CITY COUNCIL COMMUNICATION:

00-378

AGENDA:

AUGUST 21, 2000

SUBJECT:

DEBT LIMIT POLICY

TYPE:

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

SUBMITTED BY:

ERIC A. ANDERSON
CITY MANAGER

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

Raising the City's self-imposed general obligation debt limit from its current level of 70 percent of the constitutionally permitted maximum to a recommended 80 percent would generate $35 million of additional debt capacity. More capacity is needed for projects coming on-line throughout the City.

FISCAL IMPACT -

To the extent that the additional debt is repaid by future tax increment, there would be no fiscal impact. To the extent that the additional debt is repaid by the debt service levy, the fiscal impact on property tax rates would be approximately a one-cent increase for every $0.5 million borrowed. Council approval will be required before any additional debt is incurred.

RECOMMENDATION -

Increase City's self-imposed debt limit from 70 percent of Constitutional limit to 80 percent. Also, eliminate rolling three-year average margin in favor of one-year measure of compliance with 80 percent limit.

BACKGROUND -

Current City Council policy for general obligation debt is to issue no more than 70 percent of the Constitutional limit, which itself is five percent of total assessed valuation in the City. As of June 30, 2000, the self-imposed debt limit is $239.0 million. Actual general obligation debt is $237.9 million, leaving little room for issuing additional debt for new projects beyond those already adopted by Council in the 2000-01/2005-06 Capital Improvements Program.

New projects are coming to the City-both in the neighborhoods and downtown. Downtown development projects, including Court Avenue housing, are estimated to need no less than $10 million in the next 5 years. East Side development in Guthrie and the Ag Park will also require about $10 million. We should anticipate $5 million for NIRP and additional paving. We will need approximately $10 million more than is currently planned for the Library, if it is to be done before 2005. These projects will require a City financial contribution on a scale that cannot be met with cash on hand, nor with existing self-imposed debt limits. Therefore, additional general obligation debt will need to be incurred.

Increasing the debt limit from 70 percent to 80 percent would create $35 million of additional available debt capacity. The municipal bond rating agencies have already indicated that such an increase would not harm the City's bond ratings, which are Aa2 from Moody's and AA+ from Standard & Poor's for general obligation debt.

Staff also recommends a technical adjustment to the policy. The current 30 percent margin is computed on a rolling three-year average. With a smaller margin of 20 percent, a one-year measure of compliance with the limit is now appropriate, rather than a three-year average.

Attachments