CITY COUNCIL COMMUNICATION:

99-214

AGENDA:

MAY 17, 1999

SUBJECT:

1999 GENERAL OBLIGATION BOND SALE

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

KEVIN RIPER
FINANCE DIRECTOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

Conducting seven separate public hearings for issuance of General Obligation Bonds in an aggregate amount of $23.4 million continues the annual springtime process of borrowing money to pay for the City's 1999-2000 Capital Improvement Program (CIP) and two additional non-CIP economic development projects. Seven separate hearings are required because the diverse nature of the 1999-2000 CIP yields a wide range of categories for which, under State law, separate public hearings must be held.

FISCAL IMPACT -

The funding amounts for various projects are consistent with the 1999-2000 CIP, adopted by the City Council on March 1, 1999, by Roll Call No. 99-604. Annual debt service on this year's General Obligation Bond issue will be paid, as usual, from the property tax debt service levy approved by City Council and certified to the State, and tax increment funds, as available. Estimated annual debt service on the 20-year bond issue is just below $2 million, with an approximate true interest cost (based on May 10, 1999 interest rates) of 5.1 percent for the tax-exempt bonds and 7 percent for taxable bonds.

RECOMMENDATION -

Conduct seven separate public hearings for issuance of General Obligation Bonds to fund the City's 1999-2000 CIP and two additional non-CIP projects - all in an aggregate amount of $23.4 million-and institute proceedings to take additional action for the issuance of the bonds.

BACKGROUND -

The City Council at its May 3, 1999, meeting - by seven separate roll calls (Roll Call Numbers 99-1350 through 99-1356) - set the date of hearing for May 17, 1999, and provided for the publication of notice thereof for the issuance of General Obligation Bonds Series 1999A (tax-exempt) and 1999B (taxable). Attached are supporting materials - including a draft Preliminary Official Statement for distribution to potential underwriting firms - to help Council conduct the public hearings and take action for the bond issuance.

The approved 1999-2000 CIP calls for the following improvements to be financed with bond proceeds:

Series 1999A (Tax-Exempt)	
Projects Paid From Taxes	
Bridge and Viaduct	$287,089
Fire Prevention	2,177,000
Flood Control Improvements	200,000
Library	435,000
Municipal Improvements	1,577,000
Parks Improvements	3,315,000
Sidewalks	472,000
Street Improvements	4,948,338
Traffic Control Improvements	400,000
Neighborhood Development	921,302
Subtotal	**$14,732,729**
Projects Paid from Tax Increment	
Parks Improvements	$150,000
Street Improvements	1,884,951
Traffic Control Improvements	30,000
Subtotal	**$2,064,951**
Total Projects, Series 1999A (Tax-Exempt)	**$16,797,680**
Series 1999B - (Taxable)	
Projects Paid From Tax Increment	
Gateway	$3,100,000
Court Avenue	3,100,000

Total Projects, Series 1999B	**$ 6,200,000**

Total issuance and contingency costs allocated to Series 1999A and 1999B are $402,320 - the majority of which is the underwriter's discount for selling the City's bonds - for a total sale of $23,400,000. Attached are more detailed bond-sizing spreadsheets (three pages), and a list of which projects will be considered during each of the seven public hearings (five pages). The public hearing dollar amounts ($23,600,000) were set at the May 3, 1999, Council meeting, and exceed in total by $200,000, the actual amount being recommended for issuance ($23,400,000).

The structure of the bond issue is consistent with the City's debt management policy. The first page attached is an updated version of the General Obligation Debt Margin Projection table that has been presented to Council periodically over the last year. The table shows narrow adherence to the City's self-imposed debt limit policy of 70 percent of the constitutional debt limit. Indeed, the projected three-year average debt margin touches the 30 percent level at the end of FY2000-01. This is a tighter projection than the last one shown to Council during the winter workshops on the budget and CIP.

The reason-as repeatedly stressed during previous discussions of debt margin projections-is the growth in assessed valuation. Last fall, for CIP preparation, the Finance Department projected that assessed valuations as of January 1, 1998, had increased by 3 percent, and that assessed valuations as of a year later (January 1, 1999) would increase by 6 percent. In fact, more recent data available from the Assessor's Office this year show that assessed valuations as of January 1, 1998, increased only 0.6 percent (not 3 percent), and that assessed valuations as of January 1, 1999, probably increased 7.3 percent (not 6 percent). The first table attached uses these latest valuation increases to compute a lower total assessed valuation (and, by definition, lower debt limits) than projected last fall and used in the CIP. The second table attached shows the detailed components of the assumed valuation increase as of January 1, 1999.

The bond sale, and Council approval thereof, are scheduled for Monday, June 7, 1999. Closing is scheduled for Thursday, June 24, 1999.

Attachments