CITY COUNCIL COMMUNICATION 98-102
MARCH 23, 1998 AGENDA

SUBJECT:

APPROVAL OF FORM OF PRELIMINARY OFFICIAL STATEMENT AND CONTINUING DISCLOSURE AGREEMENT FOR AIRPORT REVENUE BONDS IN AN AMOUNT NOT TO EXCEED $45,000,000

SUBMITTED BY:

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SYNOPSIS –

For nearly two years the Airport Board has been recommending, staff has been formulating, and Council has been reviewing and approving steps toward a large Airport Revenue Bond Issue as an integral funding source for a significant portion of the Airport's multi-year capital improvements program. The thick document attached to this roll call represents the culmination of that policy direction and planning. The document is the "Preliminary Official Statement for City of Des Moines Aviation System Revenue Bonds, Series 1998A-C." The morning after Council approval, the underwriter for this negotiated financing, Merrill Lynch, will distribute the preliminary official statement to hundreds of municipal bond dealers and brokers across the country as part of the marketing effort prior to the bond sale. The bond sale itself is scheduled for Monday, April 6, 1998, followed later that day by Council approval of a bond resolution, bond purchase agreement, other documents, bond maturities, and the interest rate.

The preliminary official statement, while presented here in final draft form, is subject to non-material revision before distribution by the underwriter. It contains detailed information about the City, the Airport, its airline agreements, the capital improvements to be financed, debt service requirements, flow of funds, related bonds outstanding, and legal opinions on the tax status of interest on the bonds. Key appendices include the report of the Airport consultant, a summary of the bond resolution, and the continuing disclosure agreement. The Securities and Exchange Commission, the National League of Cities, and the Government Finance Officers Association urge elected and appointed officials to review this information in the course of considering whether to authorize a bond issue, and to ask questions of staff and the municipal bond professionals involved.

It is currently anticipated that the proposed Airport Revenue Bond Issue will include a tax-exempt, non-AMT (non-alternative minimum tax) component, a tax-exempt AMT (alternative minimum tax) component, and a taxable component. Those designations are based on the type of improvement being funded and treatment under current tax law. Based on current estimates, it is anticipated that approximately $24 million will be classified as tax-exempt AMT, approximately $7 million classified as tax-exempt non-AMT, and approximately $13 million classified as taxable. The April 6, 1998, bond sale will probably be for less than the $45 million “ not to exceed” amount previously approved by Council. Downward adjustments are possible in the estimates for capitalized interest and costs of issuance and increases in projected interest earnings.

The Airport Board is conducting a special meeting on Friday, March 20, 1998, and is anticipated to recommend approval of the preliminary official statement at that time. A letter of recommendation from the Board Chairperson, on behalf of the Board, is anticipated to be provided on Friday afternoon.

FISCAL IMPACT –

There is no fiscal impact on the City’s General Fund. Principal and interest payments on the revenue bonds are obligations of the Airport System (i.e., Airport Enterprise Fund) and are payable solely from Airport Enterprise Fund revenues. Debt service on certain components within the financing, specifically the taxiway enhancement project and the stormwater detention facility project, will be funded from airline rates and charges. Debt service related to parking system improvements will be funded out of net revenues generated by the Airport Parking System. Appendix A of the preliminary official statement contains the report of the Airport consultant. That report concludes that net revenues of the Airport System without any carryover from prior years are projected to provide coverage on total debt service (i.e., debt service on Airport-related general obligation bonds, senior lien bonds, and 1998 revenue bonds) ranging from 174 percent to 198 percent during the analysis period from FY1998 through FY2005. Minimum coverage required under the bond resolution is 125 percent.

The Airport Revenue Capital Loan Notes, Series 1996 & 1997 (i.e., senior lien bonds), which are currently outstanding in the amount of $3.8 million, will be left in place with the new debt “ wrapped” around those obligations. The aggregate total new debt service (capital loan note debt service plus new revenue bond debt service) is being scheduled to provide for relatively level overall debt service over the life of the new issue and the existing issues. If this revenue bond issue had been sold on March 10, 1998, at $42 million, average annual debt service over the 30-year life of the bonds would have been approximately $3.3 million, at a true interest cost (effective interest rate) of 5.41 percent for the non-AMT Series 1998 bonds; 5.57 percent for the AMT Series B bonds; and 7.41 percent for the taxable Series 1998C bonds. Changes in market conditions through April 6, 1998 could, of course, result in interest rates substantially different from those prevailing back on March 10, 1998.

RECOMMENDATION –

Approval of the form and content of the preliminary official statement and continuing disclosure agreement. Approval and distribution of the preliminary official statement will signal to the capital markets that Council also intends to approve the bond sale on April 6, 1998.

BACKGROUND –

The projects in the approved Capital Improvements Program that would be funded by the revenue bond issue and the current estimated construction costs without contingency (reflected parenthetically) are: multi-level airport parking structure ($16,500,000); stormwater detention ($4,000,000); land acquisition and development for future expansion ($8,000,000); land acquisition - fuel farm ($1,000,000); airfield taxiway enhancements ($700,000); a parking toll plaza office complex ($250,000); parking revenue control equipment ($400,000); roadway lighting ($400,000); and utility relocation and enhancement ($500,000). A debt service reserve fund, capitalized interest, costs of issuance, bond insurance, and construction contingencies represent the balance of the funding. The purchase of municipal bond insurance will mean that the bonds can be sold with a rating of Aaa (Moody's) and AAA (Standard & Poor's).

Because the construction of the multi-level parking structure represents the single largest element within the proposed bond issue and approximately one-half of the total issue, the receipt of actual bids prior to final bond sizing was necessary. Therefore, the schedule for issuance of the revenue bonds mirrored the progression of the parking structure project and the receipt of bids on March 9, 1998. On March 10, 1998, the Airport Board designated Taylor Ball, L.C. as the lowest responsive bidder for the parking structure project with a base bid of $16,546,936, which was 0.8 percent below the project budget and engineer's estimate.

As noted above, the preliminary official statement contains, among many other things, the report of the Airport consultant (Appendix A), a summary of the bond resolution (Appendix D), and the continuing disclosure agreement (Appendix G).

The report of the Airport consultant, John F. Brown & Co., is an independent analysis of the financial feasibility of the Airport and its capacity to absorb the debt service on the 1998 revenue bonds without materially degrading its financial position. This report helps the underwriter, bond rating agencies (Moody's and Standard & Poor's), municipal bond insurance companies, and investors to determine the Airport's creditworthiness for the revenue bond issue.

The summary of the bond resolution is a condensed version of the full legal document (to be approved by Council on April 6, 1998) that outlines the City's promises to bondholders: the pledge to repay (and source of payment for) the bonds; the covenant to set rates and charges at a level sufficient to repay all debt service (existing and new), with a 25 percent cushion; the flow of funds into and out of the Airport Enterprise Fund; the investment of bond proceeds prior to their ultimate expenditure on projects; restrictions on future bond issues; operation and maintenance of the Airport; prohibition on sale or disposition of the Airport's assets while bonds are outstanding; definition of events of default; and remedies for possible defaults.

The continuing disclosure agreement between the City and the underwriter (Merrill Lynch, in this case) is required by the Securities and Exchange Commission under Rule 15c2-12(b)(5), which became effective in July 1995. Continuing disclosure requires the City to report annually to four certified information repositories on the financial results of the City as a whole, and the Airport in particular, and to update 15 different tables of information contained in the preliminary official statement. The City must also report promptly the occurrence of any of 11 different " material events," such as a payment delinquency, unscheduled draws on the debt service reserve fund, an adverse tax opinion, or a rating change. The purpose of continuing disclosure is to provide investors with up-to-date information about the issuer of the municipal bond, rather than, as before the Rule, forcing investors to rely on years-old official statements or to call the issuer themselves to request such information.