

**CITY COUNCIL COMMUNICATION 97-550
NOVEMBER 17, 1997 AGENDA**

SUBJECT:

**SELECTION OF SENIOR MANAGING
UNDERWRITER FOR ISSUANCE OF
AIRPORT REVENUE BONDS**

SUBMITTED BY:

**WILLIAM FLANNERY, AVIATION DIRECTOR
KEVIN RIPER, FINANCE DIRECTOR**

SYNOPSIS –

In the near future, the Airport Board is expected to recommend to Council the issuance of \$30-40 million in General Airport Revenue Bonds, backed solely by Airport revenues, to fund the construction of various Airport projects. On September 22, 1997, Council approved a Request for Qualifications (RFQ) for a Senior Managing Underwriter to sell the bonds on a negotiated basis. The RFQ drew responses from 10 firms, which staff screened to six for in-person interviews (based on the criteria and weights included within the RFQ). The six in-person interviews were held Friday, November 7, 1997, and Monday, November 10, 1997, at the Airport for 1-3/4 hours each. Based on the results of the in-person interviews and all other information collected by the Selection Committee, staff recommends that Merrill Lynch be selected as Senior Managing Underwriter for the General Airport Revenue Bond issuance.

FISCAL IMPACT –

The RFQ directed each interviewed proposer to submit “not-to-exceed” prices, which can be negotiated only downward at the time of actual financing. Merrill Lynch’ s not-to-exceed price for issue management, average takedown to sell the bonds, underwriter’ s counsel fees, and other costs is \$316,263, assuming a \$40 million bond issue, which will be funded out of bond proceeds– as will other costs of issuance. Merrill Lynch’ s not-to-exceed price is less than one percent of the total bond amount. The City’ s financial advisor reports that this is a very favorable price in today’ s bond market.

RECOMMENDATION –

Selection of Merrill Lynch as Senior Managing Underwriter for the anticipated General Airport Revenue Bond issuance. This recommendation is supported by the City’ s financial advisor, Springsted, Inc.

BACKGROUND –

The Council-approved 1997-98/2002-03 Capital Improvements Program (CIP) for the Airport included the issuance of General Airport Revenue Bonds as an integral funding source for a number of projects, including a parking structure, stormwater treatment facility, and the Runway 5/23 Extension. On November 4, 1997, by Resolution No. A97-373, the Airport Board approved the FY1997-98 CIP Budget and the FY1998-99/2003-04 CIP for the Airport, and recommended inclusion in the overall City CIP. Included within the updated CIP for FY1998-99/2003-04 is the anticipation that the Airport Revenue Bonds would be issued to fund the Airport parking structure (\$16,500,000), treatment facility (\$4,000,000), land acquisition and development for future expansion (\$5,000,000), land acquisition - fuel farm (\$850,000), airfield taxiway enhancements (\$700,000), a parking toll plaza office complex (\$200,000), and utility relocation and enhancement (\$500,000). Based on current cost estimates, net construction costs of the projects listed above are projected at between \$30 and \$33 million. It is currently anticipated that the proposed revenue bonds will include a non-taxable, non-alternative minimum tax (AMT) component; a non-taxable, AMT component; and a taxable component based on the type of improvement and treatment under current tax law. The ultimate tax law treatment of the various projects and the amount issued under each series will be determined in the near future.

A Selection Committee consisting of the Finance Director, the Aviation Director, and the Assistant Aviation Director for Finance and Administration reviewed the proposals received from the following 10 firms:

A.G. Edwards Merrill Lynch
Dain Bosworth Miller & Schroeder
Edward Jones PaineWebber
J.P. Morgan Piper Jaffray
Lehman Brothers/George K. Baum Smith Barney/Principal Financial Securities

All proposals were evaluated on the following factors, as specified in the RFQ, except for cost, which the RFQ specified would be considered in the final round:

1. Experience of the firm (including assigned personnel) and understanding of the Airport' s objectives 30%
2. Cost 25%
(This item contains fees related to issue management, expected average takedown per bond, any expected "net to underwriter" fees, other expenses anticipated to be reimbursed, and underwriter' s counsel fees.)
3. Distribution (bond marketing) capacity 20%
(This item addresses each respondent' s experience with general airport revenue bonds, and the marketing program.)

4. Financial capacity 15%

(This item addresses each respondent' s financial condition for the prior two years and the net capitalization available for commitment to the proposed offering.)

5. References 10%

The resulting scores narrowed the field to the following six proposers, who were invited to the Airport for in-person interviews:

Dain Bosworth Merrill Lynch

J.P. Morgan PaineWebber

Lehman Brothers/George K. Baum Smith Barney/Principal Financial Securities

All six proposers made strong presentations with well-qualified team members. Factoring cost proposals into the results of the in-person interviews and the other information collected, the Selection Committee concluded that Merrill Lynch was the best qualified. That firm' s combination of distribution strength to both retail and institutional investors, depth of experience with other first-time airport issuers of similar size to Des Moines, and unique ideas to minimize the size and cost of the bond issue resulted in the highest score.