

POSSIBLE MOTION

I MOVE TO approve Resolution 2018-17 on
first and final reading.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Hunter and Assembly Members
Keith Brady, Municipal Administrator

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: 7/18/2018

Subject: Application for Airport Terminal Revenue Bonds and Associated Resolution

Background

To begin the process of coordinating a bond issuance through the Alaska Municipal Bond Bank, an application is required. Staff is asking the Assembly to pass the attached resolution authorizing the Administrator to complete the bonding request.

Please note that, to save on duplication and printing costs, some of the attachments which will be included with the signed application, such as the Consolidated Operating Budget and the CAFR, have not been included in your packets. All of the required supplemental information requested on the bond application can be found in these two official documents.

Per the Charter of the Sitka and Borough of Sitka, an election is not required to approve the issuance of revenue bonds.

Analysis

Proposed Project Milestones/Schedule

- Assembly approved applying for a new PFC application - March 2017
- Assembly approved moving forward with project to 65% design milestone along with approval of new Budget Appropriation - September 2017
- Complete the PFC Application and submit to FAA - December 2017
- Schematic Design Development (35% milestone) for the full terminal as well as restarting the design process for the TSA Baggage Screening Area - January 2018 – September 1, 2018
- Receive approval of PFC charges and begin collection - May 1, 2018
- Assembly approve authorization to apply for revenue bond and approve ordinance to execute revenue bond - July/August (Fall) 2018

- Design Development (65% milestone) - September through December 2018
- Determine costs/funding and portion of 65% design of project besides the TSA Baggage Screening Design, to take forward to 100% design - January 2019
- 100% Design & Develop Bid Documents - January 2019 through April 20
- Review and Approval of Bid Documents - April through May 2019
- Bidding and Award - June through August 2019
- Construction – phased during winter seasons - October - April 2019, 2020, 2021

If the Assembly approves the accompanying Resolution staff will proceed to submit an Application to the AMBBA to issue airport terminal revenue bonds. Neither submission of the application, nor possible approval by the AMBBA, will bind the Assembly and Municipality to firmly issuing airport terminal revenue bonds. Approval of an additional ordinance will be required before the Municipality firmly commits to bonding.

The sequence of bond issuance events which would follow approval of the accompanying Resolution would be as follows:

- (1) The Municipality submits the attached bonding application and accompanying Resolution to the AMBBA;
- (2) The AMBBA approves or disapproves the application;
- (3) If the application is approved, both the AMBBA and the Municipality begin legal and administrative work to draft bonding documents. The legal work for the Municipality will be completed by its outside Bond Counsel. The key document produced by outside bond counsel is a bonding ordinance. The key document produced by the AMBBA's bond counsel in conjunction with the Municipality's bond counsel is a loan agreement from the AMBBA.
- (4) The bonding ordinance is considered and approved/disapproved by the Assembly. A key provision of the bonding ordinance is permission/authority of the Municipality to enter into a loan agreement with the AMBBA which is secured by the issuance of a revenue bond to the AMBBA (as security). If the Assembly does not pass the ordinance, the entire bonding process stops.
- (5) If the Assembly passes the ordinance, outside bond counsel prepares multiple legal documents and certificates necessary to complete the bonding. The Municipal Clerk also prepares and certifies documents, obtains necessary signatures, and transmits original documents to the outside bond counsel.
- (6) While legal documents are being prepared, the AMBBA works with an underwriter (a major investment bank in New York City) to sell its bond issue to the public. Sitka's bonding needs will be combined with other Alaskan Municipalities to comprise an overall AMBBA general obligation bond issuance. The proceeds from AMBBA's bond issuance are what are loaned to Sitka, through the aforementioned loan agreement, which is secured by Sitka's single revenue bond. Actual underwriting takes place over a 2-day period in New York; this is the event which legally binds Sitka to bonding. The pricing of the bonds, and determination of any issuance discounts and premiums, occurs at this underwriting event.
- (7) The bond issuance culminates in a bond closing, in Seattle, approximately 2-3 weeks after underwriting. At closing, bond counsel for the AMBBA, and, the various bond counsels for all of the participating Alaskan communities (of which Sitka would be one), all ensure that every required legal document is signed, sealed, and acceptable. Once all bond counsels affirm that everything is ready, the underwriting investment bank wires bonding proceeds to the various banks used by all of the participating communities.

Once bond closing has taken place, the Municipality will be legally committed to making pre-determined, semi-annual interest and principal payments to a trustee bank, usually the Bank of New York. The role of the Bank of New York is to consolidate all of the semi-annual payments from various participating Alaskan communities and use the payments to make interest and principal payments to AMBBA general obligation bonds. Sitka does not ever sell its own separate bonds to the general public; its interest and principal payments are part of its loan agreement to the AMBBA and are necessary for the AMBBA to make its own over-arching debt service payments. This is how a bond bank works.

Finally, the ultimate amount of bond proceeds that will be obtained, and, the final total of bond principal and interest that will need to be repaid, will not be precisely determined until underwriting occurs. When bonds are underwritten and sold by an investment bank, they are issued at either a premium, par, or a discount. Par means that an issuer gets proceeds exactly equal to the principal amount issued. A discount or premium occurs when the market rate of interest differs from the stated rate of interest on a bond; depending on interest rate differences, a borrower may get a greater amount of proceeds (a premium) or smaller amount of proceeds (a discount) than the premium amount issued. If discounted proceeds are received, it is because the borrower is paying a lower rate of interest than that in the financial market as a whole; vice, versa, a premium occurs when a borrower is paying a higher rate of interest. The expertise role of the underwriter is determining what stated interest rates on bonds, premiums, and discounts are required to sell the issuance to the public.

Fiscal Note

The current estimated cost renovating the RGAT is \$4,183,570. Of this amount, funding in the amount of \$158,570 has been secured from the Transportation Security Administration (TSA) for design of an in-line baggage screening system and modified baggage screening area.

The City and Borough of Sitka has also obtained approval from the Federal Aviation Administration to collect Passenger Facility Charges (PFCs) in the amount of \$4.50 per embarkation, over a 20-year period commencing May 1, 2018 and ending on May 1, 2038, for a total estimated amount of \$6,840,000. The purpose of these PFCs is to help finance PFC-eligible terminal improvements that will expand the capacity and improve the operation of several terminal functions including : (1) relocation of the jet bridge ramp; (2) expansion of the TSA baggage screening area and the connected baggage makeup area; (3) expansion of the gate hold-room; (4) separate terminal building entry and exit points with a new direct exit from the baggage claim area; (5) modification of the baggage claim area and installation of a new baggage claim belt; (6) installation of a new full-length terminal building canopy; and, (7) construction of new fish box holding areas.

The total estimated project cost for the Sitka Airport Terminal Renovation is \$10.7 million, which includes a design contingency. Not all of the funding necessary to provide for the total project cost has been obtained.

Issuing airport terminal revenue bonds will provide partial funding for the project; the amount of bonding being requested is the maximum amount supportable by the projected PFC revenue stream.

Staff will continue to pursue additional potential sources of project funding. If additional sources of project funding can't be obtained, the project will be modified to fit the amount of funds available.

Staff has identified the following prospective sources of additional project funding, subject to Assembly approval:

- Renovations to the TSA Baggage Screening Area and installation of new inline baggage screening equipment costs are estimated at nearly \$3 million for which TSA Funding will be sought and is anticipated;
- Airport Concession Fees- a possible new 10% Terminal Improvement Fee that could be charged on rental cars, which would raise an estimated \$1.4-\$1.5 million (20 year bond) for Terminal Improvements;
- AIP Grants – for eligible portions of the terminal improvements will be sought. PFC funds will count as match funds for most eligible AIP grants; and,
- Airline tenant improvements at Airline ticket counters and possibly bag belts.

Recommendation

Staff is requesting that the Assembly approve a Resolution to submit an application to the Alaska Municipal Bond Bank Authority to issue airport terminal revenue bonds in the amount of \$4,025,000.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2018-17

A RESOLUTION BY THE CITY AND BOROUGH OF SITKA APPROVING SUBMITTAL AND EXECUTION OF AN APPLICATION TO THE ALASKA MUNICIPAL BOND BANK TO ISSUE AN AMOUNT OF AIRPORT TERMINAL REVENUE BONDS UP TO \$4,025,000 THROUGH THE BOND BANK TO FINANCE THE CITY AND BOROUGH OF SITKA'S PORTION OF THE RENOVATION OF THE ROCKY GUTIERREZ AIRPORT TERMINAL

- WHEREAS,** the City and Borough of Sitka has recognized a critical need to improve the efficiency of the Rocky Gutierrez Airport Terminal in accommodating the current volume of air passengers, luggage, and freight; and
- WHEREAS,** the City and Borough of Sitka recognizes that an efficient airport terminal is essential to maintaining the economic health of the Municipality; and
- WHEREAS,** the existing airport terminal facility is outdated and can't adequately provide for the efficient flow of embarking and debarking passengers and their baggage, especially in light of security screening requirements; and
- WHEREAS,** the Transportation Safety Administration has issued an OTA (Other Transaction Agreement) to the City and Borough of Sitka in the amount of \$158,570 to pay for an in-line baggage screening system and modified baggage screening area in conjunction with the overall remodel plan; and
- WHEREAS,** the Federal Aviation Administration has approved the collection of Passenger Facility Charges (PFCs) in the amount of \$4.50 per embarkation for a period commencing May 1, 2018 and ending May 1, 2038, the purpose of which is to help finance PFC-eligible terminal improvements that will expand the capacity and improve the operation of airport terminal functions, with an estimated total of \$6,840,000 to be collected over the 20-year period in PFCs; and
- WHEREAS,** PFCs may be used to pay the debt service for revenue bonds issued to obtain the financing for PFC-eligible terminal improvements; and
- WHEREAS,** the problems and deficiencies with the Rocky Gutierrez Airport Terminal, in its present state, require that the facility be renovated in the very near term; and
- WHEREAS,** commercial airlines utilizing the Rocky Gutierrez Airport Terminal and the Transportation Safety Administration are supportive of the proposed renovations, and, in the issuance of revenue bonds in order to accomplish the needed renovations in the very near term.

NOW, THEREFORE, BE IT RESOLVED, by the Assembly of the City and Borough of Sitka that the Administrator is authorized to prepare and submit an application to the Alaska Municipal Bond Bank for the issuance of up to \$4,025,000 in airport terminal revenue bonds through the Alaska Municipal Bond Bank Authority.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska on this 24th day of July, 2018.

Matthew Hunter, Mayor

ATTEST:

Sara Peterson, MMC
Municipal Clerk

1st and final reading 7/24/18
Sponsor: Administrator