CITY COUNCIL COMMUNICATION:

00-471

AGENDA:

OCTOBER 16, 2000

SUBJECT:

ISSUANCE OF NOT TO EXCEED $10,135,000 LAND SALE PROCEEDS PROJECT 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 Number 00-037, approved on February 1, 2000. Tax increment, of course, is a long-term, recurring annual funding source, but the City needs $20 million of cash now in order to acquire and prepare the site to be occupied by the Allied Gateway Campus Project. Therefore, on July 10, 2000, by Roll Call No. 00-2071, the City Council approved the first $10 million of financing with a local financial institution (Wells Fargo, formerly Norwest): a 10-year, $10 million loan agreement, to be repaid by Tax Increment Financing (TIF) or any other source the City later designates. Staff has now negotiated with the same financial institution a much shorter term financing for the second $10 million: an approximately one-year, $10,135,000 "assignment and loan agreement," to be repaid from the $10 million that Nationwide/Allied is contractually obligated to reimburse the City for land acquisition.

FISCAL IMPACT -

Like the first $10,000,000 loan from Wells Fargo, this $10,135,000 loan is also for a private purpose. Thus, interest on the loan would be taxable to investors. Such loans carry a higher interest rate than traditional tax-exempt municipal debt. Also pushing up the interest rate is the unusual "dual-performance" nature of the repayment mechanism: both Nationwide/Allied and the City must perform under the Allied Gateway Campus Project development agreement before Wells Fargo and its investors can be repaid. Furthermore, Wells Fargo and its investors have no recourse beyond that dual performance. There is no "full faith and credit" obligation from the City to repay these notes-although, as a practical matter, the capital markets will expect the City to find a way to honor its debts in the unlikely event that either side of the "dual performance" arrangement falls short of full principal repayment.

Despite these unusual factors, for which investors require compensation in the form of a higher interest rate, Wells Fargo has pre-sold the loan to a variety of sophisticated private investors (including one-third to Des Moines corporations) at the remarkably attractive taxable rate of 7.875 percent. This compares with a prime rate of 9.5 percent, and a 9.69 percent rate on the first Allied Gateway Campus Project loan. (Of course, the latter was for a longer term-10 years-and had the underwriter's fee built into the interest rate, rather than an up-front cash payment, both of which pushed up the interest rate by several dozen basis points.) These and other attractive features of this short-term loan are shown in the following table:

Proposed Traditional
Feature Loan General
Obligation Debt
Prepayment option Any time Usually only halfway to maturity

Prepayment penalty None 1% to 2% of outstanding principal

Principal payment dates Flexible; Fixed; same date each year
can be delayed
with written
notice

Counts against debt limit? No Yes

Interest rate 7.875% Could not be sold, because of above features;
nature of repayment security; and
short term

The first page attached is the projected debt service schedule, based on the contract schedule of payments to the City by Nationwide/Allied for land acquisition. At the request of Nationwide/Allied, a contract amendment is being considered that would extend the parcel conveyance dates-and thus, the payment dates-by 60 to 90 days. Council approval would be required. Under the terms of the proposed loan agreement with Wells Fargo, such extensions would be permissible. Interest payments, and the last $135,000 of principal, would be made from available tax increment funds, as shown by the second page, attached. The third page, attached, shows the underlying detail, by project, for TIF cash commitments and debt service.

In light of all these factors, staff and the City's financial advisor, Public Financial Management, Inc., strongly feel that both the interest rate and terms of the loan agreement are fair and in the best interest of the City. As with the first $10,000,000 loan from Wells Fargo, this $10,135,000 loan would not count against the City's general obligation debt limit. (The final $135,000 of principal to be borrowed would pay for costs of issuance, primarily the underwriter's fee.)

RECOMMENDATION -

Conduct informal public hearing, and set date of formal public hearing (October 23, 2000) on resolution approving and authorizing a form of assignment and loan agreement in connection with the issuance of not to exceed $10,135,000 Land Sale Proceeds Project Notes, Taxable Series 2000G, 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 -

As noted above, virtually all of the principal amount of the loan would be repaid from the $10,000,000 that Nationwide/Allied will reimburse the City. Interest (and $135,000 of principal) would be repaid from available TIF, as shown on the second page, attached.

Attachments