

**CITY COUNCIL
COMMUNICATION:**

03-165

AGENDA:

APRIL 7, 2003

SUBJECT:

AUTHORIZATION TO
ISSUE ADDITIONAL
AIRPORT COMMERCIAL
PAPER

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

MERRILL R. STANLEY
FINANCE DIRECTOR

WILLIAM F. FLANNERY
AVIATION DIRECTOR

ITEM _____

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

SYNOPSIS —

Authorization to issue additional Airport Commercial Paper in an aggregate amount not to exceed \$7,000,000 to help fund, on a short-term basis, upcoming Airport capital improvement projects.

FISCAL IMPACT —

The City pledges that annual debt service will be paid from Airport revenues. This is an Airport revenue-backed issue—not a general obligation bond issue. Hence, the debt does not count toward the City's constitutional debt limit. Commercial Paper will be issued periodically as cash is needed to pay project costs. Interest rates will be determined by market rates at the time of issuance. The Commercial Paper debt is eventually to be replaced with long-term airport revenue bonds.

RECOMMENDATION —

Approval.

BACKGROUND —

On August 21, 2000, the City Council approved Resolution No. 00-3505 establishing the Commercial Paper Series "C" Program, not to exceed \$5 million to fund the extension of Runway 5/23 and various other airfield and aircraft apron area improvements.

The Series C portion of the Airport's Commercial Paper Program is secured by a subordinated pledge of the Airport's net revenues. The Airport's plan in creating the Series "C" Commercial Paper was to use it in funding capital projects until a large enough cumulative requirement had developed to justify selling an issue of long-term airport revenue bonds. The original authorized amount of the Series "C" Commercial Paper was \$5 million. However, at the time, staff believed it likely that the Airport would want to increase the size of the Series "C" Commercial Paper before it would be practical and efficient to issue new airport revenue bonds.

Approximately \$3 million of the original \$5 million authorization has now been issued, and staff anticipates the remainder will be

**CITY COUNCIL
COMMUNICATION**

03-165

APRIL 7, 2003

PAGE TWO

issued early in the upcoming construction season. In order to fund the Airport's upcoming capital improvement program through the next few years, it will be necessary to increase the amount of the Series "C" Commercial Paper by \$7 million. (This action will only authorize the use of additional commercial paper and does not commit the Airport to draw upon the debt capacity until such time as it is necessary to do so. If, for any reason, the Airport Board delays any project, there is no requirement to draw upon these funds, and therefore, no cost impact for the delay.)

Airport improvements to be financed include the following projects:

Local Match for Grant-funded Projects:

South Cargo Apron, Phase II
Rehabilitate 13/31
Taxiway Connectors (D-1, D-2)
NE Service Road Extension
Land Acquisition 13R/31L (A/P)
Security Expansion (Connector, Bag Make-up)

Fully Funded by Airport Enterprise:

Pavement Rehabilitation (Signature, Elliott, AirNet)
New South Cargo Building

Projections prepared by the Airport's financial advisor, Fullerton & Friar, Inc., indicate that an airport revenue bond issue of approximately \$12.4 million would likely be required within five years to repay the Series "C" Commercial Paper. Fullerton & Friar further advises that it would then be efficient for the City/Airport to undertake an airport revenue bond issue inasmuch as a bond issue of that size would be more economical and efficient than a lesser amount.

Fullerton & Friar has also developed overall financial projections for the Airport based upon actual information and reasonable assumptions. These projections are similar to those that would be developed by an independent airport consultant in a feasibility report prepared in connection with an airport revenue bond financing. The purpose of these projections is twofold: 1) to analyze the Airport's ability to afford the proposed projects, and 2) to provide information to the Bank of America to support the request to increase the size of the Series "C" Commercial Paper Program. The projections included the Airport's existing debt service and, assuming airport revenue bonds are issued sometime in the next few years, the projected debt service on an additional \$12.4 million of bonds. Finally, they summarized the Airport's projected debt service coverage through 2007, as well as its projected cost per enplaned passenger (a simplified measure of the Airport's overall cost to the airlines) for the same period.

**CITY COUNCIL
COMMUNICATION**

03-165

APRIL 7, 2003

PAGE THREE

This information helps to indicate the current and projected financial strength of the Airport, and indicates that the Airport should be positioned for a successful sale of airport revenue bonds in the future.

Based on this information and analysis, it is recommended that the City Council authorize Bank of America to increase the size of its letter of credit for the Series "C" Commercial Paper to \$12 million—the amount that will be sufficient to fund the Airport's current scheduled project requirements with a modest cushion. As described above, the Airport's plan is to repay the full amount of the outstanding Series "C" Commercial Paper from the proceeds of a future airport revenue bond issue. To provide the Airport a timing cushion and to allow for a possible delay in the issuance of bonds, it is also recommended that the bank's letter of credit commitment remain in effect until at least until July 1, 2007.

On March 4, 2003, by Resolution No. A03-54, the Airport Board recommended that the City Council authorize the Bank of America to increase the size of its letter of credit for the Series "C" Commercial Paper to \$12 million.

