

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-535

SYNOPSIS -

AGENDA:
DECEMBER 6, 1999

Luther Park Health Care Center and Luther Park Apartments (Denny Garlind, Chief Executive Officer, 1555 Hull Avenue, Des Moines) has requested that the City issue Industrial Revenue Bonds in an aggregate amount not to exceed \$7.25 million. Luther Park, not the City, will be legally responsible for paying debt service.

SUBJECT:

APPROVAL OF
INDUSTRIAL
REVENUE BOND
REQUEST FOR
LUTHER PARK
HEALTH CARE
CENTER AND
LUTHER PARK
APARTMENTS

Luther Park will use the bond proceeds at two Des Moines locations (1555 Hull Avenue and 2824 East 16th Street) to improve Alzheimer's care and maintain low-income elderly housing in the City. In total, Luther Park employs approximately 105 full-time and 74 part-time employees, services approximately 106 apartments for low-income elderly residents, and cares for approximately 120 Alzheimer patients.

TYPE:

At this time, Council is being asked to conduct a public hearing to solicit comments about the bond issue and to approve all resolutions and documents relating to the issuance of the bonds, as well as the issue's financing structure and bond terms.

RESOLUTION
ORDINANCE
RECEIVE/FILE

FISCAL IMPACT -

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

The City does not incur any costs upon the issuance of Industrial Revenue Bonds, and this debt instrument does not count against the City's general obligation debt limit. Luther Park will pay all fees charged by non-City parties for work done in conjunction with the review process. Luther Park will pay the debt service on the bonds.

As part of the bond sale requirements, Luther Park will pay to the City an administrative fee in the amount of one-tenth of 1 percent of the principal amount of the bond sale (for a total of \$ 7,250 to the City).

RECOMMENDATION -

Approval of: (1) Luther Park's bond issuance, (2) all resolutions and documents relating to the issuance of the bonds, and (3) the issue's financing structure and bond terms.

BACKGROUND -

Luther Park Health Center has requested that the City issue Industrial Revenue Bonds in an amount not to exceed \$7.25 million. Each borrower (Luther Park Health Care Center and Luther Park Apartments) is obligated to pay debt service for the bonds issued only for its facility.

The City's Industrial Revenue Bond Policy requires the City Council to review the bond application at two separate meetings. At the first review (November 15, 1999), Council set the date of hearing for December 6, 1999, on the proposal to issue bonds. Prior to today's public hearing, City staff-in conjunction with Dorsey & Whitney (the City's special counsel) and Public Financial Management, Inc. (the City's financial advisor)-reviewed all documents to ensure legal compliance and to assess the possibility of any future default on the bonds, which could harm the capital markets' perception of the City's own bonds. (Even though Luther Park will pay the debt service, the City's name will be on the bonds.)

Approximately \$2.9 million of the \$4.5 million Health Care Facility Revenue Bonds will refund outstanding debt from the City's 1993 conduit financing for Luther Park. Proceeds from the 1993 bond issue were used to add three community rooms onto each wing of the Health Care Center for Alzheimer's patients with varying degrees of illness. The balance of the Health Care Facility Revenue Bonds will provide permanent financing for a short-term bank note that funded additional facility improvements.

Bond proceeds from the \$2.75 million Multi-family Housing Revenue Bonds will be used to refinance and restructure a Federal Department of Housing and Urban Development (HUD) loan, which was used to repay the purchase of the Luther Park Apartments' property. Refinancing the loan will allow Luther Park to free itself from HUD restrictions, and will

lengthen the term of the loan from 20 to 30 years, thereby decreasing the annual debt service payments. In October 2000, Luther Park Apartments will lose its designation as a project-based HUD facility where HUD subsidizes the entire facility. At that time, Luther Park anticipates designation into a voucher system where HUD will subsidize each resident, thereby allowing Luther Park Apartments to continue servicing low-income elderly individuals. If Luther Park does not receive vouchers for its residents, it anticipates filling its rooms with higher income clientele or using a dual rent structure to ensure inclusion of low-income residents into its facility. Staff does not anticipate this change in HUD funding will significantly hamper Luther Park's ability to repay the bonds. Nonetheless, the economics of health care and multi-family housing-particularly as federal money becomes more scarce-are squeezing providers across the country into greater efficiencies; into different markets; and sometimes, out of business altogether.

Both Luther Park bond issues extend the debt term to ease the immediate debt burden. Luther Park officials appear to be reasonable in their forecast of cash flow available for debt repayment. Public Financial Management, Inc. and City staff support proceeding with the bond issue.