

**OFFICE OF THE CITY MANAGER
DES MOINES, IOWA**

**CITY COUNCIL COMMUNICATION 96-422
SEPTEMBER 23, 1996 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
ESTABLISHING DATE OF HEARING FOR GENERAL OBLIGATION BONDS	◆ RESOLUTION ORDINANCE RECEIVE/FILE	MARTIN K. FREDERICKSON FINANCE DIRECTOR

SYNOPSIS —

It is necessary to hold a public hearing before the City can issue General Obligation (GO) Bonds. GO Bonds will be issued for the 1996-97 Capital Improvements Budget. In addition, current market conditions allow the City to refund certain outstanding GO Bonds and reduce future debt service costs. The most cost efficient time to effect a refunding is in conjunction with the sale of new GO Bonds. Authorization is being sought to set a public hearing date on the sale of new bonds and the advance refunding of outstanding City of Des Moines GO Bonds.

FISCAL IMPACT —

When new bonds are sold, debt service costs will increase to cover the cost of servicing the new debt. However, future debt service costs will be reduced if market conditions remain as they are currently and thus, allow for refunding of outstanding bonds at a lower interest rate. Current rates would allow for an estimated \$3,023,100 in net savings from refunding, and new debt would add an estimated \$1,275,000 annually to debt service costs. The additional costs resulting from the new bonds would be partially offset by the reduction in debt service costs caused by the retirement of a portion of the City's outstanding bonds.

RECOMMENDATION —

Authorization to establish October 21, 1996 as the public hearing date for the issue of approximately \$16,220,000 of new GO debt and the issuance of approximately \$40,000,000 in advance refunding debt.

BACKGROUND —

It is necessary for the City to issue GO Bonds annually to fund a portion of the City's Capital Improvements Budget. The GOs for the 1996-97 Capital Improvements Budget must be issued at this time to provide funding for the various projects funded all or in part from GO Bond proceeds.

The Capital Improvements Program currently under review by City Council contains approximately \$16,000,000 in GO funding. Prior to approving sale of the bonds, City Council must hold a public hearing on the proposed sale. Adequate notice of the hearing must be provided to the public. Items 44(B), (C), (D) and (E) on the September 23 Council agenda request authorization to establish the hearing date as October 21, 1996 and provide appropriate public notice of same.

As the bond market fluctuates and interest rates change, opportunities occur which allow the City to refund outstanding bonds at lower interest rates, and thus, reduce the City's overall debt service costs. The most cost-efficient time to effect such a refunding is when it can be done in conjunction with the issuance of new debt, thus minimizing related issue costs.

If a refunding occurred in the current market, the City would gain savings from refunding the following issues:

<u>Issue</u>	<u>Total Net Savings</u>	<u>Percent</u>
1987 GO	\$ 784,400	18.44
1990 C GO	1,558,400	16.33
1991 A GO	680,300	9.07
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Total	\$ 3,023,100	
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As a result, it is recommended that authorization be given to set October 21, 1996 as the public hearing date for the issuance of approximately \$40 million in GO Bonds to advance refund outstanding bonds. Item 44 (A) on the September 23, 1996, Council agenda sets the date. The amount may change if interest rates change, and the refunding could be canceled if interest rates increase significantly between now and the actual sale date, which could reduce the savings to an unacceptable level.

Should changes occur which would result in unfavorable results for the City, Council would be so advised and authorization would not be sought to proceed with the sale of advance refunding GO Bonds. However, the sale of new GO debt will be necessary to provide funds for the Capital Improvements Budget.