

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-242

SYNOPSIS -

AGENDA:

MAY 24, 2000

SUBJECT:

SALE OF PARKING
SYSTEM REVENUE
BONDS

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

This morning the City negotiated a purchase agreement with Merrill Lynch & Co. for the sale of Parking System Revenue Bonds. The Parking System Revenue Bonds (\$29,170,000) are issued simultaneously in two series: one series of bonds (2000A, for \$19,545,000) is tax-exempt, and the other (2000B, for \$9,625,000) is taxable, as explained below. These two series of bonds will refund the outstanding 1990 Series A and Series B Parking System Revenue Bonds and raise new funds for the improvement and expansion of the City's Parking System, notably the parking facility at 8th & Mulberry.

The Parking System Revenue Bonds carry municipal bond insurance purchased from (*). As a result of the insurance, the bonds bear a rating of Aaa from Moody's and AAA from Standard & Poor's. Even so, investors look to the underlying creditworthiness of the Parking System as a key factor in deciding how low an interest rate they are willing to accept. Therefore, the City has sought and received an "underlying rating" for the bonds-a rating that would apply if the bonds were sold without insurance.

The Parking System Revenue Bonds have received an underlying rating of A3 by Moody's Investors Service. The rating reflects the diverse and stable economy that contributes to the growing parking demand and the City's strong general obligation bond rating of Aa2. Attached is a graph illustrating Moody's rating of the Parking System Revenue Bonds and a report from Moody's Public Finance Group Analyst, David Hamburger.

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. The Parking

System Revenue Bonds, Series 2000A, will have a true interest cost of (*) over the life of the bonds. The Taxable Series 2000B Revenue Bonds will have a true interest cost of (*) over the life of the bonds. Total annual debt service for the Parking System (excluding park-and-ride facilities) will be approximately \$3.5 million through Fiscal Year (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 June or July, for a second park-and-ride facility at 11th & Market Streets. Debt service on these bonds will 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 -

Approve the purchase agreement for the sale of Parking System Revenue Bonds to Merrill Lynch & Co.; authorize the issuance of the bonds; and authorize the redemption of the 1990 Parking System Revenue Bonds.

BACKGROUND -

Of the \$29.2 million refunding and new-money bonds for the Parking System, \$9.6 million is taxable (and thus, carries a higher interest rate), so that the parking facilities at 5th & Walnut and 8th & Mulberry-and the top two floors of the 9th & 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 applies 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 & Grand, so that it can be sold to a private buyer, and the sale proceeds applied to build replacement parking at 8th & Mulberry. Later, all of the \$7 million bond issue for the new park-and-ride facility at 11th & Market is expected to be taxable, for the same reasons that apply to 5th & Walnut, 8th & Mulberry, and the first park-and-ride facility on Center Street.

The Preliminary Official Statement was distributed last week to potential buyers of the City's Parking System Revenue Bonds. Included in this document was a brief addendum to the Downtown Parking Study by Carl Walker, Inc. The addendum concludes that the issuance of the Parking System Revenue Bonds is financially feasible. The financing team included this addendum to provide independent review of the City's own financial projections for the Parking System; to assist the capital markets in reviewing the Preliminary Official Statement; and to improve the attractiveness of the bonds.

Also attached is a letter from Bond Counsel regarding today's recommended actions.

*To be completed Wednesday at special Council meeting.

Attachments