
M E M O R A N D U M

DATE: June 14, 2012
TO: City Council Members
FROM: Russell Weeks
RE: Briefing: Proposed Resolution Expressing the City's Intent to Reimburse Certain Capital Expenditures from Proceeds of Bonds Issued to Fund the Airport Redevelopment Project
CC: Cindy Gust-Jenson, David Everitt, Ed Rutan, Maureen Riley, John Buckner, Janine Christiansen, Gina Chamness, Gordon Hoskins, Dan Mulé, Jennifer Bruno, Barbara Gann, Karen Halladay, Boyd Ferguson, Neil Lindberg

This memorandum pertains to a briefing on a proposed resolution that would allow the Department of Airports to be reimbursed for capital expenditures and items such as design work and engineering fees from proceeds raised by bonds issued in the future to redevelop the Salt Lake City International Airport.

The briefing is scheduled for the City Council work session on June 19. The work session tentatively is scheduled to start at 5 p.m. or immediately after the Redevelopment Agency of Salt Lake City Board of Directors. (The City Council is the agency's board of directors.) The work session will be held in Room 326 of the City & County Building, 451 South State Street. The Council also will consider adopting the proposed resolution during its formal session.

KEY POINTS

- The proposed resolution would allow the Airport Enterprise Fund to be reimbursed from future proceeds from bonds issued to help pay for the planned redevelopment of Salt Lake City International Airport.
- The proposed resolution is designed to meet Internal Revenue Service rules.
- Reimbursements would allow Salt Lake City to recoup eligible expenditures such as land purchases and building construction and other costs such as design work and engineering fees after the bonds are issued.¹
- The resolution would set a not-to-exceed principal amount of \$1.5 billion in bonds – but would not obligate Salt Lake City to issue bonds.²

OPTIONS

- Adopt the proposed resolution.
- Do not adopt the proposed resolution.

POTENTIAL MOTIONS

- I move that the City Council adopt the resolution expressing Salt Lake City's official intent regarding the reimbursement of expenditures for the expansion and improvement project located at the Salt Lake City International Airport from proceeds of the City's

bonds and providing for related matters with the understanding that the Department of Airports will provide the Council with monthly updates and presentations on all phases of the project.

- I move that the City Council consider the next item on the agenda.

BACKGROUND/DISCUSSION

Although appearing fairly routine, the proposed resolution marks a key milestone in the planned redevelopment of Salt Lake City International Airport. It should be noted that any bond issue related to the project is roughly about two years away. However, there are a number of steps that need to be taken before any bonds are issued.³

Again, as the issuer of bonds for the project Salt Lake City may reimburse itself for:

- a. All capital expenditures paid for the project described in the reimbursement resolution if the expenditures are paid from the Airport Enterprise Fund not more than 60 days before the date of the adoption of the reimbursement resolution.
- b. All preliminary expenditures related to the project in an amount not in excess of 20 percent of the issue price of the bond issues that finance the project described in the reimbursement resolution. Preliminary expenditures are eligible for reimbursement even if they are paid more than 60 days before bonds are issued.⁴

According to a memorandum from the City's bond attorneys, reimbursement regulations generally require that the City reimburse itself from bond proceeds within 18 months after the later of the date on which the expenditure to reimburse was paid or the date on which the property financed was placed in service. However, the City cannot reimburse itself for items paid for more than three years after the original expenditure.⁵

Department of Airports Executive Director Maureen Riley has indicated that the department may start spending funds eligible for reimbursement as preliminary expenditures as early as September. Airport staff currently are working with a consultant on a "plan of execution" to build a new terminal complex over the next 10 years. The plan may be ready for review later this year.

A preliminary timetable outlined earlier this year calls for a roughly 10-year program starting this year with an on-going community outreach program, finishing an environmental assessment, finishing the plan of execution, and starting design. The first construction portion of the project will be to build new car-rental refueling and car-washing facilities at the south end of the Airport's property in 2014. Building the new terminal and a concourse attached to the terminal would start later. Building a new parking garage would start after the terminal project. Ms. Riley said previously that it will take three years to build the new terminal and two years to build the new parking garage so the Department of Airports intends to stagger component start dates so the new facilities will open together.

Although plans to build a new terminal started in the mid-1990s, there is variety of reasons for proceeding with the project:

First, the Department of Airports earlier this year secured an agreement from Delta Air Lines – which operates about 75 percent of the flights to and from Salt Lake City – and other airlines that use the airport to proceed with the project.

It should be noted that the Department of Airports explored renovating the existing terminal and concourses with Delta and the other air carriers for about 15 months before Delta decided that rebuilding the facility was the better option. According to Ms. Riley, rebuilding the terminal will cost about 10 percent to 15 percent more than renovating the existing facilities. In addition, renovating the facilities would not eliminate choke points that snarl aircraft traffic at the gates of some existing concourses. She estimated that the cost of an airplane idling while waiting to pull into a gate was about \$50 a minute, if one included fuel and staff costs.

Other reasons for proceeding with the project include: addressing seismic risk; providing facilities that are the right size for the roughly 21 million passengers that use the airport; improving customer service; accommodating growth; solving operational problems; and maintaining competitive costs for the airport and the airlines. It should be noted that Terminal No. 1 and the central plant are 51 years old. Terminal No. 2 is 34 years old, and the four concourses range in age from 16 years to 51 years.

It should be noted that the Department of Airports has roughly \$250 million in cash reserves to temporarily finance the Salt Lake City International Airport project. Ms. Riley earlier this year estimated that by the end of the project the Department of Airports will have spent about \$631 million in cash – roughly one-third of the total cost of the project. The Department of Airports paid off all its long-term debt in Fiscal Year 2007-2008. That has allowed the Department to accumulate reserves to temporarily finance the project until bonds are issued.

The conceptual design of the redeveloped airport includes points where the project could stop if it becomes necessary due to unforeseen events. There is a point in the project's conceptual design where the airport could operate as a 45-gate, origin-and-destination airport if airlines no longer were interested in using the airport as a hub. The Department of Airports since the mid-1990s has worked on traffic routes, runway aprons and other items that served the public and the airlines but are parts of the project to rebuild the terminal.

¹ Transmittal Letter, Maureen Riley, May 18, 2012.

² Ibid. Page 2.

³ Please see attached Preliminary Financing Schedule.

⁴ Paragraphs a and b, *Memorandum*, Richard J. Scott and Brandon T. Johnson, May 3, 2012, Page 1. The Scott and Johnson memorandum notes that “preliminary expenditures include architectural, engineering, surveying, soil testing and bond issuance costs and similar costs incurred prior to commencement of construction ... of the Project, but *do not include* land acquisition, or site preparation costs and similar costs that were incurred prior to commencement of construction of the Project.”

⁵ Ibid. Page 2.

Salt Lake City International Airport
Terminal Redevelopment Program
Financing Schedule

Preliminary financing schedule through first tranche of debt

FY 2012

- Oct - Develop financial model based on concept design
- Feb - Convene Finance Working Group (FWG)
- Mar - Develop plan of finance
- May - Draft new Master Trust Indenture

FY 2013

- Dec - Finalize new Master Trust Indenture
- Apr - Meet with rating agencies for Airport update
- May - Draft Official Statement (O/S)
- June - Refine and update financial model based on schematic design

FY 2014

- Oct - Select underwriters and trustee
- Mar - Review Report of the Airport Consultant
- Apr - Meet with rating agencies
- June - Issue CFC-backed Airport Revenue Bonds

Preliminary bond sizing*

Rental car facilities:

2014 CFC-backed Bonds \$72,865,000

Terminal facilities:

2016A Bonds	\$497,765,000
2018A Bonds	517,950,000
2021A Bonds	<u>39,425,000</u>
Total	<u>\$1,055,140,000</u>

*Source: Public Financial Management, Inc.

MEMORANDUM

VIA E-MAIL

TO: Maureen Riley, Executive Director
John Buckner, Jr., Director of Administration and Commercial Services
Janine Christiansen, Director of Finance and Accounting

FROM: Richard J. Scott
Brandon T. Johnson

DATE: June 14, 2012

RE: Reimbursement Resolution for Airport Project

Please find enclosed a revised form of “reimbursement resolution” in form suitable for adoption by the City Council at its June 19 meeting.

Enclosed are a (1) “clean” copy of the reimbursement resolution for your submission to the City Council and (2) blacklined copy that is marked to indicate changes made from the prior version thereof. As you will see, we have only revised the date of the resolution from “June 12” to June 19.”

Please call us (Richard Scott at (801) 536-1401 or Brandon Johnson at (801) 536-1407) with any questions or comments that you may have.

RJS/jd
Enclosures

Double underscore indicates insertion.

~~Strikethrough~~ indicates deletion.

RESOLUTION NO. __ OF 2012

Resolution expressing official intent regarding the reimbursement of expenditures for the Airport Project from proceeds of the City's bonds.

WHEREAS Salt Lake City, Utah (the "*City*"), intends to acquire, construct, improve, renovate and equip facilities in order to implement a major decade-long expansion and improvement project located at the Salt Lake City International Airport (collectively, the "*Airport Project*");

WHEREAS the City is planning to make expenditures relative to the Airport Project from the Airport Enterprise Fund (the "*Airport Enterprise Fund*");

WHEREAS all or a portion of the expenditures relating to the Airport Project (the "*Expenditures*") (i) have been paid from the Airport Enterprise Fund within the sixty days prior to the passage of this Resolution or (ii) will be paid from the Airport Enterprise Fund on or after the passage of this Resolution; and

WHEREAS the City reasonably expects to reimburse the Airport Enterprise Fund for the Expenditures from the proceeds of the City's bonds, notes or other obligations (collectively, the "*Bonds*");

NOW THEREFORE Be It and It Is Hereby Resolved by the City Council of Salt Lake City, Utah, as follows:

Section 1. The City reasonably expects to reimburse the Airport Enterprise Fund for the Expenditures from the proceeds of the Bonds.

Section 2. The principal amount of the Bonds expected to be issued for the Airport Project (including costs of construction, interest on the Bonds during construction, costs of issuing the Bonds and any necessary or desirable reserves) is not more than \$1,500,000,000. The maximum principal amount of the Bonds is subject to change, depending upon the amount of grants and other funds that are available for the Airport Project.

Section 3. All actions of the officers, agents and employees of the City that are in conformity with the purposes and intent of this Resolution, whether taken before or after the adoption hereof, are hereby ratified, confirmed and approved.

Section 4. This Resolution shall be effective immediately upon its approval and adoption.

PASSED AND APPROVED by the City Council and the Mayor of Salt Lake City, Utah, this ~~12~~19th day of June, 2012.

SALT LAKE CITY, UTAH

By _____
Chair, City Council

[SEAL]

ATTEST:

By _____
City Recorder

APPROVED:

By _____
Mayor

APPROVED AS TO FORM:

By _____
Senior City Attorney

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Chair, City Council

[SEAL]

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By _____
City Recorder

APPROVED:

By _____
Mayor

APPROVED AS TO FORM:

By _____
Senior City Attorney