CITY COUNCIL COMMUNICATION:

01-223

AGENDA:

MAY 7, 2001

SUBJECT:

2001 GENERAL OBLIGATION BOND ISSUE

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

ALLEN MCKINLEY
ACTING FINANCE DIRECTOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

Conducting five separate public hearings for issuance of General Obligation Bonds in an aggregate amount not to exceed $33,350,000. This will begin the annual springtime process of borrowing from the capital markets to pay for the City's Fiscal Year (FY) 2001-02 Capital Improvements Program (CIP). As was the case last year, a large number of public hearings are required this year because the diverse nature of the FY 2001-02 CIP projects yields a wide range of categories for which, under State law, separate public hearings must be held.

FISCAL IMPACT -

The funding amounts for various capital projects are consistent with the FY 2001-02 CIP, adopted by City Council on March 2, 2001. Annual debt service on this year's General Obligation Bond issue will be paid, as usual, from: (1) the property tax debt service levy approved by City Council and certified to the State; and (2) tax increment funds, as available. Estimated annual debt service on the 20-year bond issue is just over $1.9 million, with an approximate true interest cost (based on May 1, 2001 interest rates) of 5.3 percent for the tax-exempt bonds and 6.5 percent for taxable bonds.

RECOMMENDATION -

Conduct five separate public hearings for issuance of General Obligation Bonds to fund the City's FY 2001-02 CIP-all in an aggregate amount of $33.35 million-and institute proceedings to take additional action for the issuance of the bonds.

BACKGROUND -

At its April 23, 2001 meeting, the City Council, by five separate roll calls (Roll Call Nos. 00-1287 through 00-1292), set the date of

hearing for May 7, 2001, and provided for the publication of notice thereof for the issuance of General Obligation Bonds Series 2001A (tax-exempt), 2001B (double tax-exempt) and 2001C (taxable). Attached are supporting materials to help Council conduct the public hearings and take action for the bond issue.

The approved 2001-02 CIP calls for the following improvements to be financed with bond proceeds:

Series 2001A (Tax-Exempt)		
	Projects Paid from Taxes	
	Bridge and Viaduct	$ 1,256,874
	Fire Protection	1,153,000
	Flood Control Improvements	290,000
	Library Improvements	40,000
	Municipal Improvements	2,033,000
	Parks Improvements	2,186,000
	Sidewalk Improvements	292,000
	Street Improvements	8,601,174
	Traffic Control Improvements	495,000
	Neighborhood and Economic Development	4,130,000
	Subtotal	$20,477,048
	Projects Paid from Tax Increment	
	Parks Improvements	$50,000
	Sidewalk Improvements	2,074,333
	Street Improvements	1,630,000
	Traffic Control Improvements	370,000
	Subtotal	$ 4,124,333
Total Projects, Series 2001A (Tax-Exempt)		**$24,601,381**
Series 2001B - (Double Tax-Exempt)		
	Projects Paid from Tax Increment	
	Neighborhood and Economic	$ 4,000,000

	Development	
Total Projects, Series 2001B		**$ 4,000,000**
Series 2001C - (Taxable)		
	Projects Paid from Taxes	
	Neighborhood and Economic Development	$ 4,165,000
Total Projects, Series 2001C		**$ 4,165,000**

Total issuance and contingency costs allocated to Series 2001A, 2001B, and 2001C are $583,619-the majority of which is the underwriter's discount for selling the City's bonds-for a total sale of $33,350,000. Attached are more detailed bond-sizing spreadsheets (three pages), and a list of which projects will be considered during each of the five public hearings (four pages). The public hearing dollar amounts ($33,350,000) were set at the April 23, 2001 Council meeting.

This spring's borrowing includes $4.0 million as the third in a four-year series of General Obligation Bonds expected to total $16.2 million for the Gateway Project. (Last year the City borrowed $7.5 million for Gateway.) Debt service on the bonds issued for Gateway will be paid from tax increment. Under federal law and U.S. Treasury Department regulations, the interest on the bonds to be issued for Wells Fargo is expected to be taxable to investors. Therefore, investors will demand from the City a higher interest rate (approximately 200 "basis points," equal to two percentage points) on the portion of this debt that is taxable than on the remainder of the bond issue, which will be tax-exempt.

Due to recent changes in legislation, the City will also have the opportunity to issue $4.0 million of "double tax-exempt" bonds. The term "double tax-exempt" means that the interest on these bonds will be tax-exempt under both state and federal law. It is anticipated that the City will realize a lower interest rate (25 "basis points," equal to ¼ percentage point) compared to the remainder of the tax-exempt bond issue.

	The structure of the bond issue is consistent with the City's debt management policy; more specifically, adherence to the City's self-imposed debt limit policy of 80 percent of the constitutional debt limit. The bond sale, and Council approval thereof, are scheduled for Monday, June 4, 2001. Closing is scheduled for Wednesday, June 27, 2001. Attachments

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