

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-534

SYNOPSIS -

AGENDA:

DECEMBER 6, 1999

SUBJECT:

REQUEST FOR
PROPOSALS FOR
SELECTION OF
SENIOR MANAGING
UNDERWRITER FOR
PARKING SYSTEM
REVENUE BONDS

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

As contemplated by the adopted 1999-2000/2004-05 Capital Improvements Program (CIP), the City anticipates the issuance of approximately \$30-\$40 million of parking system revenue bonds in Spring 2000. Included in this bond issuance is a refunding of all (approximately \$20 million) outstanding debt from the Series 1990A and 1999B Parking System Revenue Bonds, a new money component to pay for property acquisition and construction of a proposed 11th and Market Street Park and Ride Facility, Parking System infrastructure improvement and expansion, and issuance costs.

Issuers in the municipal market employ both competitive and negotiated sales in the placement of debt with investors. The two approaches are not contrary or conflicting, but are two methods for sale that public sector issuers of debt find appropriate at different times. The major difference between the two methods is the selection of the underwriter and the subsequent establishment of the price/interest rate of the securities. Under the competitive approach, the underwriter(s) (and syndicate) is chosen solely through a sealed bid on the basis of the price and interest rate proposed. The City sells all its general obligation bonds on a competitive basis, as required by State law.

In a negotiated sale, the issuer usually solicits underwriting firms under a request for proposals competitive process. The responses are reviewed under a pre-established ranking system, interviews are held, and an underwriter or group of underwriters is selected. From this selection through the actual sale, the issuer works closely with the underwriter in drafting documents, analyzing the structure of the issuance, and monitoring the marketplace to establish an optimal date of sale. The issuer remains in firm control of the process and determines the structure and timing of the issue. On the day of the pricing, the issuer determines, with advice from the financial advisor, the price at which the securities should be

marketed. Based on market feedback (i.e., actual purchase orders) in response to the original price and structure, the issuer can then direct the underwriter to restructure and/or re-price the issue either up (lowering the interest rate) or down (raising the interest rate). After the final "negotiated" price is set, the securities are then awarded for sale and final placement. Iowa law authorizes the City to sell revenue bonds by negotiated sale if the principal amount of the issue is at least \$15 million, and if the Council deems it advisable and in the best interests of the public.

FISCAL IMPACT -

While the actual fiscal impact cannot be determined with certainty at this point due to a constantly changing marketplace, recent history has proven that there is no guarantee that a competitive bond sale will provide the lowest interest rate. In fact, staff believes that with a complicated credit such as the Parking System, a competitive bond sale might actually result in higher interest rates. Staff believes that with proper control and oversight of the pricing process, the ultimate true interest cost on the bonds will be lower than could be obtained under a competitive sale process. Furthermore, the City had a very favorable negotiated bond sale in April 1998 with its \$42.7 million Aviation System Revenue Bonds. Senior managing underwriter Merrill Lynch-selected by a Request for Proposals (RFP) competition in November 1997-sold more than 15 percent of those tax-exempt revenue bonds to retail investors in Iowa, exceeding the City's expectations. Also, the interest rates received for those Airport revenue bonds compared quite favorably with other municipal issuers who sold bonds in the capital markets that day and week.

RECOMMENDATION -

Authorize the Finance Director to issue an RFP for the selection of a senior managing underwriter for Parking System Revenue Bonds.

BACKGROUND -

Rationale for Use of a Negotiated Sale

Staff anticipates that this bond issue will pose significant

challenges and will require underwriters to gain a high level of understanding of the Parking System and the bond issue. The Parking System continues to experience significant financial pressure, due to high costs associated with improving aging infrastructure, and the absence of any general parking rate increase since 1990. A complicated security or credit, such as the Parking System, is better handled by a negotiated sale that allows the underwriter to become knowledgeable about the issuer and to coordinate an extensive pre-marketing and marketing program. In a competitive sale, investment banks are often unwilling to invest the resources necessary for "due diligence" on such a complicated bond issue, and thus, are likely to demand a higher interest rate.

Selection Process and Procedures

The RFP has been formulated with input from staff, bond counsel (The Ahlers Law Firm), and the City's financial advisor (Public Financial Management, Inc). The document has been developed to ascertain not only the general municipal bond qualifications and capabilities of each firm, but also their experience in the issuance of Parking Revenue Bonds.

The proposals submitted by the underwriters will be the primary document on which each respondent will be evaluated. All proposals meeting the minimum requirements as provided for in the RFP will be evaluated on the following factors:

1. Understanding of the City and Parking System objectives, and availability and experience of the firm and its assigned personnel (30 percent)
2. Cost (25 percent)
3. Distribution Capacity (Bond Marketing) (20 percent)
4. Financial Capacity (15 percent)
5. References (10 percent)

The evaluation committee will consist of the Finance Director, City Traffic Engineer, and a representative from the City Manager's Office. The City's bond counsel and financial advisor will serve in an advisory, non-voting role. As with the Airport Bond Underwriter RFP two years ago, staff intends to distribute the Parking Bond Underwriter RFP to 30 or 40 firms representing the larger regional and national firms. The plan is to shortlist the respondents and schedule interviews with three to five of the top-ranked firms. Staff will then return to Council for selection of a specific underwriter(s) as the next step in the process.

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