



Council Communication

Office of the City Manager

Date	June 23, 2008
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Agenda Item No.	19
Roll Call No.	<u>08-</u>
Communication No.	<u>08-388</u>
Submitted by:	Allen McKinley, Finance Director/Treasurer

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, 2009

SYNOPSIS:

Recommend approval of the Airport's Commercial Paper Series C Program. 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, and 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 1.60% to 3.80% 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, 2008, interest payments for the commercial paper program will total \$265,373.80.

Funding Source: Fiscal Year 2008-09 Operating Budget, Airport Operations Fund EN002, AIR010100, page 62. 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 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 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 did not require a formal extension.

On June 18, 2007 the City Council approved the extension of time for the underlying credit with Bank of America from June 30, 2007 to June 30, 2008 since the Airport was not yet ready to transition the Commercial Paper Series C Program to other long-term debt.

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. The City is still in the process of attempting to refinance existing Airport Revenue bonds and the need for additional Airport Revenue Bonds remains 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 staff has communicated to Bank of America its desire to extend the existing letter of credit for one year, to June 30, 2009, and received written approval from the bank.

PREVIOUS COUNCIL ACTION(S):

Date: June 18, 2007

Roll Call Number: 07-1181

Action: Extension of the expiration date (to July 1, 2008) of the Letter of Credit regarding outstanding subordinate Airport Commercial Paper Revenue Notes, Series C. (Council Communication No. 07-371) Moved by Coleman to adopt. Motion Carried 6-1.

Date: April 7, 2003

Roll Call Number: 03-792

Action: Amending Roll Call 00-3504, to authorize and provide for issuance and securing payment of subordinate Airport Commercial Paper Revenue Notes, Series C. (Council Communication No. 03-165). Moved by Vlassis to adopt. Motion Carried 4-2-1. Nays: Coleman and Brooks. Absent: Hensley.

Date: August 21, 2000

Roll Call Number: 00-3502

Action: On authorization and issuance of not to exceed \$5,000,000 Subordinate Airport Commercial Paper Revenue Notes, Series C. (Council Communication No. 00-344 of 7-24-00). Moved by Brooks to adopt. Motion Carried 5-2. Absent: Flagg and Hensley.

BOARD/COMMISSION ACTION(S):

Date: June 3, 2008

Roll Call Number: N/A

Action: The Airport Board recommended to City Council the Extension of the Commercial Paper Series C Program for one (1) year to June 30, 2009

Date: June 5, 2007

Roll Call Number: N/A

Action: The Airport Board recommended 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:

This program will be re-evaluated for long-term viability prior to June 30, 2009, and any further Council action will be requested based on the staff recommendation.

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