CITY COUNCIL COMMUNICATION:

00-227

AGENDA:

MAY 15, 2000

SUBJECT:

PRELIMINARY OFFICIAL STATEMENT FOR PUBLIC PARKING SYSTEM REVENUE BONDS

TYPE:

<u>RESOLUTION</u>
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

KEVIN RIPER
FINANCE DIRECTOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

On May 1, 2000, the City Council held a public hearing on the issuance of Parking System Revenue Bonds. The next step in the financing process is City Council approval of completion and distribution of a preliminary official statement to potential buyers of the City's bonds in the capital markets. The bond structure recommended by the City's financing team includes $29,170,000 of bonds to be sold simultaneously in two series on Wednesday, May 24, 2000. One series of bonds (2000A, for $19,545,000) would be tax-exempt and the other (2000B, for $9,625,000) would be taxable, as explained below. These two series of bonds would refund the outstanding 1990 Series A and Series B Parking System Revenue Bonds at lower interest rates, and raise new funds for the improvement and expansion of the City's Parking System, notably the parking facility at 8th and Mulberry. A separate, third series of an estimated $7 million of bonds would be sold several weeks later to build a new park-and-ride facility at 11th and Market Streets, including the acquisition of shuttle buses. (This last bond issue will have its own public hearing and separate official statement. It is not presented in detail in the attached preliminary official statement.)

FISCAL IMPACT -

The City pledges that annual debt service will be paid from revenues of the City's Parking System. This is a revenue bond issue-not a general obligation bond issue. Hence, the debt does not count toward the City's constitutional debt limit. Under the financing structure outlined in the attachments, and at the current prevailing level of interest rates (which have risen in recent weeks, and could go up further, or turn down, between now and the date of sale), total annual debt service for the Parking System (excluding park-and-ride facilities) would be approximately $3.5 million through FY 2006-07, $3.1 million for the next five years (through FY 2011-12), and $2.4 million through FY 2019-20. The first figure, $3.5 million, consists of two parts: debt service on this new $29.2 million parking bond issue and existing debt service of $0.8 million annually to Polk County, for the taxable general obligation bonds it issued in 1997 on behalf of the Center Street Park-and-Ride Facility.

Alongside this $29.2 million bond issue will be a stand-alone $7 million bond issue, in mid-to-late June, for a second park-and-ride facility at 11th and Market Streets. Annual debt service on these bonds is expected (subject to the same assumptions cited above) to be $0.7 million through FY 2017-18. Debt service would be paid from the existing Center Street Park-and-Ride Facility's net income, which, under Federal grant restrictions, must be used only for other mass transit-related purposes, not for general parking. The financing team is likely to recommend a subordinate pledge of revenue from the overall Parking System to backstop the senior lien pledge of net income from the existing Center Street Park-and-Ride Facility.

RECOMMENDATION -

Authorize completion and distribution of Preliminary Official Statement relating to the issuance of Public Parking System Revenue Bonds.

BACKGROUND -

Interest rates are lower now than when the Series 1990A and 1990B parking bonds were issued. Present value savings can be garnered from refunding those bonds now at the lower interest rates. In addition, to meet the City's obligations to bondholders the maturity structure of those bonds needs to be modified and extended, which is warranted by the Engineering Department's recent physical assessment of the useful lives of the parking facilities. The refunding bonds need to be sold by the end of May in order to notify holders of the old (1990) bonds ahead of the next call date, which is July 1, that proceeds are in hand with which to redeem their bonds.

Of the $29.2 million of refunding and new-money bonds for the Parking System, $9.6 million would be taxable (and thus, carry a higher interest rate), so that the parking facilities at 5th and Walnut and 8th and Mulberry-and the top two floors of the 9th and Locust parking facility-can be managed with maximum flexibility of use, lease, rent, and services while not running afoul of Internal Revenue Service regulations on the private use of tax-exempt bond proceeds. The same flexibility would apply to the Capital Improvements Program (CIP) projects being financed by this bond issue. A very small portion (less than $100,000) of this taxable piece of the bonds will be used to defease tax-exempt debt on the parking facility at 7th and Grand, so that it can be sold to a private buyer, and the sale proceeds applied to build replacement parking at 8th and Mulberry. Later, all of the $7 million bond issue for the new park-and-ride facility at 11th and Market would be taxable, for the same reasons that apply to 5th and Walnut, 8th and Mulberry, and the first park-and-ride facility on Center Street.

Attached is a draft of the Preliminary Official Statement for the first two series of parking bonds totaling $29.2 million. Distribution of the Preliminary Official Statement to potential buyers of the City's parking bonds will be a clear and unambiguous signal to the capital markets that the City intends to sell the bonds on Wednesday, May 24, 2000, and to sign a bond purchase agreement with the underwriter, Merrill Lynch, at the end of that day.

Also attached are updated versions of the five bond spreadsheets (six pages in all), created by the City's financial advisor, Public Financial Management, and the Research and Budget Office of the Finance Department, that have accompanied previous Council Communications on this subject. The box at the top of Exhibit 2 projects an assumed 4 percent parking revenue increase every two years-in line with Council's expressed preference for smaller, more frequent rate increases in the future. A modified form of Exhibit 2 will appear in the Preliminary Official Statement. That document, and the bond resolution scheduled for approval on Wednesday, May 24, 2000, describe other covenants the City will make to bondholders, notably: to effect parking rates sufficient to produce the revenues necessary to provide for 125 percent of annual debt service; not to dispose of significant Parking System assets without providing replacement parking; to meet certain financial thresholds before issuing additional bonds on a parity with the new bonds. The bond covenants still allow the City to provide free parking on weekends, provided the drain on System revenues is not excessive.

Attachments