

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

99-027

SYNOPSIS -

AGENDA:

JANUARY 25, 1999

SUBJECT:

APPROVAL OF
REQUEST FOR
PROPOSAL FOR
LINE OF CREDIT
FACILITY BACKED
BY PASSENGER
FACILITY CHARGE
COLLECTIONS

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

SUBMITTED BY:

WILLIAM
FLANNERY
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DIRECTOR

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FINANCE
DIRECTOR

Since 1994, the Airport has been authorized by the Federal Aviation Administration (FAA) to collect a \$3 per enplaning passenger Passenger Facility Charge (PFC) to fund certain eligible capital projects. The Airport's PFC program represents a very viable and important funding source for airport capital improvements; however, when utilized on a "pay-as-you-go" basis, their impact is somewhat limited. As a part of analyzing and managing the Airport's overall Capital Improvement Program (CIP), it is apparent that the needs of the Airport System, and the list of projects, exceed the ongoing monthly PFC collection and payment capability.

In order to allow the timely completion of necessary projects, while at the same time ensuring that sufficient funds are available to fund current needs, staff and the Airport's new financial advisor have reviewed the viability of leveraging the PFC revenue stream. Historically, delaying projects until sufficient PFC revenue has been collected has resulted in increased project construction costs. An example of this occurred in the construction of the baggage claim expansion project, which was completed in 1997. After a two-year delay in construction, an Amendment to the original PFC Application was necessary to provide sufficient funding to construct the project. Based on the projects currently contained within the PFC program, and the need to proceed with additional projects in the future, it is highly likely that the same resulting increase in project costs will occur.

With the approval of the Airport Board, City Finance and Aviation Department staff have worked with the Airport's financial advisor and bond counsel to prepare the Request for Proposal (RFP) document and necessary legal documents (both attached to the roll call). The RFP document allows proposers to present either a bank line of credit or a commercial paper program supported by a line of credit. The maximum credit facility amount under both options is \$10 million plus interest.

It is anticipated that both credit facilities will incur interest at a variable rate based upon some published index such as the "prime rate" or "LIBOR" (London Interbank Offering Rate).

While a commercial paper program is believed to be more administratively labor intensive, it is anticipated to be the most cost-effective program from an interest cost standpoint. A 1 percent interest rate saving on an outstanding balance of \$10 million would save \$100,000 per year in interest costs. Additionally, the commercial paper program is anticipated to provide the greatest flexibility in managing growth of the program if necessary in the future. However, it is the consensus of staff, financial advisor, and bond counsel that the RFP should allow for proposals for both options. While undeterminable at this time, each option will, in all likelihood, require some type of management or liquidity fee for ensuring the line is funded and the program managed.

The following is the projected timetable for the establishment of the PFC credit facility as contained within the RFP document:

Approval of RFP by City Council	January 25, 1999
Distribution of RFP	January 26, 1999
Pre-proposal Conference (Optional)	February 9, 1999
Issuance of Addendum (if necessary)	February 12, 1999
Proposals Due	February 18, 1999
Proposal Evaluation	February 19 - 24, 1999
Approval of Recommendation - Airport Board	March 2, 1999
Approval by City Council	March 15, 1999

Attached to the roll call is a letter from the Airport's financial advisor, Fullerton & Friar, which provides information on the firm and the usage of PFC's to finance airport capital projects including the evolution of leveraging the PFC revenue stream.

FISCAL IMPACT -

There is no impact on the City's General Fund. The PFC Program offers the Airport the ability to fund certain needed

and eligible CIP projects without incurring additional project costs that would lead to an increase in airline rates and charges. Properly planned, PFC's provide vital funding to continue necessary improvements to the Airport system, which benefit the traveling public. The proposed Line of Credit facility is backed solely by future PFC collections. Projects funded by PFC's may have an impact on the Airport operating budget upon project completion. In such cases, appropriate allowances have been and will continue to be programmed into the Airport's Operating Budget.

Attached to the roll call are two separate analyses that reflect projected PFC revenues (collections) and project expenditures which have been approved for usage of PFC revenue or proposed for usage in the near future. Usage of PFC revenues, which have not yet been approved, are indicated in the analysis under the description as either "Proposed Amendment" or "New Application".

RECOMMENDATION -

Approval of the RFP - Revolving Line of Credit Facility or Direct Pay Letter of Credit backed by PFC's.

BACKGROUND -

On November 4, 1997, by Resolution No. A97-373, the Board approved the revised Fiscal Year (FY) 1997/98 CIP and the FY 1998/99 through FY 2003/04 CIP. On December 1, 1998, by Resolution No. A98-449, the Board approved the revised FY 1998/99 CIP Budget and the FY 1999/00 through FY 2004/05 CIP. Both of the above referenced CIP budgets contemplated a "line of credit" type credit facility to fund several of the improvements programmed with funding from the PFC Program. Additionally, on December 1, 1998, by Resolution No. A98-450, the Board approved the FY 1998/99 Revised and FY 1999/00 Recommended Operating Budget, which included appropriations for debt service payments related to a PFC supported line of credit type facility.

On September 2, 1997, by Resolution No. A97-296, the Board authorized necessary actions for additional PFC collection authority to include the additional projects listed below and to accommodate interest and financing costs as necessary and as

would be required under a line of credit or other financing method and authorized the Aviation Director to initiate discussions with the City Manager and City Finance Director to procure a PFC backed line of credit or other similar type of financing. The projects approved within Resolution No. A97-296 included: 1) construction of a skywalk and a skywalk lobby to connect to the new parking garage; 2) terminal lobby restroom renovation; and 3) additional funding for runway 5/23 extension land acquisition and road relocation. On February 3, 1998, by Resolution A98-21, the Board approved adding the Expansion of Concourse Passenger Hold Room project to above referenced PFC Application.

On May 8, 1998, by Record of Decision 97-02-C-01-DSM, the FAA approved the amendment to the PFC program for the runway 5/23 extension project and increased the amount authorized for the project by \$6,138,726. The amendment increased total authorized collections for this project to \$8,305,696. The awarding of the various road grading and paving project contracts and the authorization of land acquisition was predicated on the increased PFC collection authority and the procurement of a line of credit type facility to provide the necessary cash flow for the project. Funding for the runway extension project is programmed to be partially funded with federal grants, pay-as-you-go PFC's and partially funded under the proposed PFC line of credit facility.

On October 26, 1998, by Record of Decision (ROD) 98-03-C-00-DSM, the FAA approved the PFC application and increased collection authority of \$7,399,744 for the projects identified below. The approval contained specific construction and financing and interest cost allocations for each of the projects. Those amounts, detailed by project, are as follows:

	<u>Construction</u>	<u>Financing & Interest Costs</u>
Terminal Restroom Renovation	\$ 250,000	\$ 77,848
Terminal Passenger Skywalk	650,000	202,404
Terminal Passenger Skywalk Lobby	2,000,000	622,783
Terminal Ticket Counter Replacement	150,000	46,709

Passenger Holdroom Expansion	3,400,000	0
Storm Water Detention Facility (*)	1,500,000	350,000

With the exception of the Passenger Holdroom Expansion project, all other projects approved under ROD 98-03-C-00-DSM are anticipated to be financed by the line of credit facility. Because of the anticipated usage of the line of credit facility, the FAA, within ROD 98-03-C-00-DSM, approved a protracted PFC termination procedure which will enhance the credit worthiness of the facility but restricts the amount of PFC's allowed to be pledged to 65 percent of the total collection authority. The remaining 35 percent is required to be programmed for pay-as-you-go projects. Accordingly, the Holdroom Expansion project referenced above is currently anticipated to be a multi-year, multi-phased project that is funded with pay-as-you-go PFC's. The FAA has agreed that, if necessary, the program could be amended to fund the Holdroom expansion project with the line of credit in the future.

Additionally, on January 5, 1999, by Resolution A99-33, the Airport Board authorized submittal of an amendment to the PFC program and the submittal of an additional application. The amendment provided additional funding for the baggage claim expansion and terminal canopy projects on a pay-as-you-go basis with the new application to fund the project costs anticipated to exceed the amount of Aviation System Revenue Bonds issued in 1998 for the Storm Water Treatment Facility project. The funding for the Storm Water Treatment Facility is intended to be added to the line of credit facility and financed thereof. That application anticipates an additional \$1,500,000 for construction and \$350,000 for financing and interest costs.

The Airport currently has authorization to collect approximately \$25 million in PFC's. As of September 30, 1998, the Airport had collected approximately \$10.3 million and spent approximately \$8.4 million. The estimated charge expiration date for the program under approved applications is January 1, 2005. The amendment and new application referred to above is anticipated to increase the collection authority by an additional \$2,750,000 and extend the collection period until June 30, 2006.

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