

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	October 21, 2013
	<b>Agenda Item No.</b>	<b>34</b>
	<b>Roll Call No.</b>	<b><u>13-1650</u></b>
	<b>Communication No.</b>	<b><u>13-528</u></b>
	<b>Submitted by:</b>	<b>Scott E. Sanders, Finance Director</b>

**AGENDA HEADING:**

Approving Submittal of Voluntary Closing Agreement Program Request – City of Des Moines, Series 2009 General Obligation Build America Bonds.

**SYNOPSIS:**

In 2009, the City issued \$19,605,000 in Taxable General Obligation debt (Build America Bonds) that qualified the City to receive a federal subsidy payment to reduce the interest cost to equivalent tax exempt rates. A premium was received by the winning underwriter upon issuance. Premiums occur when underwriters place a bid that offers more bond proceeds than the stated par amount of the debt in return for slightly higher interest rates on the debt. This practice is common when higher interest rates are expected in the near future. It has been determined by the Internal Revenue Service (IRS) that the amount of the premium received in 2009 exceeded the allowed de minimis amount. To resolve the matter, the IRS has offered the City a “Settlement Amount” of \$5,000. By accepting this voluntary agreement, the IRS will consider the matter closed. Note in the Agreement that the IRS acknowledges that the City reasonably expected to comply with all issuance requirements associated with this special type of debt.

**FISCAL IMPACT:**

Amount: \$5,000

Funding Source: 2013-14 Operating Budget: General Fund GE001, FIN010100; page 86

**ADDITIONAL INFORMATION:**

The IRS established maximum original issuance premium amounts for the Build America Bonds to prevent local governments from receiving excess bond proceeds in addition to the annual tax subsidy payment from the federal government. The intent was to make the interest cost of the taxable Build America Bonds equivalent to tax exempt debt. The City of Des Moines’ Series 2009 Build America Bonds had an original issuance premium greater than the amount the IRS deems allowable. The IRS noticed this discrepancy and alerted the City about the need to resolve it. The IRS offered their minimum \$5,000 “Settlement Amount” to resolve the issue.

Accepting this agreement should have no adverse affect on future City debt issuances or credit ratings.

**PREVIOUS COUNCIL ACTION(S):**

Date: June 3, 2009

Roll Call Number: [09-940](#)

Action: Resolution Directing Sale of General Obligation Bonds for the following:

- (A) [Series](#) 2009E. Moved by Meyer to adopt. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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