



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

October 19, 2004

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**SUBJECT:** Resolution Authorizing the Issuance of Airport Commercial Paper in an Amount Not to Exceed \$15 Million (District 5)

## DISCUSSION

On June 22, 2004, the City Council adopted a resolution authorizing the City Manager to proceed with document preparation for the establishment of an Airport Commercial Paper Note Program (Program) of up to \$15 million (Attachment 1). The purpose of the Program is to provide the City's airport operation with short-term borrowing to cover cash-flow shortages as the airport undertakes rehabilitation and maintenance projects that are on the Federal Aviation Administration's approved Capital Projects list. The rehabilitation and maintenance projects are included in the Public Works Department's six-year Capital Improvement Program and are intended to ensure the City provides for the operation of an efficient and safe airport. The Federal Government generally requires an airport to fund projects and then seek reimbursement. The Airport Enterprise Fund will not have sufficient cash from operations to completely finance these projects at the pace they need to progress, but will receive sufficient grant and passenger facility charges (PFC) funds to repay these short-term borrowings.

Planned projects include runway, taxiway and ramp rehabilitation, an upgrade of airport security systems, and replacement of aging Aircraft Rescue and Fire Fighting vehicles and equipment. Funds that the Program will advance are only for rehabilitation and maintenance of existing facilities. None of the construction projects are part of the Terminal Area Improvements Environmental Impact Report (EIR), nor are they improvements that would increase passenger capacity at the Airport.

Short-term financing through the Program is proposed to fund critical projects. Failure to complete the runway and taxiway rehabilitations, and other safety and infrastructure projects, could result in costly unscheduled emergency closures and repairs similar to those experienced with Runway 12-30 in December 2002.

The Department of Public Works proposes to issue variable-rate notes. The Program is an effective short-term financing tool by which the Department can draw funds for project cash flow requirements. The notes will be remarketed on an ongoing basis since they may vary in maturities from 1 day up to 270 days. In addition, since the notes are redeemable at any time, the Department can flexibly pay down principle with Federal grant and PFC receipts or redeem the notes by issuing longer-term debt.

The City previously received approval from the Federal Aviation Administration (FAA) to collect PFC for specific capital projects through Fiscal Year 2009 (FY 09). It is estimated that \$4.2 million of PFC revenue will be collected annually to pay for FAA-approved projects. It is deemed necessary to initiate these projects prior to, and as PFC revenue is collected, over the next five years.

In addition, FAA entitlement grants received each year will be used to pay for the projects. Even though an entitlement grant is awarded, the reimbursement from the entitlement funds is not typically available until the end of each fiscal year, thus requiring use of the Program to cover cash flow shortfalls. Debt incurred for the FAA entitlement grant-funded projects will be repaid annually upon receipt of grant funds.

The PFC revenues will be received annually through FY 09 under the current PFC schedule, which will be extended as necessary to fund approved capital projects. The balance of the Commercial Paper Notes outstanding will vary year to year depending on PFC project cash needs. The interest rate on similar debt currently ranges between 1.65 to 2.90 percent.

Upon City Council approval of the Program, the Department must still obtain City Council approval for the individual projects through the formal adoption of plans and specifications, and the authorization of the awards for construction contracts, prior to initiating and committing the use of Commercial Paper. The action requested today will allow staff to proceed with the implementation of the Program.

This item was reviewed by Chief Assistant City Attorney Heather A. Mahood on September 13, 2004.

#### TIMING CONSIDERATIONS

City Council action on this item is requested on October 19, 2004 so funding can be in place in the next few months. Construction progress on various capital improvement projects may be impaired until this funding is in place.

#### FISCAL IMPACT

There is no impact on the General Fund as this relates to projects within the Airport Enterprise Fund (EF 320) and will be repaid by PFC revenue, FAA entitlement funds and Airport operating revenue. The Program provides for the issuance of \$15 million of debt and will provide cash necessary to fund Airport projects included in the Airport Capital Improvement Plan. While the Program is in place, costs will be incurred to maintain a letter of credit and for interest payments on amounts outstanding.

HONORABLE MAYOR AND CITY COUNCIL

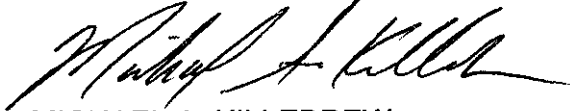
October 19, 2004

Page 3

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Adopt the attached Resolution authorizing the issuance of up to \$15 million of Airport Commercial Paper on behalf of the City of Long Beach, Department of Public Works.

Respectfully submitted,

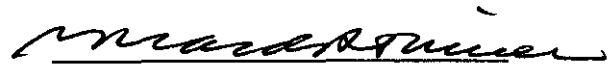


MICHAEL A. KILLEBREW  
ACTING DIRECTOR OF FINANCIAL MANAGEMENT



CHRISTINE F. ANDERSEN  
DIRECTOR OF PUBLIC WORKS

APPROVED:



GERALD R. MILLER  
CITY MANAGER

Attachments:

- June 22, 2004 City Council Letter
- Resolution
- A – Master Subordinate Trust Indenture
- B – First Supplemental Subordinate Trust Indenture
- C – Issuing and Paying Agent Agreement
- D – Reimbursement Agreement
- E – Bank Note
- F – Commercial Paper Dealer Agreement
- G – Offering Memorandum
- H – First Supplement to Installment Purchase Contract