

THE BOND BUYER

Cleveland deal funds police headquarters and street upgrades

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Cleveland plans to hit the market on Wednesday with a \$144 million deal to finance capital improvements, including a new police headquarters and equipment officials say will make Cleveland's streets safer.

The city will issue \$80 million of limited tax general obligation bonds of which \$27 million has been earmarked to upgrade the city's streetlights with LED lighting, which will be projected to save the city up to \$4 million in annual utility costs.

Another \$64 million of subordinate lien income tax bonds will fund a new headquarters for Cleveland's police department.

The bonds are rated AA-plus by S&P Global Ratings and A1 by Moody's Investors Service. The outlook is stable from both.

PNC Capital Markets LLC is the senior manager and Loop Capital Markets is the co-senior manager. Squire Patton Boggs LLP is bond counsel.

Cleveland's GO bonds are secured by both property tax revenues levied and a first lien on the entire 2.5% municipal income tax. S&P rates the city's GO bonds based on the city's pledge of municipal income taxes.

"Property tax revenue is the first intended repayment source, but under the general bond ordinance the city has granted a first lien on its municipal income taxes to the full extent required to meet debt service on the bonds," S&P stated.

The city subordinate-lien income tax bonds are secured by a subordinate lien on the income tax.

On Monday the city announced a plan to purchase 1801 Superior Ave., former home of the Plain Dealer newspaper, to house the headquarters along with several tenant and community spaces.

The \$60 million project is expected to be completed in spring 2019. The city has agreed to sell its portion of the Justice Center downtown -- which houses headquarters and the city jail -- to Cuyahoga County. Cleveland will pay the county to handle jail services and has agreed to rent office space from the county until the new site for its police headquarters is ready.

In 2016, the city appropriated \$11 million of income taxes to GOLT debt service, leaving \$343 million available for debt service on subordinate lien income tax revenue bonds. The city's debt burden includes \$303 million in GOLT debt and \$383 million subordinate lien income tax revenue bonds.

Income tax receipts increased 23.3% to \$437 million for 2017 because of the city's 0.5-percentage-point increase in the tax rate which took effect Jan. 1, 2017. The city is budgeting for a 5.8% increase in fiscal 2018.

In addition to the borrowing, the city plans to issue roughly \$35 million in airport system revenue bonds later this year to fund capital projects at the Cleveland Hopkins International Airport. City Council has also approved refinancing up to \$92 million in existing debt, contingent on finding better interest rates than what is attached to the current bonds.