CITY COUNCIL COMMUNICATION:

98-150

AGENDA:
APRIL 20, 1998

SUBJECT:
APPROVAL OF BOND RESOLUTION AND BOND PURCHASE AGREEMENT FOR AIRPORT REVENUE BONDS

TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:
WILLIAM FLANNERY
AVIATION DIRECTOR

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FINANCE DIRECTOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS –

For nearly two years, the Airport Board has been recommending, staff has been formulating, and Council has been reviewing and approving steps toward the issuance of a large amount of Airport Revenue Bonds as an integral funding source for a portion of the Airport’ s approved multi-year capital improvement program. On March 23, 1998, Council approved the form and content of the preliminary official statement and the continuing disclosure agreement related to the financing. Based on Council’ s approval of the preliminary official statement, the underwriter for this negotiated financing, Merrill Lynch, has distributed the document to hundreds of municipal bond dealers and brokers across the country as part of their marketing effort for the bond sale. That marketing effort began with a concentrated retail sales effort in Des Moines and all of Iowa on Wednesday, April 15, 1998, and open market pricing and sale on Thursday, April 16, 1998. Based on the results of the sale on those two days, final pricing and the interest rate structure will be established and the final documents prepared (i.e., bond purchase agreement and bond resolution). **Those final documents should be distributed to Council on Friday, April 17, 1998.**

The Airport Revenue Bond Issue includes 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 $23.5 million will be classified as tax-exempt AMT, approximately $6.3 million classified as tax exempt, non-AMT, and approximately $12.6 million classified as taxable. Thus, the amount of bonds to be presented for approval on April 20, 1998 is anticipated to be less than the $45 million "not to exceed" amount previously approved by Council.

Attached to this document is the summary of the bond resolution, which also appears in the preliminary official statement. Information included in the preliminary official statement, which was approved by Council on March 23, 1998, will be updated to reflect the specifics of the sale (i.e., final bond sizing, interest rates, and other financial features), which will result in the publication of the final Official Statement.

The bond purchase agreement provides the contractual agreement between the City and the underwriter that will govern the Airport Revenue Bond sale. That agreement stipulates that under the terms and conditions contained therein, the City agrees to sell, and the underwriter, Merrill Lynch, agrees to purchase all, but not less than all, of the Aviation System Revenue Bonds, Series 1998A-C Bonds ("Series 1998A-C Bonds"). The Series 1998A-C Bonds will have maturities, bear interest at the rates, and be sold to the public at prices as set forth in Exhibit A attached to the final bond purchase agreement. The bond purchase agreement requires Merrill Lynch to provide a "good faith deposit" in the amount of $450,000. In the unlikely event that the underwriter fails (other than for a reason permitted under the bond purchase agreement) to accept and pay for all of the Series 1998A-C Bonds at closing, the good faith deposit is retained by the City as full liquidated damages. The bond purchase agreement contains certifications of the City and provides for other stipulations and assurances that should be fully understood. As stated above, the final bond purchase agreement is scheduled to be delivered to Council on Friday, April 17, 1998.

The bonds are fully insured by Financial Security Assurance, Inc. (FSA). Therefore, Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services (S & P) have provided ratings for the Series 1998A-C Bonds of "Aaa" and "AAA", respectively, based on the insurance policy being issued by FSA. Additionally, Moody's and S & P have assigned underlying ratings for the Bonds of "A-2" and "A-," respectively. Attached are copies of both rating agencies' analyses of the Airport's creditworthiness.

FISCAL IMPACT –

There is no fiscal impact on the City of Des Moines 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 (i.e., Transferred Amount) are projected to provide coverage on total debt service (i.e., debt service on general obligation bonds, senior lien bonds, and 1998 revenue bonds) will range from 174 percent to 198 percent during the analysis period from FY1998 through FY2005**. Minimum coverage required under the bond resolution is 125 percent. It should also be noted that as part of the rating agency presentations, Moody' s requested that the consultant prepare several additional analyses (referred to as sensitivity analysis) which would depict the impact of changes in either the financial or operational activity (i.e., higher-than-projected operating costs or reduced passenger activity) at the Airport. Those supplemental reports did not materially alter the level of coverage projected by the consultant.

The Airport Revenue Capital Loan Notes, Series 1996 & 1997 (i.e., senior lien bonds), which are currently outstanding in the approximate amount of $4.5 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 issue. Debt service projections, based on the preliminary pricing scale established on April 14, 1998, reflect average annual aggregate revenue debt service of approximately $3.3 million. Actual debt service will be determined by interest rates established through the marketplace during final pricing and sale. Bond closing, i.e., delivery of bond proceeds to the City, is scheduled for May 6 or 7, 1998.

RECOMMENDATION –

Approval of the bond resolution and bond purchase agreement for the issuance of Airport Revenue Bonds, which will enter the City into a binding contract with the

underwriter, Merrill Lynch, for the sale of the Airport Revenue Bonds under the terms contained therein.

BACKGROUND –

The projects in the approved Capital Improvement Program that will 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 facility ($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, cost of issuance, bond insurance, and construction contingencies represent the balance of the funding.

Because the construction of the multi-level parking structure represents the single largest element within the Airport Revenue 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.

Attachments