

OFFICE OF THE CITY MANAGER
DES MOINES, IOWA

ITEM 59

CITY COUNCIL COMMUNICATION 97-144
MARCH 24, 1997 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
SETTING PUBLIC HEARING DATE TO DISCUSS ISSUANCE OF SEWER REVENUE REFUNDING BONDS	◆ RESOLUTION ORDINANCE RECEIVE/FILE	KEVIN RIPER FINANCE DIRECTOR

SYNOPSIS —

Setting an April 7, 1997, public hearing date to discuss the merits of issuing \$30,500,000 in Sewer Revenue Refunding Bonds to retire existing Sewer Revenue Bonds, Series 1987. The 1987 Sewer Revenue Bonds are costing the City significantly more in annual debt service than the refunding issue would cost, at current interest rates.

FISCAL IMPACT —

By issuing sewer revenue bonds in an amount not to exceed \$30,500,000 to retire the existing sewer revenue bonds of 1987, which have an outstanding principal balance of \$29,705,000, the annual savings in the form of debt service would approximate \$300,000 at current interest rates. As these bonds were originally issued to construct new wastewater treatment facilities which serve the entire metropolitan area, the debt service is shared by all the communities currently connected to the wastewater reclamation facility. Des Moines' share of the savings would be 94 percent, or just over \$280,000 annually at current interest rates, with the remainder of the communities sharing in the balance of the annual savings.

The new bonds would carry a net interest cost (NIC) of an estimated 5.48 percent if interest rates stay constant compared to an NIC of 7.09 percent on the current bonds. Over the life of the bonds through June 1, 2012, the refunding issue would result in total debt service of \$44.6 million compared to the current schedule of \$49.2 million, or a total debt service savings of \$4.6 million.

RECOMMENDATION —

Staff and the City's bond counsel recommend that the City Council approve the setting of a public hearing to discuss the benefit to the City (and surrounding municipalities) of issuing sewer revenue bonds to refund outstanding bonds. The proposed refunding complies with the City's debt management policy.

BACKGROUND —

The 1987 Sewer Revenue Bonds (original principal of \$38,610,000) were issued on April 1, 1987 to finance the local share of construction of the new wastewater treatment facilities and portions of the Saylor Creek Interceptor and Southside-Southern Tier Interceptor sewers which feed the facility. These projects were undertaken as a result of the areawide Integrated Community Area (ICA) Facility Plan to update and build new wastewater treatment facilities and conveyance systems to comply with the Federal Clean Water Act of 1973. In addition to the sewer revenue bond amount, \$29,000,000 in federal

and state grants and \$8,654,000 in cash contributions from other communities were needed to complete these facilities.

The bond sale is proposed for April 21, 1997 with closing on May 8, 1997. The call date on the old bonds is June 2, 1997. If Council ultimately authorizes the issuance of refunding bonds, Council will be reiterating its original 1987 pledge to bondholders to maintain sewer rates at a level sufficient to guarantee repayment of the revenue bonds, plus a margin of safety.