CITY COUNCIL COMMUNICATION:

00-344

AGENDA:

JULY 24, 2000

SUBJECT:

AIRPORT REVENUE NOTES

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

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AVIATION DIRECTOR

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ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

Resolution fixing date for a meeting on the authorization and issuance of not to exceed $5,000,000 subordinate airport commercial paper revenue notes, series C, of the City of Des Moines, Iowa, and providing for publication of notice thereof.

FISCAL IMPACT -

The Airport plans to capitalize the interest payable on the commercial paper (meaning pay it from the proceeds of the commercial paper) during the period that the projects being funded from it are under construction. As projects (or clearly defined phases of the runway project) are completed and placed in service, the Airport will be required to make the interest payments on an allocable portion of the commercial paper from Airport revenues on a basis subordinated to the payment of debt service on the Airport's outstanding airport revenue bonds. Assuming that all $5 million of the new series of commercial paper is outstanding and all of the projects are completed, the total interest and fees payable would be approximately $250,000 to $300,000 based on current market rates. This amount would fluctuate based on the actual interest rates on the commercial paper.

As noted above, the Airport plans to repay the principal of the commercial paper from the proceeds of a future airport revenue bond issue. Such principal would thus be repaid on a long-term basis as the future airport revenue bonds are repaid. The Airport has agreed with the bank that, if such future bonds are not issued within five years from the time the new series is authorized, the Airport will repay the commercial paper from a subordinated pledge of Airport revenues. Such a repayment is expected to be required over a five-year period; however, the details of this obligation are still being negotiated with Bank of America.

RECOMMENDATION -

That Council fix the date of August 21, 2000, for the purpose of taking action on the matter of the authorization and issuance, of Subordinate Airport Commercial Paper Revenue Notes, Series C, in the maximum aggregate principal amount outstanding at any one time of not to exceed $5,000,000, the proceeds of which will be used to provide funds to pay the costs of acquiring or constructing additions and improvements to the Des Moines International Airport, including without limitation the extension of runway 5/23 and various other airfield and apron area improvements.

BACKGROUND -

The Airport is presently working on a major project to extend the Airport's crosswind runway, Runway 5/23, by 3500' to the southwest. We estimate this multi-year, multi-phased, project will ultimately cost over $75 million dollars. Its scheduled completion is 2003. Approximately 90% of the cost of this runway project is to be funded from Airport Improvement Program (AIP) grants that the Airport expects to receive from the Federal Aviation Administration (FAA). To date we have received four (4) AIP Grants from the FAA totaling $30,780,356 to fund approximately 90% of the project constructed to date or which is under construction at this time. It is anticipated that the City will receive grants on an annual basis for the next three (3) years. The Airport has received notification from FAA, that it is willing to provide up to $9,701,609 of FY1999-2000 AIP funds to the City to progress this project. This is contingent upon receipt of competitive bids prior to September 1, 2000 and acceptance of the grant prior to September 29, 2000.

In accepting such grant funds and applying them toward the cost of the runway project, the Airport must also fund the 10% local share of the total cost of the project. We estimate that the total remaining local share will be $3,700,000 over the remaining three-year period during which the runway project will be completed; during the current fiscal year it will be approximately $970,000. The amount of the local share needed to match anticipated AIP Funding is greater than the Airport will be able to devote to this project from internally generated funds over the next several years. Hence, the purpose of this action is to request approval for the Airport to implement an interim funding mechanism that will be used to provide the required local share as this project continues. The Airport Board, on July 11, 2000 recommended this action in Board resolution 00-125.

For the reasons described in the discussion below, staff is requesting approval to create an additional series of commercial paper program to provide interim funding for this local share of the project costs. Specifically, the Airport would be authorized to issue up to an additional $5 million of commercial paper over the next several years. The Airport would be authorized to use the proceeds of such commercial paper for the runway project, as well as other projects that may arise and also require funding. This recommendation was developed in conjunction with the Airport's financial advisor, Fullerton & Friar, Inc.

From a mechanical standpoint and in the eyes of investors, this new commercial paper would be essentially the same as the Airport's existing $10 million paper program that was implemented in mid-1999. However, the Airport's intent is to repay the new series of commercial paper from the proceeds of a future issue of airport revenue bonds. It is anticipated that such bonds will be required for Airport purposes within approximately the next three to four years. If such bonds were not issued, the Airport would be obligated to repay the new series of commercial paper from a subordinated pledge of airport revenues, not from passenger facility charges (as is the case with the existing series of commercial paper).

Last year, staff began discussing its need for this interim financing mechanism with Fullerton & Friar, Inc. After generally considering various types of sources for such funding (such as obtaining a line of credit, or issuing bond anticipation notes), it was concluded that issuing commercial paper would be the most efficient and probably least costly approach for the Airport.

It is believed that commercial paper will be the least costly approach because commercial paper usually carries the lowest short-term rates available in the market. It is also believed that it will be easier to implement this additional series of commercial paper than it would be to create an entirely new type of borrowing program at this time. Although the new commercial paper will be legally separate and distinct from the Airport's 1999 commercial paper program, the documents for the new commercial paper will be based on those adopted in 1999, and some will be virtually identical. The process of developing the documents should be further expedited by the fact that we recommend that all of the professionals involved with the 1999 program play the same roles on this new series of commercial paper. Those firms are: bond counsel (Ahlers, Cooney), commercial paper dealer (Merrill Lynch), financial advisor (Fullerton & Friar) and letter of credit bank (Bank of America, formerly Nations Bank).

Bank of America has confirmed that they would like to provide a letter of credit to support this additional $5 million of commercial paper. The bank's fees for the additional letter of credit would be essentially the same as those for the letter of credit they provided to support the 1999 program. However, because the Airport's repayment obligation on the commercial paper would be secured by a subordinated pledge of Airport revenues and not passenger facility charges (which support the 1999 commercial paper), certain of the covenants to be contained in the Airport's reimbursement agreement required with Bank of America for this transaction will be different from those agreed to in 1999. Revised covenants have been discussed with Bank of America and their requests in that regard appear reasonable. However, staff is still in the early stages of developing the required reimbursement agreement, so additional negotiations may be necessary.

From a scheduling perspective, the Airport's goal is to implement this program prior to the time it will be ready to award a contract for the next phase of the runway project. This schedule can be achieved if the City Council approves this financing program during the month of August.

Also, it should be noted that although we project that the total cost of the Airport's local share of the runway project will be approximately $3.7 million, we are requesting that this additional commercial paper program be authorized in the amount of $5 million. This additional amount of commercial paper will give the Airport some "cushion" in the event that the amount of federal funding actually received for the runway project varies from our current projections, or if additional projects requiring interim funding are identified within the next few years.