



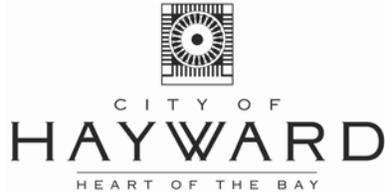
CITY OF
HAYWARD
HEART OF THE BAY

**COUNCIL BUDGET AND
FINANCE COMMITTEE**

JUNE 13, 2013

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SPECIAL CITY COUNCIL BUDGET & FINANCE COMMITTEE MEETING

Thursday, June 13, 2013
City Hall Conference Room 4B
5:30 PM

CALL TO ORDER

ROLL CALL

PUBLIC COMMENTS: *(The Public Comment section provides an opportunity to address the City Council Committee on items not listed on the agenda. The Committee welcomes your comments and requests that speakers present their remarks in a respectful manner, within established time limits, and focus on issues which directly affect the City or are within the jurisdiction of the City. As the Committee is prohibited by State law from discussing items not listed on the agenda, your item will be taken under consideration and may be referred to staff.)*

1. Discuss and provide direction on refinancing City water bonds and Eden Shores Community Facility District debt

[Staff Report](#)
[Attachment I](#)
[Attachment II](#)

2. Discuss Community Facilities Districts (*oral presentation*)
 - a. Existing CFD #2 - (Cannery Place) –annexation of additionally named properties
 - b. Future CFD #3 – create new district for South Hayward BART
 - c. Future CFD #4 – create new district to be used to annex future developments

COMMITTEE MEMBER ANNOUNCEMENTS AND REFERRALS

ADJOURNMENT

NEXT REGULAR MEETING – JUNE 26, 2013, 4:00PM, ROOM 4B

****Materials related to an item on the agenda submitted to the Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office, City Hall, 777 B Street, 4th Floor, Hayward, during normal business hours. An online version of this agenda and staff reports are available on the City's website. All Council Meetings are broadcast simultaneously on the website and on Cable Channel 15, KHRT. ****

Assistance will be provided to those requiring accommodations for disabilities in compliance with the Americans Disabilities Act of 1990. Interested persons must request the accommodation at least 48 hours in advance of the meeting by contacting the Assistant City Manager at (510) 583-4300 or TDD (510) 247-3340.

HAYWARD CITY COUNCIL, 777 B STREET, HAYWARD, CA 94541
[HTTP://WWW.HAYWARD-CA.GOV](http://www.hayward-ca.gov)



DATE: June 13, 2013
TO: Council Budget & Finance Committee Members
FROM: Director of Finance
SUBJECT: Refinancing City Water Bonds and Eden Shores Community Facility District Debt

RECOMMENDATION

That the Budget & Finance Committee approves and gives direction on the refinancing of the City's outstanding water enterprise fund obligations and the special tax bonds related to the Eden Shores development (CFD #1).

DISCUSSION

Water Enterprise Fund – The City currently has three outstanding water revenue bonds secured by the net revenues of the water enterprise fund.

- 1996 Refunding Lease Revenue Bonds (Hayward Water System Project) (“1996 LRB”)
- 2001 Water Certificates of Participation (“2001 COP”)
- 2004 Water Certificates of Participation (“2004 COP”)

The three bonds (1996, 2001 and 2004) carry above-market interest rates and can be refinanced at this point to generate debt service savings. In addition, a refinancing will allow the City to create new bond documents that represent current financing parameters (all the outstanding bonds are based on the original 1996 financing) which will provide the City with flexibility on managing cash flow and future rate increases. These structural changes will reduce pressure on the City to raise rates as water costs increase.

Current market conditions indicate that the City could save over \$750,000 through FY 2026/27 by refinancing the three capital market obligations (1996 LRB, 2001 COP and 2004 COP). This represents approximately 9% net present value on the amount of outstanding principal (\$8,225,000).

Eden Shores Development -- Separate from the debt issuances described above, the City issued special tax bonds in 2002 to fund infrastructure improvements related to the Eden Shores business park. The outstanding bonds (\$9,020,000) have an average interest rate of 6.42% and amortize through FY 2033. All bond debt service is paid through a special tax levied on properties within the Eden Shores Business Park.

Current market conditions indicate that a refinancing could lower the average interest rate to 4.50% that could result in total debt service savings of over \$1,300,000. Annual special tax

savings are currently estimated at \$100,000, which would be approximately 15% of the annual levy. This will result in annual savings to the district rate payers.

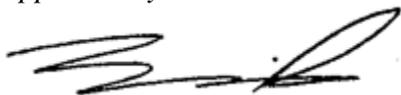
The City does not have any financial responsibility for the 2002 special tax bonds and only handles the collection and disbursement of the annual special tax levy. If a refinancing is completed, the City is entitled to collect a one-time administrative fee to reimburse for staff time and resources required to process the refinancing. Initial estimates for the administrative fee are between \$50,000 and \$90,000 that could be applied to the General Fund.

Refinancing Process and Next Steps -- The process for refinancing the water obligations and special tax bonds is similar. If approved and recommended by the Budget & Finance Committee, the appropriate bond documentation and resolutions would be prepared by the City's consultants (Bond Counsel & Disclosure Counsel (Jones Hall), Financial Advisor (NHA Advisors) and our Special Tax Administrator (Goodwin Consulting Group). The City has worked with each of these firms for many years on various projects and financings.

Approval by the City Council could occur in late July with the refinancing completed in August (prior to the 2013/14 tax roll requirement for the CFD refunding). Interest rates and final savings calculations will not be known until the bonds are sold into the capital markets. Each refunding bond issue (Water and Special Tax) will be sold separately, but potentially on similar schedules. The time required to process both would be more efficient if done in tandem, since much of the same City information will be used on both transactions.

Prepared and Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachments:

- Attachment I – Water Bonds Refinancing Memo from NHA Advisors
- Attachment II – CFD#1 (Eden Shores) Refinancing Memo from NHA Advisors

MEMORANDUM

To: Tracy Vesely, Finance Director, City of Hayward

CC: Bill Madison/Chris Lynch, Jones Hall

From: G. Craig Hill/Rob Schmidt

Date: May 20, 2013

RE: City of Hayward - Refinancing of Existing Water System Obligations

Background

The City of Hayward (the "City") operates the water system for all residential and non-residential properties within the City limits. Water is purchased from the San Francisco Public Utilities Commission (the "SFPU") through the Bay Area Water Supply and Conservation Agency (the "BAWSCA"). Wholesale charges for the water supply are structured as part of the operations and maintenance expense of the enterprise fund and no debt obligation of BAWSCA is considered an obligation of the City or the water enterprise fund (nor is it treated as parity debt).

The City has three outstanding obligations related to the water enterprise fund as well as a loan from State Water Resources Control Board (the "SRF Loan"). Based on preliminary review of the SRF Loan agreement, all outstanding obligations of the water enterprise fund are considered senior in priority to the SRF Loan. The existing obligations include the following:

- 1996 Refunding Lease Revenue Bonds (Hayward Water System Project) ("1996 LRB")
- 2001 Water Certificates of Participation ("2001 COP")
- 2004 Water Certificates of Participation ("2004 COP")
- 2006 State Water Resources Control Board Loan ("2006 SRF Loan")

Financing Plan

Based on our initial analysis, the City has the opportunity to refinance the existing obligations (less the SRF Loan). There is economic savings from a refinancing as well as the opportunity to restructure the bond terms for future parity obligations (coverage ratios, additional bond tests, reserve requirements, and rate stabilization funds).

The 2001 COP and 2004 COP can be refinanced for interest savings. While the City does not anticipate any pending capital needs, the City should preserve its ability to issue parity bonds at some point in the future if cash or subsidized loan program are not available.

In order to restructure the terms and requirements of this refinancing and any future parity obligations, all existing parity obligations must be refinanced. As a result, the City would need to include the 1996

LRB in this refinancing, despite the fact that the 1996 LRB is scheduled to mature on June 1, 2014, and would result in only a small amount of savings. The interest rate on the final maturity is 5.20%.

The 2001 COP has a final maturity of October 1, 2026, and currently has an average interest rate of 4.57%. The outstanding principal balance is \$1,905,000.

The 2004 COP has a final maturity of October 1, 2024, and an average interest rate of 4.02%. The outstanding principal balance is \$5,770,000.

We are proposing to refund the three outstanding obligations without any term extension or change in structure. In addition to the refinancing, we propose to redraft the bond provisions to better reflect current market terms and conditions for additional future debt. These changes will help the City manage water rates and future capital funding needs in the event the projects cannot be funded through cash flow.

Proposed Financing Structure

The 2013 Water Revenue Refunding Bonds (“2013 Bonds”) will remain in a senior position to the existing SRF Loan (per the SRF Loan agreement and subject to further legal review). It is anticipated that the 2013 Bonds will not require a reserve fund. In addition, the additional bonds test will require a 110% coverage test which will take into consideration a net revenue calculation using standard current definitions (to be provided separately). We also recommend that the bond indenture include the creation of a rate stabilization fund to allow the City to move excess revenues or fund balances into an account to manage the coverage requirement. This will also help in the credit analysis assuming no debt service reserve fund.

While it is anticipated that the 2013 Bonds will be sold through the capital markets, we are currently assessing the possibility of a private placement for the refunding bonds. Current market rates indicate that the lowest cost of funds will come through the issuance of traditional water revenue bonds sold into the capital markets.

Development of the official statement will require additional discussions with City staff as well as obtaining additional financial information for the water enterprise fund. We will be required to provide five years of historical revenue and expenditure data (most likely from the City’s audited financial reports) as well as five years of projections.

Timing of Financing

Key dates for processing the refinancing of the 1996 LRB, the 2001 COP, and the 2004 COP include:

- Week of May 27th Initial Discussions with City Staff
- June 13th City Budget & Finance Committee Review
- July 8th City Council Agenda Deadline
- July 16th City Council Approval of Financing Documents
- Mid-July Credit Review and Rating Calls
- Late-July Price Bonds/Close Financing

MEMORANDUM

To: Tracy Vesely, Finance Director, City of Hayward

CC: Chris Lynch, Jones Hall

From: G. Craig Hill/Rob Schmidt

Date: May 27, 2013

RE: City of Hayward - Refinancing of CFD #1 (Eden Shores)

Background

The City of Hayward (the "City") issued \$9,965,000 of special tax bonds in August 2002 (the "2002 Bonds") to fund improvements related to the Eden Shores Business Park, representing approximately 119 acres of land within the City's boundary. The original project development included approximately 1,500,000 square feet of light industrial, office/research and development on 17 high-quality master-planned business park lots as well as a 25-acre sports park.

All debt service on the 2002 Bonds is paid through an annual special tax levy on the properties within the Eden Shores Business Park. There is no secondary revenue pledge or City commitment to guarantee payments. Given this exclusive obligation, any reduction in debt service through a refinancing will also pass directly through to the property owners with reductions in their annual special tax levy.

Financing Plan

Based on our initial analysis, the City has the opportunity to refinance the 2002 Bonds for substantial debt service savings which will reduce the annual special tax levy to the participating property owners starting in tax year 2013/14.

The City also has the ability to apply the savings towards project improvements related to the original CFD formation (if needed). Confirmation of any outstanding uncompleted work or deferred maintenance should be completed.

The 2002 Bonds have a final maturity of September 1, 2032 and have an average coupon of 6.42%. The outstanding principal amount as of May 1, 2013 is \$9,020,000.

Current market conditions indicate that the City could save approximately \$1,750,000 in total debt service savings through a refinancing of the 2002 Bonds. This represents an annual average savings of over \$100,000 which is approximately 12% of the annual special tax levy.

Proposed Financing Structure

The 2013 Refunding Special Tax Bonds ("2013 Bonds") area anticipated to be publicly offered and carry no public rating. We anticipate that current disclosure reports for the 2002 Bonds will provide sufficient

delinquency and ownership information. No changes to the rate and method of apportionment are anticipated. The City expects to include an administration fee as part of the financing costs.

Development of the official statement will require additional discussions with City staff as well as obtaining additional information from Goodwin Consulting Group.

Timing of Financing

Key dates for processing the refinancing of the 2002 Bonds include:

- Week of May 27th Initial Discussions with City Staff
- June 13th City Budget & Finance Committee Review
- Late June Special Tax Consultant Report Complete
- July 8th City Council Agenda Deadline
- July 16th City Council Approval of Financing Documents
- Mid-July Credit Review and Rating Calls
- Late-July Price Bonds/Close Financing
- Early August 2013/14 Tax Roll Information Provided to County (lower levy)