



Council Communication

Office of the City Manager

Date	June 8, 2009
Agenda Item No.	46
Roll Call No.	09-
Communication No.	<u>09-375</u>
Submitted by:	Allen McKinley, Finance Director & Craig Smith, Aviation Director

AGENDA HEADING:

Recommend Approval of Amendment to Reimbursement Agreement and Two-Year Extension of Irrevocable Letter of Credit with Bank of America to June 30, 2011.

SYNOPSIS:

Recommend approval to extend the current \$12 million Letter of Credit utilized for short-term financing of improvements at the Airport to June 30, 2011.

FISCAL IMPACT:

Amount: Interest rates will vary over the life of the letter of credit. In the past 12 months the interest rate has ranged from a high of 4.0% to a low of 0.4%. In addition, there is a pricing premium and fees that will add another 1.5+% in costs. The FY2010 budget provides \$292,000.

Funding Source: FY09-10 Operating Budget, EN026, AIR070800 Sinking Fund – Series C Commercial Paper, page 34.

ADDITIONAL INFORMATION:

On August 21, 2000, through Roll Call No. 00-3505, the City Council established the Airport's Commercial Paper (Series C) Program (the "Program"). The Program originally consisted of a debt obligation not to exceed \$5 million secured by a subordinated pledge of the Airport's net revenues and included a remarketing agreement, a letter of credit agreement, and a paying agent agreement. The concept behind creating the Program was to fund capital projects until the cumulative requirements had developed to a large enough balance to justify selling an issue of long-term bonds. The originally authorized amount was \$5 million.

In 2003 the Airport's financial advisor provided projections reflecting funding of the various capital projects with analysis indicating that an increase in the Series C Commercial Paper was needed. The projections indicated that \$12 million of credit was an appropriate level for the Commercial Paper program and so on April 7, 2003 through Roll Call No. 03-792, the City Council approved the expansion of the Program from \$5 million to \$12 million. With that action the Council also approved an extension of time for the underlying letter of credit with Bank of America Corporation ("BAC") from June 30, 2003, to June 30, 2007. The two related agreements, a Paying Agent Agreement with US Bank and a Program Dealer Agreement with Merrill Lynch were open-ended and do not require a formal extension.

Subsequently, Council approved two additional one-year extensions of the letter of credit – on June 18, 2007, through Roll Call No. 07-1181 and again on June 23, 2008, through Roll Call No. 08-1108. The current letter of credit expires on June 30, 2009.

The Airport's current financial plan remains essentially the same – to eventually repay the full amount of the outstanding Series C Commercial Paper from the proceeds of a future revenue bond issuance. The approved budget anticipates Airport Revenue Bonds will be needed at some point in the future to facilitate construction of parking facilities and possibly certain other projects. Because the timing of the capital projects, particularly rental car facilities, remains uncertain due to economic conditions and an unstable bond market, staff has requested and received an offer for another extension to the letter of credit from BAC dated May 12, 2009.

With the two previous extensions, BAC was able to maintain the pricing on the letter of credit, charging 50 basis points (0.50%) of the authorized upper limit of principal and interest borrowing, \$12,680,547.95. However, with the latest proposal BAC, citing market pressure and the current unstable credit environment, is requiring a fee of 150 basis points. This fee is charged regardless of the outstanding balance, however, the Airport may request a reduction in the upper borrowing limit at any time and the fee will be lowered accordingly.

PREVIOUS COUNCIL ACTION(S):

Date: June 23, 2008

Roll Call Number: 08-1108

Action: Extension of Airport's Commercial Paper Series C Program, including Letter of Credit with Bank of America, for one year, through June 30, 2009. (Council Communication No. 08-388) Moved by Vlassis to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Date: June 2, 2009

Roll Call Number: A09-108

Action: Recommend Approval of Amendment to Reimbursement Agreement and Two-Year Extension of Irrevocable Letter of Credit with Bank of America to June 30, 2011

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.