

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

**CITY COUNCIL COMMUNICATION 97-176
APRIL 7, 1997 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
ISSUANCE OF \$14,450,000 GENERAL OBLIGATION BONDS FOR FUNDING PORTION OF 1997-98 CIP	◆ RESOLUTION ORDINANCE RECEIVE/FILE	KEVIN RIPER FINANCE DIRECTOR

SYNOPSIS —

The following three steps will permit the taking of bids on April 21, 1997 for \$14,450,000 GO Bonds to fund a significant portion of the City's 1997-98 CIP.

1. Conduct a public hearing;
2. Consider instituting proceedings to take additional action; and
3. Direct the advertisement for sale of \$14,450,000 General Obligation (GO) Bonds, Series 1997B.

FISCAL IMPACT —

The funding amounts for various capital projects are consistent with the 1997-98 CIP, adopted by Council on March 3, 1997. Issuing the bonds this spring ensures that funds will be in hand once payments need to be made on CIP construction and acquisition projects in the new fiscal year—a policy change from prior years, when GO Bonds were issued well into the fiscal year.

At current interest rates, annual debt service would be slightly less than \$1.3 million for the next 19 years. Additional details are shown in the attached document from the City's financial advisor, Springsted Incorporated.

RECOMMENDATION —

Staff and the City's financial adviser and bond counsel recommend that Council approve these three steps in the process of issuing GO Bonds to fund a portion of the City's 1997-98 CIP.

BACKGROUND —

Major CIP projects to be financed include:

- Firefighting equipment acquisition (\$600,000)
- Abandoned housing demolition (\$400,000)
- Citywide Information and Communication System (\$1,000,000)
- Bike trails (\$250,000)
- Blank Park Zoo projects (\$250,000)
- Neighborhood park improvements (\$300,000)
- Park infrastructure (\$225,000)
- Swimming pool renovation (\$250,000)
- Sidewalks and Downtown Skywalk System (\$390,000)
- Citywide paving in neighborhoods (\$1,394,000)
- Concrete median island replacement (\$300,000)

- Concrete paving restoration (\$500,000)
- Merle Hay & Meredith intersection (\$285,000)
- S.E. Indianola—Army Post Road (\$562,000)
- Traffic signals (\$463,000)
- Neighborhood Finance Corporation (\$1,000,000; non-CIP)
- Public Housing (\$290,000; non-CIP)

The structure of the bond issues is consistent with the City's debt management policy. Annual principal and interest payments would be funded by a combination of debt service levy and tax increment, as available. The bond sale is proposed for April 21, 1997, with Council approval of bids at its meeting that day. Closing is scheduled for May 8, 1997.

Recommendations

For

City of Des Moines, Iowa

\$14,450,000

General Obligation Bonds, Series 1997B

\$30,300,000

Sewer Revenue Refunding Bonds, Series 1997C

Presented to:

Mayor Arthur Davis
Members, City Council
Mr. Eric Anderson, City Manager
Mr. Kevin Riper, Finance Director
City of Des Moines
400 East First Street
Des Moines, IA 50309-1891

Study No.: D1302R1Y1
SPRINGSTED Incorporated
March 28, 1997

SPRINGSTED
Public Finance Advisors



RECOMMENDATIONS

Re: Recommendations for the Issuance of \$14,450,000 General Obligation Bonds, Series 1997B and \$30,300,000 Sewer Revenue Refunding Bonds, Series 1997C

The proceeds of the Series 1997B Bonds will be used to finance a portion of the City's 1997-98 Capital Improvement Budget.

The proceeds of the Series 1997C Bonds will be used to refund the City's Sewer Revenue Bonds, Series 1987 to achieve interest cost savings.

We recommend the following for the bonds:

1. *Action Requested* To establish the date and time of receiving bids and establish the terms and conditions of the offering.
2. *Sale Date and Time* Monday, April 21, 1997, at 11:00 A.M., with award that afternoon at 4:30 P.M.
3. *Authority for the Bond Issues* The Bonds are being issued pursuant to Chapter 384 of the Iowa Code.
4. *Principal Amount of Offerings*
Series 1997B Bonds: \$14,450,000
Series 1997C Bonds: \$30,300,000

Included in the attached Official Terms of Offering for the Series 1997C Bonds is a provision that permits the City to increase or reduce the principal in any of the maturities for the Series 1997C Bonds in a total amount not to exceed \$200,000. This will allow for any necessary adjustments to the new reserve fund, which is based on the new lower debt service requirements, and adjustments for final issuance costs.
5. *Repayment Term*
Series 1997B Bonds: June 1, 1999-2016
Series 1997C Bonds: June 1, 1998-2012
6. *Source of Payments and Payment Cycle*
The Series 1997B Bonds will be general obligations of the City, payable from general ad valorem taxes.

The Series 1997C Bonds will be special obligations of the City, payable solely from net revenues of the Sewer Utility, including payments made by the Constituent Communities of the Des Moines Wastewater Reclamation Authority (WRA). The Series 1997C Bonds are being issued on a parity with ten existing issues which are also payable solely from sewer net revenues. This issue meets the coverage test required by the covenants for issuance of Parity Bonds.

7. *Prepayment Provisions*

Bonds due on or after June 1, 2006 will be callable on June 1, 2005, and any day thereafter, at a price of par plus accrued interest.

8. *Credit Rating Comments*

Rating applications will be made to Moody's Investors Service and Standard & Poor's for ratings on the Series 1997B Bonds.

We recommend that the City purchase bond insurance for the Series 1997C Bonds. The security for payment of the Series 1997C Bonds is not as broad as the security for the Series 1997B General Obligation Bonds, since the Series 1997C Bonds are payable solely from net revenues of the sewer utility. Typically, ratings for utility revenue bonds can be one full letter grade below a community's general obligation bond rating. Insured bonds, however, receive the "AAA" ratings of the insurance company since they guarantee to pay debt service if the City has insufficient revenues. Purchasing insurance will thus increase the marketability of the Series 1997C Bonds and result in lower interest rates. The 1987 Bonds which are being refunded, as well as the City's 1992 Sewer Revenue Bonds, were insured and we recommend using the same insurance company the City used for its 1992 issuance, Financial Guaranty Insurance Company, or FGIC.

9. *Rebate Requirements*

The Series 1997B Bonds are subject to the federal arbitrage requirements. If the City can meet either the eighteen-month or two-year spend down exemption for the issue, it will be exempt from rebating arbitrage earnings to the federal government.

The Series 1997C Bonds are also subject to the federal arbitrage requirements. However, proceeds will be spent within six months to repay the 1987 Bonds, so the issue will be exempt from rebate.

10. *Bona Fide Debt Service Fund*

The City must maintain a bona fide debt service fund for each issue, or be subject to yield restriction.

11. *Economic Life*

The average life of the Bonds cannot exceed 120% of the economic life of the projects to be financed. The economic life for infrastructure improvements and capital facilities is 20-40 years. Both issues are within the economic life requirements.

12. *Continuing Disclosure*

These issues are subject to the SEC's new continuing disclosure requirements. The new SEC rules require the City to undertake an annual update of its Official Statement information and report any material events to the national repositories.

13. *Attachments*

- a) Debt Service Schedule-Series 1997B Bonds
- b) Refunding Schedules-Series 1997C Bonds
- c) Official Terms of Offering

DISCUSSION

The Series 1997B Bonds

Proceeds of the Series 1997B Bonds will finance a portion of the City's 1997-98 Capital Improvement Budget and the costs of issuance associated with the Bonds. The issue has been structured over 19 years and provides for even annual debt service requirements.

Page 5 indicates the proposed debt service schedule for the Series 1997B Bonds. The first payment on the Bonds is an interest payment due December 1, 1997. This payment, as well as the June 1, 1998 interest payment, will be made from the 1997 levy. Thereafter, the amount levied each year will be sufficient to cover the December 1 interest payment due in that same year and the subsequent June 1 principal and interest payment.

The Series 1997C Bonds

The Series 1997C Bonds constitutes a "current" refunding since all the remaining maturities of the 1987 Bonds will be called within 90 days of settlement of this issue. Proceeds of the Bonds will be used to redeem the June 1, 1998 through 2012 maturities of the 1987 Bonds on June 1, 1997. The refunding has been structured to provide for even annual savings, which are expected to average approximately \$282,000 per year in 1998 through 2012. The City will make the June 1, 1997 principal and interest payment on the 1987 Bonds as originally scheduled.

Attached is the analytical summary of the refunding. Page 7 shows the debt service on the 1987 Bonds as it exists now. Page 8 shows the principal amount of the 1987 Bonds which will be called for redemption on June 1, 1997 and paid from the proceeds of this issue. Page 9 shows the June 1, 1997 principal and interest payment on the 1987 Bonds which will be paid by the City as originally scheduled. Page 10 shows the projected debt service on the new refunding issue and Page 11 shows the projected annual savings (Column 6).

City of Des Moines, Iowa
March 28, 1997

We will monitor the bond market between now and the date of the sale. In the event interest rates rise to a level that will result in insufficient savings, the sale can be postponed or the bids received can be rejected. We will keep the City apprised of changes in the market as the sale date approaches.

Respectfully submitted,

Springsted Incorporated

SPRINGSTED Incorporated

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Dated: 6- 1-1997
 Mature: 6- 1
 First Interest: 12- 1-1997

Year of Levy (1)	Year of Mat. (2)	Principal (3)	Rates (4)	Interest (5)	Total Principal & Interest (6)
1997	1998	0	0.00%	784,078	784,078
1998	1999	500,000	4.40%	784,078	1,284,078
1999	2000	525,000	4.60%	762,078	1,287,078
2000	2001	550,000	4.75%	737,928	1,287,928
2001	2002	575,000	4.85%	711,803	1,286,803
2002	2003	625,000	4.95%	683,915	1,308,915
2003	2004	650,000	5.05%	652,977	1,302,977
2004	2005	675,000	5.15%	620,152	1,295,152
2005	2006	700,000	5.25%	585,389	1,285,389
2006	2007	750,000	5.35%	548,639	1,298,639
2007	2008	800,000	5.45%	508,514	1,308,514
2008	2009	825,000	5.55%	464,914	1,289,914
2009	2010	875,000	5.60%	419,126	1,294,126
2010	2011	925,000	5.65%	370,126	1,295,126
2011	2012	975,000	5.70%	317,863	1,292,863
2012	2013	1,025,000	5.75%	262,288	1,287,288
2013	2014	1,100,000	5.80%	203,350	1,303,350
2014	2015	1,150,000	5.85%	139,550	1,289,550
2015	2016	1,225,000	5.90%	72,275	1,297,275
TOTALS:		14,450,000		9,629,043	24,079,043

Bond Years:	171,875.00	Annual Interest:	9,629,043
Avg. Maturity:	11.89	Plus Discount:	158,950
Avg. Annual Rate:	5.602%	Net Interest:	9,787,993
T.I.C. Rate:	5.704%	N.I.C. Rate:	5.695%

Total Debt Service (Average of Levy Years: 1998-2015)
 Column 6: \$ 1,294,165

Interest rates are estimates; changes may cause significant alterations of this schedule.
 The actual underwriter's discount bid may also vary.

OFFICIAL TERMS OF OFFERING

\$14,450,000

CITY OF DES MOINES, IOWA

GENERAL OBLIGATION BONDS, SERIES 1997B

(BOOK ENTRY ONLY)

Sealed bids for the Bonds will be received by the City Finance Director or his designee on Monday, April 21, 1997, until 11:00 A.M., Central Time, at the offices of the Finance Director in City Hall, 400 East First Street, Des Moines, Iowa, Attention: Kevin Riper, City Finance Director. Sealed bids will be received until the City Finance Director declares the time for filing of the sealed bids to be closed, after which time they will be opened and tabulated. The City Finance Director will present all bids and his recommendation with respect thereto to the City Council at its meeting at 4:30 P.M. Central Time, on the same day in City Hall.

DETAILS OF THE BONDS

The Bonds will be dated June 1, 1997, as the date of original issue, and will bear interest payable on June 1 and December 1 of each year, commencing December 1, 1997. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature June 1 in the years and amounts as follows:

1999	\$500,000	2004	\$650,000	2009	\$825,000	2013	\$1,025,000
2000	\$525,000	2005	\$675,000	2010	\$875,000	2014	\$1,100,000
2001	\$550,000	2006	\$700,000	2011	\$925,000	2015	\$1,150,000
2002	\$575,000	2007	\$750,000	2012	\$975,000	2016	\$1,225,000
2003	\$625,000	2008	\$800,000				

BOOK ENTRY SYSTEM

The Bonds will be issued by means of a book entry system with no physical distribution of Bonds made to the public. The Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The purchaser, as a condition of delivery of the Bonds, will be required to deposit the Bonds with DTC.

REGISTRAR

The Treasurer of the City will serve as registrar and paying agent.

OPTIONAL REDEMPTION

The City may elect on June 1, 2005, and on any day thereafter, to prepay Bonds due on or after June 1, 2006. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If less than all Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

SECURITY AND PURPOSE

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. The proceeds will be used to finance a portion of the costs of design and construction of projects included in the City's 1997-98 Capital Improvement Budget and the costs of issuance associated with the Bonds.

TYPE OF BID

Bids shall be for not less than \$14,291,050 and accrued interest on the total principal amount of the Bonds. Bids shall be accompanied by a Good Faith Deposit ("Deposit") in the form of a certified or cashier's check or a Financial Surety Bond in the amount of \$144,500, payable to the order of the City. If a check is used, it must accompany each bid. If a Financial Surety Bond is used, it must be from an insurance company licensed to issue such a bond in the State of Iowa, and preapproved by the City. Such bond must be submitted to Springsted Incorporated prior to the opening of the bids. The Financial Surety Bond must identify each bidder whose Deposit is guaranteed by such Financial Surety Bond. If the Bonds are awarded to a bidder using a Financial Surety Bond, then that purchaser is required to submit its Deposit to Springsted Incorporated in the form of a certified or cashier's check or wire transfer as instructed by Springsted Incorporated not later than 3:30 P.M., Central Time, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the City to satisfy the Deposit requirement. The City will deposit the check of the purchaser, the amount of which will be deducted at settlement and no interest will accrue to the purchaser. In the event the purchaser fails to comply with the accepted bid, said amount will be retained by the City. No bid can be withdrawn after the time set for receiving bids unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made. Rates shall be in integral multiples of 5/100 or 1/8 of 1%. Rates must be in ascending order. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional bid will be accepted.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a true interest cost (TIC) basis. The City's computation of the interest rate of each bid, in accordance with customary practice, will be controlling.

The City will reserve the right to: (i) waive non-substantive informalities of any bid or of matters relating to the receipt of bids and award of the Bonds, (ii) reject all bids without cause, and, (iii) reject any bid which the City determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER'S OPTION

If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the bidder, the purchase of any such insurance policy or the issuance of any such commitment shall be at the sole option and expense of the purchaser of the Bonds.

Any increased costs of issuance of the Bonds resulting from such purchase of insurance shall be paid by the purchaser, except that, if the City has requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any other rating agency fees shall be the responsibility of the purchaser.

Failure of the municipal bond insurer to issue the policy after Bonds have been awarded to the purchaser shall not constitute cause for failure or refusal by the purchaser to accept delivery on the Bonds.

CUSIP NUMBERS

If the Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the purchaser to accept delivery of the Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the purchaser.

SETTLEMENT

On or about June 3, 1997, the Bonds will be delivered without cost to the purchaser at a place mutually satisfactory to the City and the purchaser. Delivery will be subject to receipt by the purchaser of an approving legal opinion of Ahlers, Cooney, Dorweiler, Haynie, Smith & Allbee, P.C. attorneys of Des Moines, Iowa, and of customary closing papers, including a no-litigation certificate. On the date of settlement payment for the Bonds shall be made in federal, or equivalent, funds which shall be received at the offices of the City or its designee not later than 12:00 Noon, Central Time. Except as compliance with the terms of payment for the Bonds shall have been made impossible by action of the City, or its agents, the purchaser shall be liable to the City for any loss suffered by the City by reason of the purchaser's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

In order to permit bidders for the Bonds and other participating underwriters in the primary offering of the Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the City will covenant and agree, for the benefit of the registered holders or beneficial owners from time to time of the outstanding Bonds, in the Bond Resolutions, to provide annual reports of specified information and notice of the occurrence of certain events, if material, as hereinafter described (the "Disclosure Covenants"). The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the Disclosure Covenants, including termination, amendment and remedies, are set forth in Appendix II to this Official Statement. The City has complied in all material respects with any previous undertaking under the Rule.

Breach of the Disclosure Covenants will not constitute a default or an "Event of Default" under the Bonds or the Resolutions. A broker or dealer is to consider a known breach of the Disclosure Covenants, however, before recommending the purchase or sale of the Bonds in the secondary market. Thus, a failure on the part of the City to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Bonds and their market price.

OFFICIAL STATEMENT

The City has authorized the preparation of an Official Statement containing pertinent information relative to the Bonds, and said Official Statement will serve as a nearly-final Official Statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Official Statement and the Official Bid Form or for any additional information

prior to sale, any prospective purchaser is referred to the Financial Advisor to the City, Springsted Incorporated, 85 East Seventh Place, Suite 100, Saint Paul, Minnesota 55101, telephone (612) 223-3000.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the City with respect to the Bonds, as that term is defined in Rule 15c2-12. By awarding the Bonds to any underwriter or underwriting syndicate submitting an Official Bid Form therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded 250 copies of the Official Statement and the addendum or addenda described above. The City designates the senior managing underwriter of the syndicate to which the Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter executing and delivering an Official Bid Form with respect to the Bonds agrees thereby that if its bid is accepted by the City (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

Dated April 7, 1997

BY ORDER OF THE CITY COUNCIL

/s/ Donna Boetel-Baker
City Clerk