

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-222

SYNOPSIS -

AGENDA:

MAY 15, 2000

SUBJECT:

2000 GENERAL
OBLIGATION BOND
SALE

Conducting six separate public hearings for issuance of General Obligation Bonds in an aggregate amount of \$24,950,000 continues the annual springtime process of borrowing money to pay for the City's FY 2000-01 Capital Improvements Program (CIP). Six separate hearings are required because the diverse nature of the FY 2000-01 CIP yields a wide range of categories for which, under State law, separate public hearings must be held.

FISCAL IMPACT -

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The funding amounts for various projects are consistent with the FY 2000-01 CIP, adopted by the City Council on March 6, 2000. 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

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

20-year bond issue is \$2.2 million through FY 2013-14, decreasing to \$2.0 million through FY 2019-20. The approximate true interest cost (based on May 10, 2000 interest rates) is 5.95 percent for the tax-exempt bonds, and 7.75 percent for the taxable bonds.

RECOMMENDATION -

Conduct six separate public hearings for issuance of General Obligation Bonds to fund the City's FY 2000-01 CIP-all in an aggregate amount of \$24.95 million-and institute proceedings to take additional action for the issuance of the bonds.

BACKGROUND -

The City Council, at its May 1, 2000 meeting, by six separate roll calls (Roll Call Nos. 00-1287 through 00-1292), set the date of hearing for May 15, 2000, and provided for the publication of notice thereof for the issuance of General Obligation Bonds Series 2000D (tax-exempt) and 2000E (taxable). The six notices of public hearing were printed fully in the newspaper last week. Attached are supporting materials 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 2000 D (Tax-Exempt)	
<u>Project Paid from Taxes</u>	
Bridge and Viaduct	\$148,134
Fire Prevention	2,130,947
Library Improvements	343,341
Municipal Improvements	948,908
Parks Improvements	3,755,347
Sidewalk Improvements	285,647
Street Improvements	4,665,341
Traffic Control Improvements	529,719
Neighborhood and Economic Development	<u>2,061,517</u>
Subtotal	\$14,868,901
<u>Projects Paid from Tax Increment</u>	
Parks Improvements	\$50,000

Street Improvements	2,090,000
Neighborhood and Economic Development (Gateway)	<u>5,500,000</u>
Subtotal	\$7,640,000
Total Projects, Series 2000D (Tax-Exempt)	\$22,508,901
Series 2000E (Taxable)	
<u>Projects Paid from Tax Increment</u>	
Neighborhood and Economic Development (Gateway)	\$2,000,000
Total Projects, Series 2000E	<u>\$ 2,000,000</u>
Grand Total Projects, Series 2000D and E	\$24,508,901

Total issuance and contingency costs allocated to Series 2000D and 2000E are \$441,099-the majority of which is the underwriter's discount for selling the City's bonds-for a total sale of \$24,950,000. Attached are more detailed bond-sizing spreadsheets (three pages), and a list of which projects will be considered during each of the six public hearings (four pages). The public hearing dollar amounts (\$24,950,000) were set at the May 1, 2000 Council meeting.

Of the \$7.5 million to be borrowed for the Gateway Project, \$2.0 million would be taxable debt-in order to provide flexibility for the ultimate use of the bond proceeds in Gateway. (Internal Revenue Service regulations generally prohibit the use of tax-exempt bonds for private purposes, but taxable bonds may be used for any purpose.) After this bond sale, the profile of general obligation debt issued for Gateway will be the following:

G.O. Bonds Issued for Gateway	Taxable	Tax-Exempt
This year (2000)	\$2.0 million	\$5.5 million

Last year (1999)	3.1 million	0.0 million
Total	\$5.1 million	\$5.5 million

Thus, of the planned \$16.2 million of bonds to be issued for Gateway, \$10.6 million will be complete by the end of June 2000. The remaining \$5.6 million is still scheduled to be borrowed in the spring of 2001 and 2002.

Taxable debt carries a higher interest rate (about 175 to 200 basis points) than tax-exempt debt. Therefore, the estimated true interest cost for the whole bond issue (tax-exempt Series 2000D and taxable Series 2000E) is 6.07 percent, as shown in the box at the lower right-hand corner of the last page of attachments. That spreadsheet, labeled "Exhibit 7," also shows the detailed amortization schedule for the whole bond issue.

The structure of the bond issue is consistent with the City's debt management policy. There is 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 FY 2000-01, as shown in the CIP document presented to Council in early January.

The bond sale, and Council approval thereof, are scheduled for Monday, June 5, 2000. Closing is scheduled for Thursday, June 28, 2000.

Attachments