



DATE: March 21, 2018

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 2018 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
- 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 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 margin is \$3.04 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 \$3.04 billion.
- The City's projected General Bonded Debt Outstanding as of June 30, 2018 will total \$98.4 million and represents .49% of taxable property value or \$611 per capita.

Debt Limit Computation (projected June 30, 2018) –

Total FY 2018 projected assessed valuation (less exemptions)	\$ 20,277,062,542
Debt limit (15% of assessed value)	\$ 3,041,559,381
Amount of legal debt applicable to the debt limit	\$ 98,394,354
<u>Legal debt margin (if Hayward were a general law city)</u>	<u>\$ 3,041,559,381</u>
Amount above or (below) Legal Debt Margin	(\$ 2,943,165,027)

* This amount includes debt that has been approved by Council, but has not been issued as of the time of this report.

New Debt

The City has not issued new debt in FY 2018.

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. In December 2017, Fitch Ratings affirmed an AA rating for the Certifications of Participation (COPs) (Capital Projects). The City has an implied general obligation (issuer default) rating of AA+ with a stable outlook from Fitch Ratings agency.

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
Dustin Claussen, Director of Finance

Recommended by: Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is positioned above a horizontal line.

Kelly McAdoo, City Manager