



CITY OF HAYWARD

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Cover Memo

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DATE: April 5, 2016

TO: Mayor and Councilmembers

FROM: Director of Finance

SUBJECT

Annual Review of City of Hayward Issued Debt

RECOMMENDATION

That Council reviews and comments on this report.

BACKGROUND

The City of Hayward, like the vast majority of cities and municipal agencies, incurs and manages debt as part of its normal course of business. While both the annual budget document and the annual financial statements include a section that summarizes the City's debt, staff provides an update to the Council Budget & Finance Committee (CBFC) and the full City Council during the annual budget process. The CBFC reviewed a draft of the report at their March 2, 2016 regular meeting.

DISCUSSION

The City uses its debt to finance the cost of capital improvements through various debt instruments (see list below). Debt service payments are generally made on an annual or semiannual basis. 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 were approved during the FY 2016 budget process. Debt service payments of previously issued debt, as well as planned issuances, are budgeted and approved annually by City Council - and these obligations are funded through identified tax and 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 I 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, does not have a debt limit. However, if we were a general law city, the legal debt limit and margin would be as described below. They are presented here to allow Council to assess how the City of Hayward compares to that limit established for general law cities.

Debt Limit & Margin

- The legal bonded debt margin is \$2.6 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 \$2.6 billion.
- The City's projected General Bonded Debt Outstanding as of June 30, 2016 will total about \$101 million and represents .58% of taxable property value or \$668 per capita. General bonded debt includes debt incurred by the City that is in the form of issuing bonds.

Debt Limit Computation (projected as of June 30, 2016) -

Total FY 2015 assessed valuation (less other exemptions)	\$ 17,367,781,844
Debt limit (15% of assessed value)	\$ 2,605,167,277
Amount of debt applicable to the debt limit	\$ 101,221,765 *
Legal debt margin (if Hayward were a general law city)	\$ 2,503,945,512

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

New Debt - Measure C

The most notable change to the City's debt portfolio is the issuance of \$67.5 million in Certificates of Participation for capital projects funded from the proceeds of the Measure C District Sales Tax to fund the 21st Century Library and Community Learning Center, fire station improvements, rebuilding of the fire training center, and streets improvements. The bonds were issued on October 1, 2015 and are secured by Measure C district sales tax revenues. The bonds bear interest at 3% -5% , with principal payable annually on November 1 beginning in FY 2019 and maturing in 2034. Annual debt service payments peak at \$5.5 million in 2021 and 2024.

Debt Refunding

City staff has been working with the City's financial advisor and bond counsel to analyze the feasibility of refunding Redevelopment Agency of the City of Hayward (now known as the Successor Agency of the Hayward Redevelopment Agency) 2004 and 2006 Series Tax Allocation Bonds (TABS) and the 2007 Certificates of Participation (COP). Initial calculations indicate that refunding the 2004 and 2006 TABS could result in net General Fund savings of about \$100,000-\$110,000 per year for the first twelve years; then about \$50,000 per year for the remainder of the term. Savings from the refunding the 2007 TABS is projected to be about \$100,000 annually. This is a significant overall savings to the General Fund and staff is initiating the

refunding process that will be presented to City Council over the next couple of months.

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. In recent fiscal years the City has received very high ratings from the various rating agencies, including a AA rating from both Fitch and Standard & Poor's of the 2015 Certificates of Participation and a AA+ rating by Standard & Poor's for the 2013 Water Bonds. The City also has an implied general obligation rating of AA+ with a stable outlook from both rating agencies. In addition, Standard & Poor's Ratings Services recently reviewed the rating of the 2004 and 2006 TABS and upgraded its rating from A- to A and affirmed a stable outlook. 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.

The City's credit ratings are per debt issuance and not all issuances are rated or have been re-rated recently. However, below is a summary of some of the City's larger issuances and their current ratings. The 2007 COP refunding was re-rated by Fitch in June 2014 and an AA+ rating was upheld; this issuance was also recently re-rated by Standard & Poors and the rating was increased from an A+ to AA.

2007 COP Refunding	\$31,820,000	Standard & Poor's AA; Fitch AA+
2007 Sewer Refunding	\$9,880,000	Standard & Poor's AAA; Fitch AAA
2004 RDA TAB	\$44,790,000	Standard & Poor's AAA insured/A uninsured
2006 RDA TAB	\$11,800,000	Standard & Poor's AAA insured/A uninsured
2013 Water Refunding	\$7,245,000	Standard & Poor's
2015 COP	\$67,535,000	Standard & Poor's AA; Fitch AA

NEXT STEPS

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

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Tracy Vesely, Director of Finance

Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachment:

Attachment I

Debt Summary