



**Council
Communication**
Office of the City Manager

Date

March 12, 2007

Agenda Item No. 42

Roll Call No. 07-

Communication No. 07-142

Submitted by: Craig Smith, A.A.E., Aviation
Director and Allen McKinley, Finance Director

AGENDA HEADING:

Hearing on the Authorization and Issuance of Not to Exceed \$40,000,000 Aviation System Revenue Refunding Capital Loan Notes

SYNOPSIS:

Recommend approval regarding the authorization and issuance of not to exceed \$40,000,000 Aviation System Revenue Refunding Capital Loan Notes.

On April 28, 1998, the 1998 Aviation System Revenue Bonds were issued in the amount of \$42,670,000. The bonds are special obligations payable solely from and secured by a pledge of the net revenues of the Airport Enterprise Fund. Payment of the principal and interest on the bonds is guaranteed by a municipal bond insurance policy.

Advance refunding and/or forward delivery refunding of the bonds would retire the existing bond debt. In its place, a new series of 2007 Aviation System Refunded Capital Loan Notes would be issued at a lower interest rate. A public hearing at a City Council meeting is necessary because the City of Des Moines is the original issuer of the 1998 Revenue Bonds and would serve in this role for the Series 2007 Notes.

FISCAL IMPACT:

Amount: Estimated present value savings of \$1,491,000 (\$100,000 to \$125,000 annually).

Funding Source: 2006-07 Operating Budget, Airport Operations, EN002, AIR010100, Page 207. The Notes are payable solely from Airport Enterprise Fund net earnings.

ADDITIONAL INFORMATION:

Proceeds from the 1998 Airport Revenue Bonds were used primarily to construct parking structures and a storm-water detention facility at the Airport, and to purchase land for expansion and development of

the Airport. The Bond issuances included a tax-exempt, non-AMT (non-alternative minimum tax) component (Series A); a tax exempt-AMT (alternative minimum tax) component (Series B); and a taxable component (Series C). These designations were based on the type of improvements being funded and their treatment under tax law.

The Bonds have a “call date” or pre-payment provision as early as July 1, 2008; however, it appears that current rates may be favorable for the Airport. As part of the refunding process, it will be necessary to enlist the services of a bond underwriting firm through an RFP process.

The Advance Refunding process offers the Airport the option to refund bonds that are callable on July 1, 2008, more than 90 days before the call date. In the current market, an advance refunding of the Series 1998A Bonds could generate net present value savings over the remaining term of the bonds of approximately 6.17%, or \$306,000. In the current market, an advance refunding of the Series 1998C Bonds would generate net present value savings of approximately 4.37% or \$464,000.

Series 1998B Bonds, due to their nature as AMT Bonds, are not eligible for advanced refunding, but a similar process termed “forward delivery refunding” is available. A forward delivery refunding offers the Airport the option to lock in the current rates for refunding of the Notes today but not deliver the Notes to investors until the Series 1998B Bonds are eligible for a current refunding in 2008. In the current market, a forward delivery refunding would generate net present value savings of approximately 3.71%, or \$721,000.

PREVIOUS COUNCIL ACTION(S):

Date: February 12, 2007

Roll Call Number: 07-243

Action: On issuance of not to exceed \$40,000,000 Aviation System Revenue Refunding Capital Loan Notes, (3-12-07). ([Council Communication No. 07-085](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: April 20, 1998

Roll Call Number: 98-1227

Action: Form of Bond Purchase Agreement with Merrill Lynch & Co. for issuance of not to exceed \$45,000,000 in Aviation System Revenue Bonds. ([Council Communication No. 98-150](#)). Moved by McPherson to adopt. Motion Carried 6-1. Absent: Flagg.

BOARD/COMMISSION ACTION(S):

Date: February 6, 2007

Airport Board Resolution Number: A07-23

Action: The Airport Board approved consideration of the sale, advance refunding, and/or forward refunding of existing 1998 Airport Revenue Bonds; the Airport Board approved issuance of Request For

Proposal (RFP) documents for underwriting services for such refunding; and the Airport Board recommended that City Council set a date for public hearing on the issue of Not to Exceed \$40 Million Aviation System Revenue Refunding Capital Loan Notes.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE