CITY COUNCIL COMMUNICATION:

00-271

AGENDA:

JUNE 19, 2000

SUBJECT:

SETTING DATE OF HEARING FOR THE ISSUANCE OF NOT TO EXCEED $10,000,000 GENERAL OBLIGATION CAPITAL LOAN NOTES FOR ALLIED GATEWAY CAMPUS PROJECT

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

The primary funding source for the City's out-of-pocket contributions to the Allied Gateway Campus Project is tax increment, as outlined in Roll Call No. 00-266 and Council Communication No. 00-037, approved on February 1, 2000. Tax increment, of course, is a long-term, recurring annual funding source, but the City needs cash now in order to acquire and prepare the site to be occupied by the Allied Gateway Campus Project. Therefore, staff has negotiated with a local financial institution (Wells Fargo, formerly Norwest) the terms of a 10-year loan agreement, to be repaid by Tax Increment Financing (TIF) or any other source the City later designates, with a year-to-year appropriation clause that prevents the loan from being counted against the City's constitutional debt limit. A public hearing needs to be conducted before consideration of the loan agreement, so the accompanying roll call sets the date of public hearing for Monday, July 10, 2000.

FISCAL IMPACT -

Since the loan is for a private purpose, interest on the loan will be taxable to investors, just as portions of the City's recent Public Parking System Revenue Bonds (Series 2000B) and General Obligation Bonds (Series 2000E) were also taxable. Such loans carry a higher interest rate than traditional tax-exempt municipal debt. Combined with the unsecured nature of this loan, the taxability drives the fixed, 10-year interest rate into the "prime rate" range of slightly less than 10 percent. Even so, staff and the City's financial advisor, Public Financial Management, Inc., feel strongly that both the interest rate and terms of the loan agreement are fair and in the best interest of the City. At the maximum $10 million loan amount, annual debt service would be $1.6 million, as shown in the attached downtown TIF district projections over the next seven years.

RECOMMENDATION -

Set the date of public hearing (July 10, 2000) on the authorization of a loan agreement and the issuance of not to exceed $10,000,000 General Obligation Capital Loan Notes by the City to Wells Fargo Brokerage Services, LLC (Michael Olauson, Senior Vice President, Minneapolis, MN), for the acquisition, demolition and clearance, relocation, and site preparation costs associated with the Allied Gateway Campus Project and other private redevelopment initiatives.

BACKGROUND -

The City's general obligation debt, subject to the constitutional debt limit, is backed by the "full faith and credit" of the City, and the uncapped debt service levy, often supplanted by TIF. In contrast, the loan proposed here would be backed solely by the City Council's annual appropriation of TIF or other available funds, subject to just two major covenants (minimum $3 million available general fund balance, and a pledge to maintain enough uncommitted TIF to pay the annual debt service). The loan would be callable in seven years.

Although in a legal sense, the repayment of this loan is subject to annual "risk of non-appropriation" by future City Councils, in a practical sense, this loan instrument will be treated by the capital markets and the municipal bond rating agencies like regular general obligation debt: they will count it against the City's overall debt capacity and burden, and they will expect the City to repay it timely. If the City ever were to determine not to appropriate funds for payment of debt service on this loan, then retribution in the capital markets will be swift and punishing. In the worst case, access to the capital markets would be denied to the City, perhaps for a long time. At the very least, the City would be charged substantially higher interest rates on any subsequent financings, and the rating agencies would almost certainly downgrade the City's bond rating-perhaps on more than just general obligation bonds; see the attached newspaper article for one such recent instance in the Pacific Northwest.

Therefore, the City's ability to repay this loan from future TIF, or other available sources, is critical to the City's overall debt management and attractiveness to the capital markets. The TIF projection attached is based on the longstanding assumption that taxable valuations in the City's TIF districts will increase three percent annually. If this projection proves too optimistic, then the City will have less flexibility in the future to fund other TIF-supported projects.

The next step in financing the Allied Gateway Campus Project is a separate $10 million "assignment and loan agreement" (also being negotiated with Wells Fargo) - for a much shorter term - that will serve as "bridge financing" for the project until Allied pays the City up to $10 million to reimburse the City for the City's cost of acquiring certain parcels on the project site.

Attachments