



**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

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

**99-166**

**SYNOPSIS -**

**AGENDA:**

APRIL 19, 1999

**SUBJECT:**

APPROVAL OF  
AUTHORIZING  
RESOLUTION  
RELATED TO A  
COMMERCIAL  
PAPER PROGRAM  
BACKED BY  
AIRPORT  
PASSENGER  
FACILITY CHARGE  
(PFC) COLLECTIONS

Since 1994, the Airport has been authorized by the Federal Aviation Administration 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. 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. Therefore, 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. 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 financing to long term revenue bonds.

**TYPE:**

**RESOLUTION  
ORDINANCE  
RECEIVE/FILE**

With the approval of the Airport Board and City Council, 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 for a short term variable rate financing backed by PFC revenue. 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 was \$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. Based on the recommendation of the RFP review team, on February 23, 1999, the Airport Board, by Resolution A99-73,

**SUBMITTED BY:**

WILLIAM F.  
FLANNERY  
AVIATION  
DIRECTOR

KEVIN RIPER  
FINANCE

## DIRECTOR

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. On March 1, 1999, by Roll Call No. 99-616, Council approved the selection of NationsBank and Merrill Lynch as recommended. It should be noted that the recommendation to use Merrill Lynch as the commercial paper dealer was based on the competitive selection process completed in November 1997 for the April 1998 issuance of the Aviation System 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 commercial paper 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 a revolving loan type 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.

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. The financial strength of the letter of credit bank (NationsBank) and the bank's credit rating determine the interest rate on the commercial paper. Because of the foregoing, the letter of credit bank has been extensively involved in the structure of the program and the development of the financing documents. Commercial paper is issued in \$100,000 increments to fund the projects in question. Within the program being recommended, the bank letter of credits are drawn upon to pay project costs or maturing notes, and the City then reimburses the bank for such amounts from the proceeds of the issuance of the new notes or from the PFC revenues as they are collected, as applicable. 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. During the construction period (approximately 18 months), commercial paper issued previously will mature and be reissued along with any new commercial paper required to fund construction costs. After the construction period, the

commercial paper will be rolled over and reissued to the extent not paid off with current PFC revenues. As contained within the financing documents, all commercial paper is required to be fully paid by no later than September 30, 2006, unless the Bank agrees to an extension. Current projections, prepared by the Airport's financial advisor, (copy attached) show the commercial paper being fully paid by February 2005. Those projections are extremely relevant to the transaction as the financing documents include provisions for quarterly updates of that report. On an ongoing basis, the City covenants that it will provide the referenced projections and that the debt service coverage amount reflected in the projections will not go below 110 percent and that the payoff will not go beyond the September 30, 2006 date.

Attached to the Roll Call are all the documents necessary to complete the transaction. Information included in those documents provides the contractual agreement, between the City and the respective parties, that will govern the issuance of the airport PFC commercial paper revenue notes. The documents stipulate, in addition to other things, that the City pledge, as a first priority lien, PFC revenues and agree not to reduce PFCs until the lien is paid in full. Additionally, in the Record of Decision from the Federal Aviation Administration (FAA) authorizing the collection and usage of PFCs and the financing thereof, FAA reserved the right to review and concur in the financing documents. The referenced Record of Decision, while it provided certain protections to the City in the instance of purported non-compliance, stipulated that the financing documents provide certain rights to the FAA if termination proceedings of the PFC program did occur. The FAA has provided concurrence that the financing satisfies the requirements contained within the Record of Decision.

As stated above, the attached financing documents contain various certifications and covenants of the City and provide for other stipulations and assurances that should be fully understood. For example, as is common in all revenue-backed financings, the bank letter of credit provider, NationsBank, requires numerous covenants on behalf of the City as borrower. These covenants are contained in both the Authorizing Resolution (roll call) and the Reimbursement Agreement. In addition to the quarterly projections and 110 percent debt service coverage ratio described above, other key covenants by the City include:

- Compliance with tax laws.
- Compliance with the federal PFC Act and FAA Regulations.
- Maintenance of separate accounts and records for PFC revenues.
- In the case of a future transfer, sale, or disposition of the Airport, ensuring that the successor body assumes the same obligations to the bank as the City had assumed, and verifying that such a transfer would not adversely affect the ultimate payment of the commercial paper

It should also be noted that, previously, Council has taken several actions with regard to the Runway 5/23 Extension project that identified the need to complete some form of PFC financing program in order to complete the project. Only projects that 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 previously reported to Council by 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 \$26 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 through 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. Based on the business terms contained within the financing documents (see attached report from the Airport's financial advisor) and the previously referenced financial projections, the commercial paper program is estimated to be fully paid by February 2005 with all project costs currently

approved or pending approval estimated to be fully paid by September 2005.

Also attached are two separate analyses that reflect historical and projected PFC revenues (collections) and total project expenditures that 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 of "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.

#### **RECOMMENDATION -**

**Approval of the Authorizing Resolution (which approves the Reimbursement Agreement, Commercial Paper Dealer Agreement, and Issuing and Paying Agent Agreement) and authorize all other necessary actions to complete the issuance of the Passenger Facility Charge Commercial Paper Revenue Notes.**

#### **BACKGROUND -**

On November 4, 1997, by Resolution No. A97-373, the Board approved the revised FY 1997/98 Capital Improvement 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 Passenger Facility Charge (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 Passenger Facility Charge Application.

On May 8, 1998, by Record of Decision 97-02-C-01-DSM, the Federal Aviation Administration (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 Passenger Facility Charge 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
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		& 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 that is anticipated to be received by mid-July 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. 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.

On March 30, 1999, the FAA approved the requested amendment referenced above.

Attachments

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