ITEM 42

OFFICE OF THE CITY MANAGER
DES MOINES, IOWA

CITY COUNCIL COMMUNICATION 96-028
JANUARY 15, 1996 AGENDA

SUBJECT:	TYPE:	PREPARED BY:	SUBMITTED BY:
$3,000,000 IN AIRPORT REVENUE CAPITAL LOAN NOTES	◆ RESOLUTION ORDINANCE RECEIVE/FILE	WILLIAM FLANNERY AVIATION DIRECTOR	ERIC A. ANDERSON CITY MANAGER

SYNOPSIS —

The Airport Board, by Resolution No. A95-205, approved a recommendation to City Council for the issuance of Airport Revenue Capital Loan Notes in an amount not to exceed $3,000,000. By structuring the loan as Airport Revenue Capital Loan Notes, the debt does not constitute a charge against the City's General Obligation (G.O.) Debt Capacity.

On January 9, 1996, a Preliminary Official Statement and a Request for Proposal was sent to 22 financial institutions and broker/dealers who have local offices and/or a history of bidding on City financings. The bids are scheduled to be received by 11 AM on January 15, 1996. After the bids are analyzed, a final recommendation for placement of the Capital Loan Notes will be made to City Council. Final adjustments may be made to the amount issued under each series based on the bids received.

The loan notes are anticipated to be dated February 1, 1996 and require interest to be paid semi-annually beginning on June 1, 1996, and the principal payable annually beginning on June 1, 1996. The loan notes are anticipated to be callable at the sole discretion of the City on or after June 1, 1997.

The item is placed before the City Council because the Council, in the ordinance creating the Airport Board, reserved unto itself the undertaking of debt, including the issuance of bonds or the execution of any form of loan or promissory note.

FISCAL IMPACT —

The principal and interest due on the notes is payable solely and only out of the net earnings of the Airport System (i.e., Enterprise Fund) and is not an obligation against the G.O. debt capacity of the City. The issuance of the notes at this time should not impede the Airport's ability to issue additional notes or bonds in the future, if necessary.

RECOMMENDATION —

Award the bid to the responsive bidder(s) with the most favorable net interest cost. Authorize the Mayor to execute the loan agreement on behalf of the City.

BACKGROUND —

The loan notes have been structured and marketed with a split between taxable and non-taxable issues. The taxable portion contains all loan proceeds to be utilized for project costs which, under IRS Regulations, are (or will be) considered a private activity. The non-taxable portion contains all proceeds for project costs which are considered public activity projects.

Two of the projects included within this financing, the Coppola acquisition and construction of the new Economy Parking Lot, have been completed and paid for out of existing Enterprise Funds. The Terminal Elevator project is currently under construction and the Offer to Purchase Loffredo Gardens, Inc., (IANG Expansion) pursuant to a Real Estate Installment Contract was approved by Council on October 16. The Loffredo Offer allows the City, at its sole option, the ability to purchase the property without entering into the real estate installment contract. Under a conventional real estate installment contract (used for previous transactions), the Airport has paid 9.5 percent interest on quarterly payments over a five-year period. The loan note interest rate is estimated at this time to be **7 percent.** Based on a borrowing of $1.2 million, the simple interest savings gained through using the loan notes for this purchase is estimated in excess of **$170,000.** The shortened loan period, from five years to less than three years is also a significant benefit to the Airport.

The portion of loan proceeds associated with completed projects will be used to reimburse the Enterprise Fund and provide additional funds for necessary cash flow to ensure future capital projects proceed as planned. Based on data currently available, it is anticipated that the loan amount may be less than $3.0 million. It is appropriate to authorize slightly more than the minimum requirement to allow for miscellaneous costs and unknowns.

The amortization of the loan notes has been structured to meet financing demands **without increasing airline rates and charges**. The debt service on the Airport's portion of City G.O. debt is declining annually. A portion of the additional debt service attributable to the loan will be used to level out total debt service and maintain stable airline rates which will assist in airline rate negotiations if revenue bonds are issued in the future. The loan will be paid through revenues generated by increased landed weights, a reduction in the amount available for airline credits at the end of each year, and funds allocated on an annual basis for the IANG land acquisition.