CITY COUNCIL COMMUNICATION:

98-190

AGENDA:
MAY 4, 1998

SUBJECT:
PUBLIC PARKING SYSTEM REVENUE/REFUNDING BOND ISSUE

TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:
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ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS —

The public hearings for issuance of Parking System Revenue Bonds continue the process of refinancing the currently outstanding Parking System Revenue Bonds at lower tax-exempt interest rates; restructuring the debt service schedule for those bonds; and permitting a decision in the next few weeks on whether to issue new debt to pay for a replacement facility for the obsolete parking garage at Seventh and Mulberry.

FISCAL IMPACT –

Issuing Parking System Revenue Bonds would have no impact on the City' s General Fund. Debt service on the bonds would be the sole obligation of the City' s Parking Fund, which derives its revenues from users of the City' s Parking System (garages, lots, and meters). The refunding bonds (not to exceed $25,175,000) would allow the Parking System to realize substantial savings on debt service, because tax-exempt interest rates are much lower now than tax-exempt interest rates in 1990, when the original, still outstanding, bonds were issued. The smaller, accompanying bond issue (not to exceed $6,725,000) would provide funds for a new parking garage to replace the obsolete garage at Seventh and Mulberry– if that particular option is ultimately recommended by staff and approved by Council.

RECOMMENDATION –

Conduct public hearings for issuance of not to exceed $25,175,000 Public Parking System Revenue Refunding Bonds and not to exceed $6,725,000 Public Parking System Revenue Bonds, and institute proceedings to take additional action for the issuance of the bonds.

BACKGROUND –

In 1990, the City issued $26,905,000 of Parking System Revenue Bonds to upgrade and expand the City’ s Parking System. Currently, those bonds are outstanding in the amount of $23,740,000. The effective interest rate at which the 1990 bonds were issued was in excess of 7 percent. Tax-exempt rates today are well below 6 percent, so substantial savings in debt service can be realized by refunding the 1990 bonds– more than $1.5 million in net present value savings at current tax-exempt rates, which is above the threshold target of 3 to 5 percent net present value savings needed to trigger a refunding under the City’ s debt management policy.

As noted during last year’ s actions to establish financing for the Intermodal Transportation Facility (Park and Ride Project), the principal repayment schedule and final maturity date of the 1990 bonds need to be restructured to accommodate the Parking System’ s new ten-year obligation to Polk County to pay debt service on the $5,565,000 General Obligation Bonds issued by the County in June 1997 to help pay for construction of the Park and Ride Project. Since the Parking System’ s obligation to the County amounts to approximately $800,000 per year, the proposed refunding would reduce currently scheduled debt service payments on the Parking System’ s revenue bonds by that amount for each of the next ten years. After the final payment to the County, principal repayments on the Parking System’ s own revenue bonds would increase by $800,000 annually through final maturity. In addition, the final maturity date of the Parking System’ s revenue bonds would be extended two years from the currently scheduled final maturity date. The net result of this restructuring would be to create level annual debt service (Parking System revenue bonds plus obligation to Polk County) over the entire life of the bonds, and to strengthen the “ coverage ratio” requirement in the bond resolution that the Parking System must generate annual net revenues equal to 125 percent of annual debt service. Even with the proposed refunding, the latest projections by staff, the City’ s financial advisor, and the City’ s parking consultant all show that, eventually, an increase in parking rates will be required. Parking rates were last increased in 1990.

Finally, the possible accompanying bond issue (not to exceed $6,725,000) would provide funding for a new parking garage to replace the obsolete garage at Seventh and Mulberry. A bond issue for a new garage is just one of several options staff is exploring to address the condition of the Seventh and Mulberry Garage, and may ultimately not be recommended. Conducting the public hearings is recommended, in case a bond issue proves to be needed.

The bond sale, and Council approval thereof, is scheduled for June 1, 1998. Closing is scheduled for June 22, 1998.