS

Staff will continue to actively monitor the City's debt levels and report annually to the Committee and City Council the funding status.

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Approved by:



Kelly McAdoo, City Manager