



Council Communication

Office of the City Manager

Date April 23, 2007

Agenda Item No. 33
Roll Call No. 07-
Communication No. 07-215
Submitted by: Allen McKinley, Finance
Director/City Treasurer

AGENDA HEADING:

Approval to issue an RFP for Underwriting Services for issuance of General Airport Revenue Bonds using a negotiated sale process.

SYNOPSIS:

On February 6, 2007, the Airport Board approved the refinancing of the 1998 Series A, B, and C General Airport Revenue Bonds and the issuance of a Request for Proposal (RFP) for underwriting services for said refinancing. The City Council held a public hearing on March 12, 2007 on the authorization and issuance of not to exceed \$40,000,000 of Aviation System Revenue Refunding Capital Loan Notes. It is also anticipated that in the next 6-24 months the Airport will need to issue additional debt for various improvements at the airport. Due to the complexity of the refunding, it is anticipated that the refunding will be through a negotiated sale process rather than a competitive sale process. A negotiated sale was used for the issuance of the original 1998 debt.

FISCAL IMPACT:

Amount: Based on market conditions in early March the estimated present value savings is \$1.7 million. Actual savings will not be known until the bonds are refunded which will most likely occur in late summer.

Funding Source: 2006-2007 Operating Budget, Page 207, Airport Operations, EN002, AIR010100

ADDITIONAL INFORMATION:

Issuers in the municipal market employ both competitive and negotiated sales in the placement of debt with investors. The two approaches are not contrary or conflicting, but rather are two methods for sale that public sector issuers of debt find appropriate at different times. The major difference between the two methods is the selection of the underwriter and the subsequent establishment of price/interest rate of the securities. Under the competitive approach, the underwriter(s) (and syndicate) is chosen solely through a sealed bid on the basis of price and interest rate proposed; in the negotiated sale, the underwriter (and syndicate) is chosen in advance by the issuer, normally through a competitive process, and the price and interest rate are negotiated and set jointly by the issuer in consultation with the underwriter. Below is a more detailed description of each process.

Competitive

In a competitive sale, the issuer, usually with the advice of a paid financial advisor who monitors and consults in the capital markets all day, every day, determines the structure and general timetable of the

sale. The issuer drafts an official statement and notice of sale. Based on the needs of the issuer and state and local laws governing advertisements and notice requirements, a sale date is determined and the market is notified with the circulation of documents. At this moment, the issuer, with the exception of the option to withdraw the financing or reject all the bids, essentially cedes to the market most of the control of the marketing, pricing, and placement of the debt. On the date of sale, the sealed bids submitted by the underwriters are opened and the securities are awarded to the best bid, highest price/lowest interest cost.

Negotiated

In a negotiated sale, the issuer normally solicits underwriting firms under a Request for Proposal (RFP) competitive process. The responses are reviewed under a pre-established ranking system, interviews are held, and an underwriter or group of underwriters is selected. From this selection through the actual sale, the issuer works closely with the underwriter in the drafting of documents, analyzing the structure of the issuance, and monitoring the marketplace to establish an optimal date of sale. The issuer remains in firm control of the process and determines the structure and timing of the issue. On the day of pricing, the issuer determines, with advice from the financial advisor, the price at which the securities should be marketed. Based on market feedback (i.e., actual purchase orders) in response to the original price and structure, the issuer can then direct the underwriter to restructure and/or reprice the issue either up (lowering the interest rate) or down (raising the interest rate). After the final “negotiated” price is set, the securities are then awarded for sale and final placement.

Under the negotiated sale process, the investment banking firm (underwriter) devotes a tremendous amount of effort and resources to understand the issuer and the objectives of the debt issuance. After selection, the underwriter participates in the document preparation and analysis of various structures to determine the optimal structure. Simultaneously, the underwriter’s sales force begins the pre-marketing effort to prepare and educate the buyers – and their analysts – for the upcoming sale. On the date of sale, the price is determined based on market feedback. Once the award is made based on the final price, all risk for the sale of the securities rests with the underwriter, who is committed to purchasing the securities at that final price and to close and produce proceeds on a preset date. The issuer receives a post-sale report and can monitor its securities to ensure a fair market price was, in fact, secured.

Rationale for Use of Negotiated Sale

The reasons for a negotiated sale process is threefold. First, it has been nine years since the City last entered the markets for airport bond financing and the airport bond issue nine years ago was the very first issuance of Airport Revenue Bonds ever by the city. The City used a negotiated sale process for parking revenue bonds in 2000 in part because there was a 10-year gap between issuances. More recently the WRA used negotiated sale processes in both 2004 and in 2006. Second, the bond issue is very complex involving taxable, Non-AMT (Non-alternative minimum tax), and AMT (alternative minimum tax) bonds based on the type of improvements being funded and their treatment under tax law. Due to the nature of the AMT bonds, the City will need to utilize a Forward Delivery Refunding which furthers the complexity. Third, airports are inherently different credits than cities and other municipalities and each individual airport is inherently different in and of itself because of its underlying airline agreements, concession programs, management structure, size, market structure, etc.

Selection Process and Procedures

The attached Request For Proposal document has been formulated with input from staff and the City’s financial advisor. The following are the selection criteria and relative point values proposed to be utilized by the Selection Committee to evaluate the proposals received from the various bond underwriters.

- Experience of the firm and understanding of the Airport’s objectives. 30 points
- Cost (fees related to issue management, expected average takedown per bond, any expected “net to underwriter” fees, other expenses anticipated to be reimbursed, and underwriter’s counsel fees. 25 points
- Distribution capacity (bond marketing) 20 points
- Financial capacity 15 points
- References 10 points

PREVIOUS COUNCIL ACTION(S):

Date: March 12, 2007

Roll Call Number: 07-478

Action: Hearing on issuance of not to exceed \$40,000,000 Aviation System Revenue Refunding Capital Loan Notes. (Council Communication No. 07-142). Moved by Hensley to adopt. Motion Carried 6-1 (Vlassis absent).

Date: March 12, 2007

Roll Call Number: 07-479

Action: Resolution for additional actions. Moved by Hensley to adopt. Motion Carried 6-1 (Vlassis absent).

Date: February 12, 2007

Roll Call Number: 07-243

Action: Setting date of public hearing 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.

BOARD/COMMISSION ACTION(S):

Date: February 6, 2007

Airport Board Resolution Number: A07-23

Action: Approve consideration of the sale, advance refunding, and/or forward refunding of existing 1998 Airport Revenue Bonds; approve issuance of Request for Proposal (RFP) documents for underwriting services for such refunding; recommendation 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