



DATE: March 20, 2017

TO: Council Budget & Finance Committee Members

FROM: Director of Finance

SUBJECT: Annual Review of City Issued Debt

RECOMMENDATION

That the Committee reviews and provides comment on this report.

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 which include sections that summarize 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 2017 budget process or separate resolution. Debt service payments for 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

- Tax Allocation Bonds (Successor Agency only)
- Special Tax Bonds (CFD only) & Limited Obligation Improvement Bonds (LID only)
- Internal Fund to Fund Loans

City-Issued Debt

Attachment II provides a 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 margin is \$2.9 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 \$2.9 billion.
- The City's projected General Bonded Debt Outstanding as of June 30, 2017 will total about \$100.5 million and represents .52% of taxable property value or \$635 per capita.

Debt Limit Computation (projected as of June 30, 2017) –

Total FY 2017 assessed valuation (less other exemptions)	\$ 19,438,445,561
Debt limit (15% of assessed value)	\$ 2,915,766,834
Amount of debt applicable to the debt limit	\$ 100,463,439
Legal debt margin (if Hayward were a general law city)	\$ 2,915,766,834

New Debt

The City did not issue significant new debt in FY 17 other than what is noted in the Debt Refunding section below.

Debt Refunding

On June 1, 2016, the City issued \$19.8 million of Refunding Certificates of Participation. The 2016 Certificates were issued to refund the 2007 Certificates of Participation which were used to refund previous issues for the 1996 Civic Center and 1997 Road and Seismic Retrofit COPs. The refunding resulted in an overall debt service savings of nearly \$1.6 million.

On December 13, 2016, City staff, acting on behalf of the Redevelopment Successor Agency issued \$35.3 million in Tax Allocation Refunding Bonds (TARBs). These TARBs were issued to refund series 2004 and 2006 Tax Allocation Bonds. This refunding will be paid entirely using funds the City receives as a portion of its annual ROPs payments from the State of California Department of Finance.

Credit Ratings

Credit ratings are opinions about credit risk 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. The City continues to receive very high ratings from the rating agencies, including a stable rating outlook from Fitch who upheld the AA rating for both the 2015 Certificates of Participation and the 2007 Certificates of Participation. Moody's Investor Service upgraded the 2005 Certificates of Participation (Solar Lease) to an Aa3 from an Aa2. The City's implied general obligation (issuer default) rating was AA+ with a stable outlook from Standard and Poor's and Fitch Ratings agencies.

The Successor Agency to the City of Hayward Redevelopment Agency also received a rating of AA- for its 2016 Tax Allocation Refunding Bonds; a significant improvement over previous ratings.

NEXT STEPS

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

Prepared and Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAdoo, City Manager