

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

98-198

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

AGENDA:
MAY 18, 1998

SYNOPSIS —

SUBJECT:
GENERAL
OBLIGATION BOND
ISSUE

Directing the advertisement for the sale of General Obligation Bonds on June 1, 1998, is the next step in the annual springtime process of borrowing from the capital markets to pay for the City' s 1998-99 Capital Improvements Program (CIP).

TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE

FISCAL IMPACT –

SUBMITTED BY:
KEVIN RIPER
FINANCE
DIRECTOR

The funding amounts for various capital projects are consistent with the 1998-99 CIP, adopted by City Council on March 2, 1998. Annual debt service on this year' s General Obligation Bond issue will be paid, as usual, from: (i) the property tax debt service levy approved by City Council and certified to the State; and (ii) tax increment funds, as available. Estimated annual debt service on the 20-year bond issue is \$1.6 million at the level of interest rates prevailing on Wednesday, May 13, 1998. (Interest rates may change between now and June 1.)

RECOMMENDATION –

Direct the advertisement for the sale of General Obligation Bonds, Series 1998 D, on June 1, 1998, in a par amount of \$19,400,000.

BACKGROUND –

On March 2, 1998, Council adopted the 1998-99 CIP, including dozens of projects to be financed with the annual General Obligation Bond issuance in the Spring. Those capital improvement projects fall into the following categories:

Bridge and Viaduct	\$ 147,105
Fire Protection	2,572,645

Library	450,627
Municipal Buildings	3,691,352
Neighborhood Development	1,000,000
Parking System	500,000
Parks	2,469,000
Sidewalks	145,178
Streets	6,051,565
Traffic Control	695,192

In addition, three non-CIP projects (ACCENT Neighborhood, \$550,000; Central Place, \$290,000; and Grocery Store, \$500,000) were appropriated, with the funding to come from the same General Obligation Bond issue. The specific expenditures to be made in furtherance of the ACCENT Neighborhood, Central Place, and Grocery Store projects will include land acquisition and economic development assistance. Since tax-exempt bonds are being issued for these activities, it is important to recognize that federal tax regulations may limit the use of bond proceeds for certain project-related activities. It is possible, for example, that minimum assessment agreements with owners of property acquired with bond proceeds, or City loans to developers made from bond proceeds, will not be permitted. Staff intends to monitor these projects closely following the closing of the bond issue, and to recommend expenditures of the bond proceeds for specific project activities only after it has been determined that the proposed expenditures are permitted under the applicable regulations.

The list of projects above requires a General Obligation Bond issue of \$19,400,000. This par amount is slightly larger than the sum of the project amounts shown herein, because it includes cost of issuance of the bonds, primarily underwriter's discount, but also costs for the financial advisor, bond counsel, rating agencies, arbitrage rebate consultants, printing and distribution of the Official Statement, etc.

Attached are two different breakdowns of the CIP projects to be financed. Exhibit 1 is a six-page spreadsheet showing each specific project under the categories listed above. (This spreadsheet was attached to the roll call on the April 20, 1998,

Council agenda setting the date of hearing, but not to the roll call on the May 4, 1998, agenda conducting the public hearing.) Exhibit 2 is a letter from bond counsel showing the same specific projects sorted into the different categories used for the nine separate public hearings on May 4, 1998.

Exhibit 3 is an estimate by the Engineering Department of the soft costs associated with construction projects included in the CIP.

The structure of the bond issue is consistent with the City's debt management policy. Staff presentations to the rating agencies are scheduled for Thursday, May 21, and Friday, May 22, 1998. (The City's general obligation debt carries an "Aa3" rating from Moody's, and an "AA+" rating from Standard & Poor's, though with a "negative outlook.") The Preliminary Official Statement will be mailed to underwriters at about the same time. The bond sale itself, and Council approval thereof, is scheduled for Monday, June 1, 1998. Bond closing, i.e., delivery of proceeds to the City, is scheduled for June 22, 1998.

Attachments