CITY OF DES MOINES	**Council Communication** Office of the City Manager	**Date:** June 11, 2012 **Agenda Item No.** **60** **Roll Call No.** **12-0936** **Communication No.** **12-305** **Submitted by:** **Scott E. Sanders, Finance Director**

AGENDA HEADING:

Resolution recognizing a change to the Debt Management Policy of the City of Des Moines to allow for issuance of General Obligation debt to benefit City Enterprise funds.

SYNOPSIS:

Resolution recognizing a change to the Debt Management Policy of the City of Des Moines to allow for issuance of General Obligation debt to benefit City Enterprise Funds. General Obligation credit will result in lower interest rates and eliminate the need for debt service reserve funds, producing significant savings for the City Enterprise Funds.

FISCAL IMPACT:

Amount: Specific savings cannot be identified at the present time but as specific debt is incurred analysis will be included that will indicate the savings realized by this action based on the interest rates in place at the time of the bond sales.

Funding Source: Funding for debt service payments will come from the Enterprise Funds and not affect the property tax supported Debt Service Levy.

ADDITIONAL INFORMATION:

The proposed City Council directives pertaining to debt issuances are summarized below:

a. Utilize no more than 80% of the legal debt capacity, as established by the Iowa Constitution, unless the City is faced with emergency needs and it is designated as such by the City Council.
b. Debt issuances shall not put at risk the City's strong credit ratings.
c. Maintain the debt service levy as low as the prevailing market rates will allow.
d. Structure each debt issuance with the shortest reasonable maturities, and not to exceed the weighted average of the useful life of the financed projects and equipment.
e. Structure each debt issuance with the earliest market-viable call date, while seeking the lowest possible interest rate based upon prevailing market conditions.
f. Utilize bond proceeds to pay for planned obligations such as capital outlays and not to pay for operating expenses, unless under emergency situations.

g. Prior to issuance of debt associated with enterprise funds, the Finance Director shall make a recommendation as to whether it is in the best interest of the City to issue the debt as Revenue Bonds or as General Obligation Bonds. The recommendation shall include the level of debt capacity available, analysis of the cost to maintain reserve funds and other bond covenants, and the impact, if any, on the City's credit ratings.

The City Council approved directives above will be incorporated into the larger Debt Management Policy of the City. This broader policy document includes procedures for debt issuance, reporting compliance, corrective measures if deemed necessary and departmental processes for handling bond proceeds (i.e. investment restrictions) and arbitrage calculations. It is the responsibility of the Finance Director to keep this policy document updated and available to the bond market and credit agencies.

Prior to issuance of General Obligation debt for the purpose of benefiting Enterprise Funds, the Finance Director will provide analysis and a recommendation that illustrates the benefits in issuing General Obligation debt as well as the then current status of debt capacity allowed by the Iowa Constitution and the self-imposed limit of 80% of the statutory limit. The analyses for the 2012 issuances (Sanitary, Stormwater, and Parking) are attached.

If the City were to issue debt to satisfy the franchise fee settlement, it would likely be recommended that the debt be issued with the General Obligation credit, thus counting against the City's statutory debt capacity. If the need were for $40 million in settlement debt, this amount would equate to 7.4% of the City's debt capacity pushing the total utilization to around 82% depending on the timing of the issue. At the 82% level of utilization there would remain an additional $100 million in capacity under the Constitutional limit. The percent of debt capacity utilized would be anticipated to drop back below 80% by June 1, 2014.

PREVIOUS COUNCIL ACTION(S):

Date: August 21, 2000

Roll Call Number: 00-3520

Action: Changing Council Policy to increase the City's General Obligation Debt Limit, from 70 to 80 percent of the Constitutional Debt Limit. (Council Communication No. 00-378). Moved by Vlassis. Motion Carried 5-2.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

A hearing is being set for June 25th to issue three series of General Obligation Bonds to be paid entirely by the Sanitary Sewer Enterprise, Stormwater Management Utility, and the Parking System. The debt would be issued in late July.

The Finance Director will provide the full Debt Management Policy manual as a receive and file agenda item when complete; anticipated to be this fall.

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.

Debt Comparative Analysis and Recommendation: Parking Revenue vs. G.O. Taxable

Issuing Parking Revenue Bonds competitively in this market would not be plausible. To issue Parking Revenue Bonds the City would need to identify underwriters and ask for bids on the debt. The credit difficulty lies in the greatly reduced parking revenue over the past four years. For this analysis the assumption is that the interest rates for a revenue bond would be 50bps or one-half a percent higher than a General Obligation tax exempt bond. It is very possible, if the City attempted to sell Parking Revenue Bonds the actual interest rates could be much higher, thus appearing even less desirable.

Comparison of Parking Revenue Bonds vs G.O. Taxable Bonds
Refunding of the 2000A Parking Revenue Bonds (unrated)

Element of Debt Issuance	If Revenue Bonds	If Taxable G.O. Bonds
Par Amount	$14,490,000	$13,030,000
Debt Service Reserve Fund	$1,449,000	$0
Cost of Issuance	$136,000	$126,000
Total Interest Costs	$1,510,250	$1,230,000
Projected Interest Rate	2.28%	2.08%
as compared to G.O. Tax Exempt	0.50%	0.30%
Earnings on DSRF	$145,150	$0
Projected Interest Rate	0.50%	n/a
Total Cost of Borrowing	$14,406,100	$14,257,890
Difference in Total Cost	$148,210	($148,210)
Additional Factors	Coverage Ratio of 1.50x	Removes Private Activity Restrictions Counts against Debt Capacity 2.4% at issuance, decreasing over time

Recommendation: Issue debt as G.O. Taxable payable from Parking Revenue

Primary Reasons: Eliminates private activity parking restrictions while likely saving around $150,000 as compared to revenue debt.

Concerns: Uses 2.4% of Debt Capacity in first year and decreases quickly over time. Current utilitization of Debt Capacity is approximately 68.2%. Upon issuance of all three 2012 Enterprise Fund debt issues (Parking, Sewer, and Stormwater), the Debt Capacity utilization would be approximately 74.8%

Other: No expected impact on credit rating. Originally issued revenue debt cannot be refunded with G.O. tax exempt debt. Taxable debt can however be used to refinance revenue debt if an urban renewal authorization exists.

Debt Comparative Analysis and Recommendation: Sewer Revenue vs. G.O.

The credit ratings would likely stay the same with S&P at AA and Moody's at Aa3. For this analysis the assumption is that the interest rates for a revenue bond would be 30bps higher than a General Obligation tax exempt bond.

Comparison of Sanitary Sewer Revenue Bonds vs G.O. Bonds
Sanitary Sewer 2004H ratings: AA, Aa3

Element of Debt Issuance	**If Revenue Bonds**	**If G.O. Bonds**
Par Amount	$14,695,000	$13,210,000
Debt Service Reserve Fund	$1,469,500	$0
Cost of Issuance	$225,000	$207,000
Total Interest Costs	$5,839,000	$4,602,400
Projected Interest Rate	3.48%	3.15%
as compared to G.O. Tax Exempt	0.30%	same
Earnings on DSRF	$147,000	$0
Projected Interest Rate	0.50%	n/a
Total Cost of Borrowing	$18,917,500	$17,812,400
Difference in Total Cost	$1,105,100	($1,105,100)
Additional Factors	Coverage Ratio of 1.25x	Counts against Debt Capacity 2.4% at issuance, decreasing over time

Recommendation: Issue debt as G.O. payable from Sanitary Sewer Revenue

Primary Reason: Likely saving around $1,100,000 as compared to revenue debt.

Concerns: Uses 2.4% of Debt Capacity in first year and decreases over time. Current utilization of Debt Capacity is approximately 68.2%. Upon issuance of all three 2012 Enterprise Fund debt issues (Parking, Sewer, and Stormwater), the Debt Capacity utilization would be approximately 74.8%

Other: No expected impact on credit rating.

Debt Comparative Analysis and Recommendation: Stormwater Revenue vs. G.O.

The credit ratings would likely stay the same with S&P at AA+ and Moody's at Aa2. For this analysis the assumption is that the interest rates for a revenue bond would be 20bps higher than a General Obligation tax exempt bond.

Comparison of Stormwater Revenue Bonds vs G.O. Bonds
Stormwater 2010F & G ratings: AA+, Aa2

Element of Debt Issuance	**If Revenue Bonds**	**If G.O. Bonds**
Par Amount	$12,045,000	$10,825,000
Proceeds Required for Projects	$10,650,000	$10,650,000
Debt Service Reserve Fund	$1,204,500	$0
Cost of Issuance	$188,000	$173,000
Total Interest Costs	$4,386,400	$3,710,000
Projected Interest Rate	3.36%	3.16%
as compared to G.O. Tax Exempt	0.20%	same
Earnings on DSRF	$120,500	$0
Projected Interest Rate	0.50%	n/a
Total Cost of Borrowing	$15,106,400	$14,535,000
Difference in Total Cost	$571,400	($571,400)
Additional Factors	Coverage Ratio of 1.25x	Counts against Debt Capacity 2.4% at issuance, decreasing over time

Recommendation: Issue debt as G.O. payable from Stormwater Revenue.

Primary Reason: Likely saving around $570,000 as compared to revenue debt.

Concerns: Uses 2.4% of Debt Capacity in first year and decreases quickly over time. Current utilization of Debt Capacity is approximately 68.2%. Upon issuance of all three 2012 Enterprise Fund debt issues (Parking, Sewer, and Stormwater), the Debt Capacity utilization would be approximately 74.8%.

Other: No expected impact on credit rating.