



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: July 1, 2008

TO: Finance Committee

FROM: Administration Division, Finance Department

SUBJECT: Interim Financing For The New Airport Rental Car Joint Use Quick Turnaround Facility

RECOMMENDATION:

That the Finance Committee recommend to the City Council approval of the issuance of a \$7.8 million Airport Fund six-month promissory note at a 6.50% interest rate and the purchase of the promissory note by the City's investment portfolio in order to provide interim financing for the Airport Rental Car Joint Use Quick Turnaround Facility.

DISCUSSION:

A significant part of the Airport Terminal capital project is the construction of a joint-use "quick turnaround facility" (QTA) for use by the rental car companies serving the Santa Barbara Airport. The facility will be used jointly by all of the rental car companies to clean, store, fuel and make minor repairs to their rental cars. The cost of the facility will be paid for over time by a \$10 "customer facility charge" (CFC) levied on each airport rental car contract. The CFC has been in place since January, 2006 and has already generated approximately \$1.6 million. Most of the CFC proceeds collected to date have been used for the design of the QTA Facility.

Long-term financing for the QTA will be part of the main Airport Terminal Project financing which will occur in the fall of this year. However, we are ready now to award the construction contract on the QTA facility. Starting construction of the QTA is important because the current rental car facility will be demolished as part of the terminal project. With the bid award scheduled for today and the long-term financing scheduled for the fall, there is a need for interim financing to allow this project to proceed.

The staff recommendation is to have the Airport Fund issue a six-month, \$7.8 million promissory note at an annual interest rate of 6.50% and that the City purchase the promissory note for our investment portfolio. The term of six months will allow the Airport Fund to pay off the promissory note from the proceeds of the long-term financing this fall.

Staff recommends a 6.50% interest rate because the QTA portion of the Airport Terminal Project financing will be taxable (as opposed to a traditional tax-exempt municipal financing) because the proceeds will be used for a private activity (as opposed to a public

facility). Staff has checked with our financial advisor, Kelling, Northcross & Nobriga, and the 6.50% rate is reasonable for a taxable financing in today's interest rate environment.

The purchase of the Airport promissory note is a "Permitted Investment" under the City's Investment Policy. Section VII of the Investment Policy – "Suitable and Authorized Investments" – contains two subsections that authorize this transaction. The following is the relevant sections of the City's Investment Policy.

The City is empowered by statute to invest in the following types of securities and are those that the investment managers are trained and competent to handle.

A. Investment Types

1. *Bonds issued by the City, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the local agency.*
4. *State of California and Local Agency Obligations. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state; and bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Notes eligible for investment shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.*

Providing the interim financing as recommended by staff accomplishes several goals.

1. It provides the Airport with the funds it needs to proceed with construction of the QTA facility.
2. It offers the City's investment portfolio a secure investment that provides a much higher yield than we are earning on our other investments.
3. It does not require an appropriation of \$7.8 million of reserves from the General Fund (or any other fund) to lend to the Airport because we are buying an investment, not lending reserves.
4. There is a guaranteed source of repayment from the Airport long-term debt issuance coming this fall. Even if the main terminal project and financing were to be delayed (unexpectedly high bids, etc.), the Airport would still be able to issue a separate, stand-alone bond to borrow the funds for the rental car facility in order to pay off the promissory note because of the dedicated source of repayment (the \$10 per rental car contract "customer facility charge").

The bid award for the QTA is on today's City Council agenda. The bid award Council agenda report contains the staff recommendation on the interim financing as presented in this agenda report. If the Finance Committee concurs with the staff-recommended interim financing plan, bid award can proceed at Council later in the day. In the event that the Finance Committee does not concur with staff's recommendation on the interim financing, either the bid award can be pulled from the Council agenda until staff can return with an alternative recommendation or the Finance Committee can recommend the only other interim financing solution staff has identified which is an appropriation of reserves from the General Fund.

In summary, staff recommends this interim financing for the QTA facility as a way to allow the Airport to proceed with the project immediately while providing the City's investment portfolio with a secure, high yielding investment that is in compliance with the City's Investment Policy.

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office