



Council Communication

Office of the City Manager

Date

June 18, 2007

Agenda Item No. 42
Roll Call No. 07-
Communication No. 07-371
Submitted by: **Craig Smith, A.A.E.**
Aviation Director and Allen McKinley,
Finance Director

AGENDA HEADING:

Approving extension of Airport's Commercial Paper Series C Program, including Letter of Credit with Bank of America, for one (1) year through June 30, 2008

SYNOPSIS:

The City of Des Moines Aviation Department has implemented a Commercial Paper Program consisting of a debt obligation not to exceed \$12 million. The program includes a program dealer, a letter of credit, and paying agent agreement, and is set to expire on June 30, 2007.

The Airport's plan in creating the Series C was to fund capital projects until large enough cumulative requirements had developed to justify selling an issue of long-term bonds. Because the Airport has impending debt needs, but is not yet prepared to formalize Airport Revenue Bonds or other long-term debt, it is desirable to continue the Commercial Paper Program for one additional year.

FISCAL IMPACT:

Amount: Interest rates on the Letter of Credit are variable and have ranged from 3.15% to 3.95% over the past year. The current outstanding balance on the Letter is \$8.7 million. In addition to interest charges, Bank of America charges a fee of 0.1% of the authorized amount each quarter. During the fiscal year ended June 30, 2007, it is expected that interest payments for the commercial paper program will total approximately \$291,182.

Funding Source: Interest and related service charges and fees are paid from the Fiscal Year 2007-08 Operating Budget, Airport Operations Fund (EN002 AIR010100), page 66. Costs of the program are recovered through rates and charges assessed against commercial airlines and other users of the Airport facilities.

ADDITIONAL INFORMATION:

On August 21, 2000, the City Council established the Airport's Commercial Paper (Series C) Program. The Series C portion of the Commercial Paper Program is secured by a subordinated pledge of the Airport's net revenues.

In 2003 the Airport's financial advisor (Fullerton & Friar, Inc.) provided projections reflecting funding of the various capital projects as shown in the Airport's approved Capital Improvement Program. Their analysis indicated that in order to fund projects an increase in the Series C Commercial Paper was needed. Fullerton & Friar's projections also indicated that a bond issue would likely be required within five years to repay the Series C Commercial Paper, and they determined that \$12 million was an appropriate level for the Commercial Paper program. Fullerton & Friar also advised that it would then be efficient for the Airport to contemplate a bond issue with debt rising to that level.

On April 7, 2003, the City Council approved the expansion of the Commercial Paper Series C Program from \$5 million to \$12 million and an extension of time for the underlying letter of credit with Bank of America from June 30, 2003, to June 30, 2007. The Paying Agent Agreement with US Bank and the Program Dealer Agreement with Merrill Lynch are open-ended and thus do not require a formal extension.

Currently, the Airport still plans to repay the full amount of the outstanding Series C Commercial Paper from the proceeds of a future revenue bond issuance. Recently, it has become apparent that Airport Revenue Bonds will be needed to facilitate construction of parking facilities and possibly certain other projects. In light of the timing of the expiration of the line of credit, City Finance Staff has communicated to Bank of America its desire to extend the existing letter of credit for one year, to June 30, 2008, and received written approval from the bank.

PREVIOUS COUNCIL ACTION(S):

Date: April 7, 2003

Roll Call Number: 03-792

Action: Approval of the expansion of the Commercial Paper Series C Program from \$5 million to \$12 million and an extension of time for the underlying letter of credit with Bank of America from June 30, 2003, to June 30, 2007.

Date: August 21, 2000

Roll Call Number: 00-3505

Action: Establish the Airport's Commercial Paper (Series C) Program, consisting of a debt obligation not to exceed \$5 million including a program dealer, a letter of credit, and paying agent agreement.

BOARD/COMMISSION ACTION(S):

Date: June 5, 2007

Resolution Number: Airport Board A07-101

Action: Recommend to City Council the Extension of the Commercial Paper Series C Program for One (1) year to June 30, 2008.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE