



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-079

SYNOPSIS -

AGENDA:

MARCH 1, 1999

SUBJECT:

SELECTION OF
NATIONSBANK TO
PROVIDE A DIRECT
PAY LETTER OF
CREDIT
SUPPORTING A
COMMERCIAL
PAPER PROGRAM
BACKED BY
AIRPORT
PASSENGER
FACILITY CHARGE
(PFC) COLLECTIONS

Since 1994, the Airport has been authorized by the Federal Aviation Administration (FAA) to collect per enplaning passenger a \$3 Passenger Facility Charge (PFC) to fund certain eligible capital projects. The Airport's PFC program represents a very viable and important funding source for eligible airport capital improvements. The Airport Board and staff have determined that, in order to allow for the timely completion of necessary projects, while at the same time ensuring that sufficient funds are available to fund current needs, the PFC revenue stream should be leveraged on a short term basis. Historically, delaying projects until sufficient PFC revenue has been collected has not only delayed the benefit to Airport patrons but has resulted in increased project construction costs.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

With the approval of the Airport Board, City Finance and Aviation department staff have worked with the Airport's financial advisor and the City's bond counsel to prepare the Request for Proposal (RFP) document and necessary legal documents (both attached to the roll call). The RFP document, approved by the Airport Board on January 5, 1999 (Resolution A99-34) and City Council on January 25, 1999 (Roll Call 99-256), allowed proposers to present either a revolving bank line of credit or a commercial paper program supported by a direct pay letter of credit. The maximum credit facility amount under both options is \$10 million plus interest. Both credit facility options anticipated interest charges on a variable rate basis. RFP documents were sent to 25 local banks and 29 national or international financial institutions. On February 18, 1999, proposals were received from NationsBank, Commercial Federal Bank, Firststar, and CIBC Oppenheimer Corp. (Canadian Imperial Bank). The RFP review team consisted of the Finance Director, Assistant Aviation Director - finance and administration, and the Airport's financial advisor. Attached to the roll call is a communication from Fullerton & Friar, the Airport's financial advisor, which details the analysis performed on the proposals received and the basis for the recommendation

SUBMITTED BY:

WILLIAM F.
FLANNERY
AVIATION
DIRECTOR

KEVIN RIPER
FINANCE
DIRECTOR

to select NationsBank. Also attached to the roll call is a detailed summary prepared by staff of the proposals received. Additionally, on February 23, 1999, the Airport Board, by Resolution A99-73, approved recommending the structure of the facility (commercial paper) and the selection of NationsBank to provide the direct pay letter of credit supporting the commercial paper program and the usage of Merrill Lynch as the commercial paper dealer (see letter of interest from Merrill Lynch attached to the roll call). It should be noted that the recommendation to use Merrill Lynch is based on the competitive selection process completed in November 1997 for the April 1998 issuance of the Aviation System Revenue Bonds.

The leveraging of the PFC revenue stream for eligible projects is becoming a more widely used financing mechanism for airports around the country. The form of the various airport financings backed by PFCs have been based on local conditions and have ranged from short term variable rate financings to long term revenue bonds.

Based on the relatively small total value of the proposed financing (maximum \$10 million) and the relatively short term payback (estimated at 4.5 years after construction), staff has recommended that a short term financing program be utilized. The selection of a commercial paper program supported by a direct pay letter of credit is primarily based on the interest savings over revolving bank financing which is currently estimated at approximately 3 percent. The program is being structured to allow for early payoff of principal or restructuring without penalty. A description of the commercial paper program is provided within the Background section.

Previously, Council has taken several actions with regard to the Runway 5/23 Extension project which identified the need to complete some form of PFC financing program in order to complete the project. Only projects which qualify and have been approved by the FAA may be funded by PFCs.

FISCAL IMPACT -

There is no impact on the City's General Fund. As reflected in the report (attached to the roll call) from the Airport's financial advisor, the proposed commercial paper program is anticipated to save up to \$300,000 per year (at currently prevailing interest

rates) in interest cost over a conventional revolving bank line of credit based on the maximum \$10 million amount. The proposed commercial paper program is a variable rate program, and interest rates and therefore interest expense, may rise or fall with prevailing market conditions in the future. Currently, collections under the PFC program total approximately \$2.3 million per year. The Airport's current collection authority from the FAA is just less than \$25 million. A pending program amendment and new application to the FAA will increase that total authority to approximately \$27.7 million. From the inception of the program until December 31, 1998, total PFC collections and interest earnings have been approximately \$11 million. Total eligible project expenditures over the same time frame equal approximately \$9.6 million. Several projects are currently underway which are being funded with "pay-as-you-go" PFCs.

Also attached to the roll call are two separate analyses that reflect historical and projected PFC revenues (collections) and total project expenditures which have been approved for usage of PFC revenue or pending approval 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".

The PFC Program offers the Airport the ability to fund certain needed and eligible Capital Improvement Program projects without incurring additional project costs that would impact airline rates and charges. Properly planned, PFCs 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 PFCs 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.

At the January 25, 1999, City Council Meeting, a request was made for staff to provide the total estimated fees associated with bond counsel services relayed to the proposed. Attached to the roll call is a letter from William Noth of the Ahlers Law Firm addressing that matter.

RECOMMENDATION-

Council approval, subject to the completion of the necessary public hearing, of the selection of NationsBank (Hugh McColl, President, Charlotte, NC) to provide the Direct Pay Letter of Credit in support of a commercial paper program backed by Airport PFCs; subject to the completion of the necessary public hearing, Merrill Lynch be appointed as the commercial paper dealer for the financing; the date of public hearing be set; and authorization for all other necessary actions to complete the issuance of the commercial paper program supported solely by APF charges.

BACKGROUND -

Commercial paper issuance involves the sale of commercial paper in the competitive financial markets by a commercial paper dealer (Merrill Lynch) in the name of the City. The commercial paper is sold under the guarantee of a bank letter of credit. Commercial paper is issued in \$100,000 increments to fund the projects in question. Within the program being recommended, the bank letter of credit is not expected to ever actually be drawn upon. The Airport's PFC program collections will be utilized to pay the interest and principal required. Commercial paper is issued to mature over periods from 30 to 270 days. Principal will either be paid off at maturity, or be added to the principal amount of new commercial paper then being issued, depending on the circumstances. Within the proposed program, all commercial paper is expected to be fully paid by no later than January 31, 2006.

On November 4, 1997, by Resolution No. A97-373, the Board approved the revised FY 1997/98 Capital Improvement Programs Budget (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 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 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 eventual 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 PFCs 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:

	Construction	Financing & Interest Costs
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

(*) Not approved in the above referenced FAA action and currently pending approval which is anticipated to be received by June 30, 1999.

With the exception of the Passenger Holdroom Expansion project, all other FAA approved projects 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 its ROD 98-03-C-00-DSM, approved a protracted PFC termination procedure which enhanced the credit worthiness of the facility but restricts the amount of PFCs 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 PFCs. 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 (see * above). The funding for the Storm Water Treatment Facility is intended to be added to the credit facility and financed thereby. That application anticipates an additional \$1,500,000 for construction and \$350,000 for financing and

interest costs.

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