



City of Dallas

Aviation System Commercial Paper Program

**Transportation and
Infrastructure Committee
November 16, 2020**

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City of Dallas

Presentation Overview



- Background/History
- Purpose
- Capital Needs - Runway 13R-31L
- Service Provider Selection
- Estimated Program Costs
- Recommendation
- Next Steps
- Questions



Background/History



- The City currently has two existing commercial paper (CP) programs; a general obligation commercial paper program supported by voter-approved debt and a waterworks and sewer system commercial paper program supported by utility system revenue; and is seeking to establish a commercial paper program via the Love Field Airport Modernization Corporation (LFAMC) to be supported by Airport System revenues to finance current capital improvement needs
- On September 9, 2020, City Council approved a resolution authorizing the LFAMC to proceed with the preparation and negotiations of an Aviation System Commercial Paper Program, in an aggregate principal amount not to exceed \$150,000,000
- On September 21, 2020, the Transportation and Infrastructure Committee was presented a briefing on LFAMC Refunding Bonds, which were subsequently postponed, that included information on capital needs to be financed outside of General Airport Revenue or Special Facility bond proceeds



Purpose



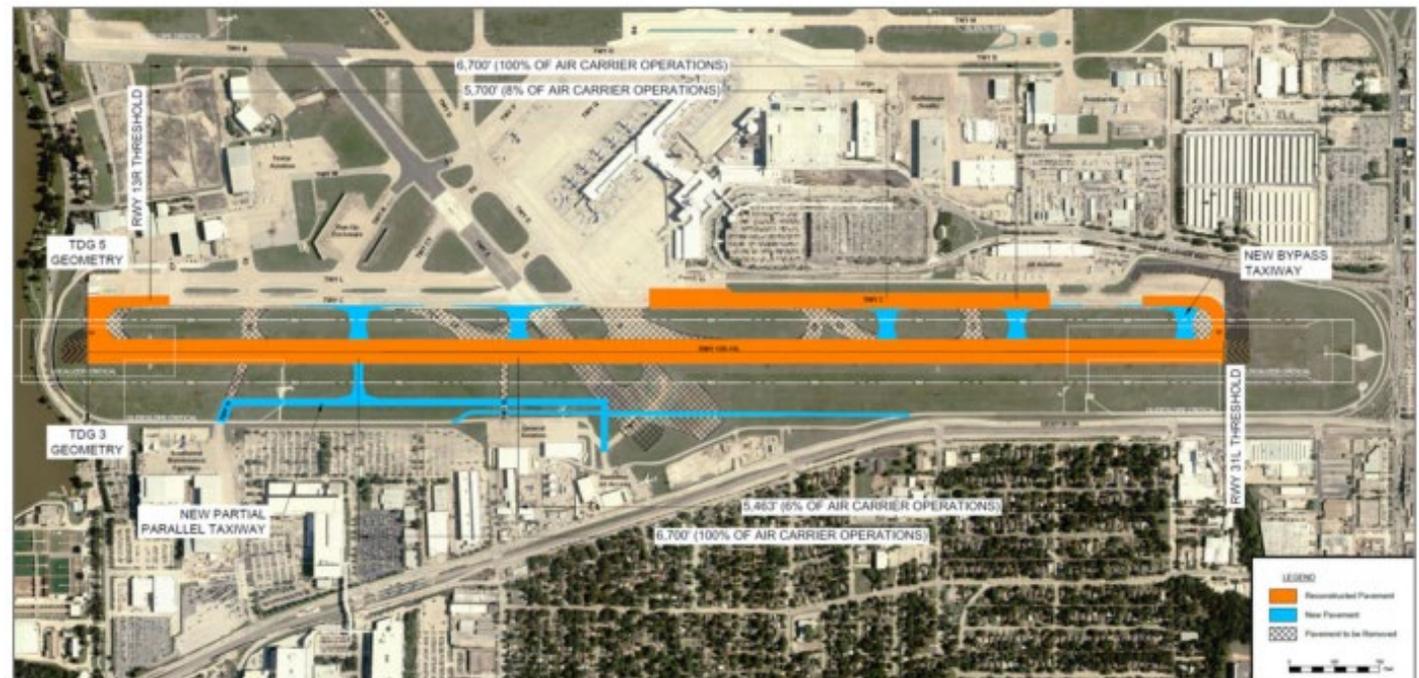
- Commercial paper provides an alternative funding option for capital programs
- Serves as an interim financing mechanism
- Allows for “just-in-time-borrowing”
 - Contracts for eligible projects are awarded based on the authorization to issue commercial paper
 - Commercial paper is issued as invoices for project expenditures are paid
- Reissued at maturity until retired with permanent financing (Airport revenue refunding bonds)



Capital Needs - Runway 13R-31L



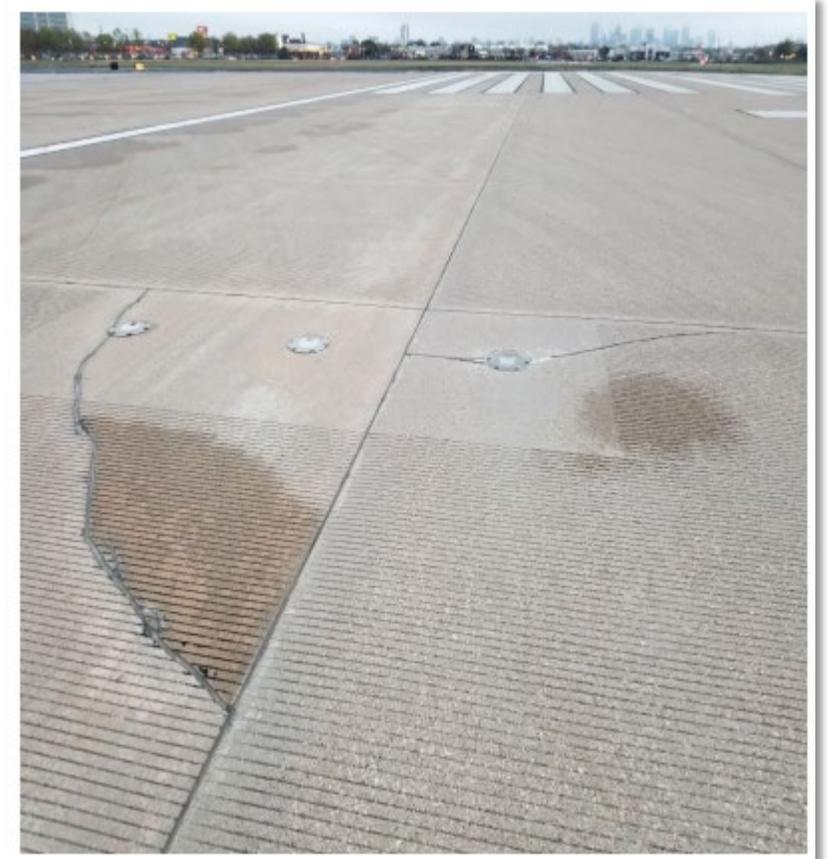
- Runway 13R-31L was originally constructed in 1961. A complete overlay of the runway was completed in 1990
- According to FAA, the minimum useful life for pavement reconstruction is 20 years. The runway pavement is over 30 years-old and well beyond its functional life
- Runway 13R-31L handles 54% of the Airport's movement and also the longest runway at the Airport (8,800 feet)



Capital Needs - Runway 13R-31L Cont.



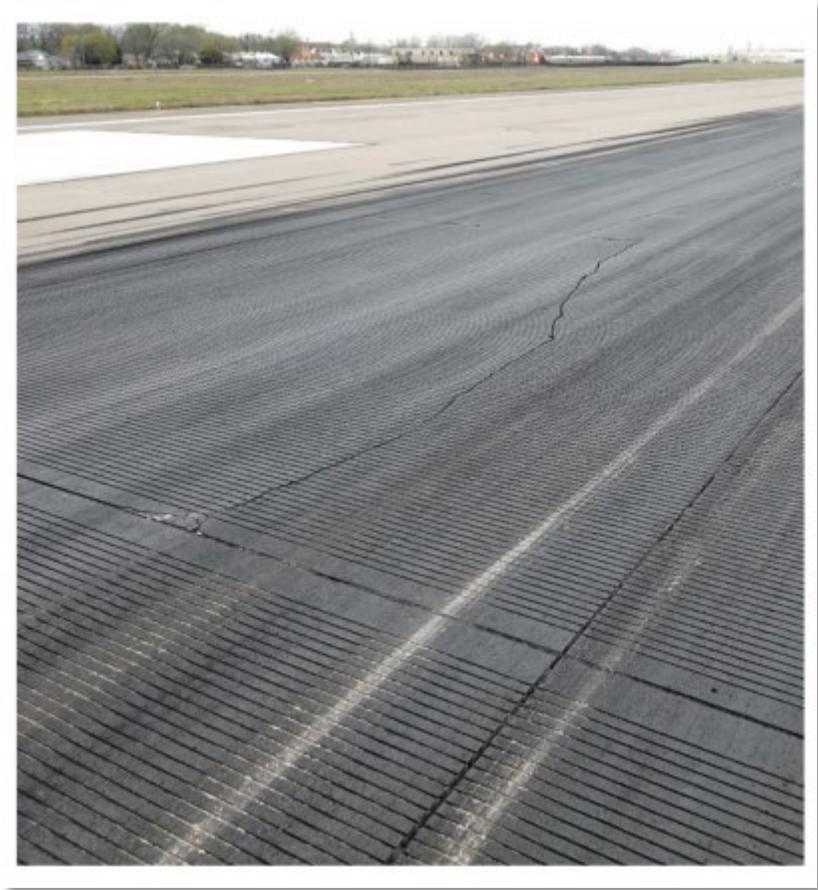
- The repeal of the Wright Amendment in October 2014 significantly increased activity at Love Field
- In 2014, there were 182,949 movements
- By 2016, movements increased to 224,193
- In 2015, Runway 13R-31L average visual pavement rating was 81
- In 2016, the pavement rating was downgraded from 81 to 69 (the low end of fair rating)
- The rating scale identifies pavement under 70 as beyond regular maintenance and is deemed critical for replacement
- Predictive models show the runway rating will drop from fair to poor by 2022



Capital Needs - Runway 13R-31L Cont.



- FAA prioritizes eligible projects for funding from the runways outward, with runways being the highest priority
- FAA has identified this project as a priority project in the Southwest Region
- FAA original Grant allocation was approximately \$17.5 million
- FAA recently revised Grant allocation is anticipated to be \$29 million due to additional FAA discretionary funds and CARES Act Funds
- All Grants are reimbursable Grants



Service Provider Selection



- Commercial paper program requires three service contracts
 - CP Dealer sells the notes to investors
 - Majority of investors are mutual funds
 - Notes mature in 1 to 270 days (60-day average maturity)
 - CP Issuing and Paying Agent bank sends principal and interest payments to investors when notes mature
 - CP Credit Facility (irrevocable letter of credit) required to support the notes from one or more highly rated financial organizations (Facility Provider)
 - Airport System rating is not conducive with the use a revolving line of credit
 - Letter of Credit will be drawn upon by Issuing and Paying Agent to pay interest and principal coming due on notes
 - LFAMC will promptly reimburse Facility Provider for draw on Letter of Credit to avoid incurring a loan from the Facility Provider
 - Aviation and Treasury will coordinate with Issuing and Paying Agent to ensure all payments are made timely
 - Rating agencies rate the CP program based on the rating of the Facility Provider



Service Provider Selection Continued



- RFP issued for Commercial Paper Dealer and Facility Provider, and informal bid for Issuing and Paying Agent for LFAMC Airport System Commercial Paper Program, AMT Series
 - 4 responses for Commercial Paper Dealer
 - 2 responses for Facility Provider
 - 2 responses for Issuing and Paying Agent Bank



Service Provider Selection Continued



- Evaluation committee reviewed and evaluated the proposals:
 - Department of Aviation
 - Dallas Water Utilities
 - City Controller's Office
 - Hilltop Securities Inc., Co-Financial Advisor
 - Estrada Hinojosa, Co-Financial Advisor
- Selection criteria:

• Qualifications/Experience of Firm	20%
• Bank Ratings	40%
• Pricing/Terms	40%



Service Provider Selection - Dealer



- Recommend award of the LFAMC Airport System Commercial Paper Program, AMT Series dealer contract to J.P. Morgan Securities LLC (“J.P. Morgan”)
 - Most favorable response of the 4 received based on pricing and terms, qualifications and bank rating
 - Offered the highest dollar amount of volume authorized
 - No minimum credit requirement
 - Double the excess net capital of the other respondents
 - Tied with lowest remarketing/dealer fee of 4.0 bps and bank counsel fees not to exceed \$65,000
 - J.P. Morgan currently serves as dealer for the Waterworks and Sewer System, Series E commercial paper program



Service Provider Selection – Liquidity Facility



- Recommend award of the LFAMC Airport System Commercial Paper Program, AMT Series credit facility provider contract to JPMorgan Chase Bank, National Association (“JPM”) in an amount of \$150 million plus 270 days interest calculated at the rate of 10%
 - Most favorable response of the 2 received based on pricing and terms, qualifications and bank rating
 - Financial Advisors recommend implementing a three-year credit agreement at an annual fee of 145 basis points
 - Rating of the City’s commercial paper program will be based on the short-term rating of JPM:
 - Moody’s P-1
 - Standard & Poor’s A-1
 - Fitch F1+



Service Provider Selection – Issuing/Paying Agent



- Recommend award of issuing and paying agent contract to US Bank
 - Informal bid consisting of three issuing and paying agents responses
 - US Bank currently serves as issuing and paying agent for the General Obligation and Dallas Water Utilities existing commercial paper programs
 - US Bank's proposal includes small fee increases that will raise the annual cost of this service by an estimated \$2,250



Estimated Program Costs



<u>COST OF ISSUANCE/ CLOSING COSTS</u>	<u>Fees</u>
Co-Bond Counsel	
McCall, Parkhurst & Horton LLP	\$203,000
Escamilla & Poneck	109,250
Co-Disclosure Counsel	
Norton Rose Fulbright US LLP	120,000
Kintop Smith	85,000
Liquidity Facility Bank & Dealer Attorney Fees	85,000
Orrick, Herrington & Sutcliffe LLP	
White & Wiggins	
Co-Financial Advisors	
Hilltop Securities	94,200
Estrada Hinojosa	62,800
Issuing and Paying Agent Fee	
U.S. Bank, N.A.	3,250
Rating Agencies	
Fitch Ratings	35,000
S&P Global	23,000
Misc. Expenses	5,000
Total Estimated Closing Costs	\$825,500
<u>ANNUAL FEES</u>	
Liquidity Facility Fees	
JPMorgan Chase Bank, N.A.	\$2,338,125
Issuing and Paying Agent Fee	5,000
Rating Agencies	116,000
Total Estimated Annual Costs	\$2,459,125
Total Estimated Issuance Costs	<u>\$3,284,625</u>



Staff Recommendation



- Staff recommends the Transportation and Infrastructure Committee forward the following to City Council for consideration and approval:
 - Approval of the resolution on the December 9, 2020 City Council agenda to approve the LFAMC resolution establishing the Airport System Commercial Paper Program, AMT Series short term obligations in an aggregate principal amount not to exceed \$150,000,000 and authorize execution of documents related to establishing the Commercial Paper Program



Next Steps



- Approval of LFAMC Board TBD
- City Council approval December 9, 2020
- Pre-Closing December 16, 2020
- Closing December 17, 2020





Questions?





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