

# **REPORT TO THE FINANCE COMMITTEE**

## **REQUEST FOR PROPOSALS FOR LETTER OF CREDIT AND DIRECT FUNDED INDEXED FLOATER**

**SEPTEMBER 2012**

## Purpose

- There are four bank facilities associated with the Airports Authority's variable rate Aviation related debt that expire in 2013
- To request Committee consent for Staff and the Financial Advisor to begin negotiations with certain providers of bank facilities for Letter of Credit facilities (LOCs) and Direct Funded Indexed Floaters (DFs) to replace expiring facilities
- No formal action is required at this meeting, the request is for consent to negotiate with selected banks
- If negotiations are successful, the proposed schedule includes providing draft documents to the Finance Committee in October and Board approval in November

## Background

- The Airports Authority has consistently maintained a conservative level of variable rate aviation debt, the majority of which is “hedged” and performs similar to fixed rate debt

### Fixed Rate Debt Percentage:

Fixed Rate Debt	\$4,192,730,000	
2009D VRDOs (Hedged)	132,505,000	
2010C2 VRDOs (Hedged)	101,045,000	
2010D VRDOs (Hedged)	167,390,000	
2011A VRDOs (Hedged)	233,635,000	
<b>Fixed Rate</b>	<b>\$4,827,305,000</b>	<b>92.78%</b>

### Unhedged Variable Rate Debt Percentage:

2003D VRDOs	64,825,000	
2010C1VRDOs	64,650,000	
2011B VRDOs	207,640,000	
CP Notes	38,500,000	
<b>Variable Rate</b>	<b>\$375,615,000</b>	<b>7.22%</b>
<b>Combined Total</b>	<b>\$5,202,920,000</b>	<b>100.00%</b>

## Background

- Four of the underlying credit facilities for variable rate debt expire in 2013
- Majority expiring is associated with “hedged” variable rate debt (i.e., performs similar to fixed rate bonds); it is cost effective to continue these as variable rate debt to avoid costly termination payments associated with hedges

			Current Facilities		
Series	Amount (\$ millions)	Hedged?	Bank/Product	Costs (bps)	Expiration
2003D1	\$64.8	No	Wells LoC	27	Mar 2013
2009D	\$132.5	Yes	BofA LoC	55	Jul 2013
2010C	\$165.7	Partial	Barclays LoC	55	Sept 2013
2010D	\$167.4	Yes	Wells DF	+75	Sept 2013

## Discussion

- On July 20, 2012, the Airports Authority issued a Request for Proposals (RFP) to financial institutions offering replacement bank facilities in the form of either Letters of Credit (LOCs) and/or Direct Funded Indexed Floaters (DFs), based on a SIFMA-index or a 72% LIBOR-index
- The RFP was distributed to 45 banking institutions directly and an advertisement was placed in the *Bond Buyer* newspaper on July 23 and 24
- The Airports Authority received 9 responses :
  - 9 firms offered LOCs
  - 5 of the same firms also offered DFs
- On August 28, Staff and Financial Advisor reviewed the proposals and issued an addendum to the RFP with follow-up questions to all responding firms, including their “best and final offer”

## Conclusion

- Staff and the Financial Advisor recommend negotiating the following bank facilities as replacements to expiring facilities:

Series	Original Facility				Recommended Facility		
	Bank & Product	Amount (\$M)	Cost (bps)	Expiration	Bank & Product	Cost (bps)	Term
2003D1	Wells Fargo LOC	\$64.8	27.0	March 2013	BofA DF	+60.0	2015
2009D	BofA LOC	\$132.5	55.0	July 2013	TD LOC	41.0 56.0	2015 2017
2010C	Barclays LOC	\$165.7	55.0	Sept 2013	Barclays LOC	50.0	2015
2010D	Wells Fargo DF	\$167.4	+75.0	Sept 2013	Wells Fargo DF	+65.0	2015

- With Committee consent, Staff will complete the negotiations and prepare final documents for Finance Committee approval in October and Board approval in November

# REPORT TO THE FINANCE COMMITTEE

## REQUEST FOR PROPOSALS FOR LETTER OF CREDIT AND DIRECT FUNDED INDEXED FLOATER

### SEPTEMBER 2012

#### **PURPOSE**

To request Committee's consent for Staff and the Financial Advisor to begin negotiations with certain providers of bank facilities for Letter of Credit facilities (LOCs) and Direct Funded Indexed Floaters (DFs) to replace four expiring facilities associated with the Aviation Enterprise's variable rate debt program.

#### **BACKGROUND**

The Airports Authority has consistently maintained a conservative level of variable rate aviation debt, the majority of which is 'hedged' and performs similar to fixed rate debt.

<i>Gross Variable Rate Exposure</i>			
<b>Fixed Rate Debt Percentage:</b>			
Fixed Rate Debt		\$4,192,730,000	
2009D VRDOs (Hedged)		132,505,000	
2010C2 VRDOs (Hedged)		101,045,000	
2010D VRDOs (Hedged)		167,390,000	
2011A VRDOs (Hedged)		233,635,000	
	<b>Fixed Rate</b>	<b>\$4,827,305,000</b>	<b>92.78%</b>
<b>Variable Rate Debt Percentage:</b>			
2003D VRDOs		64,825,000	
2010C1VRDOs		64,650,000	
2011B VRDOs		207,640,000	
CP Notes		38,500,000	
	<b>Variable Rate</b>	<b>\$375,615,000</b>	<b>7.22%</b>
<b>Combined Total</b>		<b>\$5,202,920,000</b>	<b>100.00%</b>

The following table lists the bank facilities expiring in 2013. As noted, the majority expiring are associated with 'hedged' variable rate debt (i.e., performs similar to fixed rate bonds); it is cost effective to continue these as variable rate debt to avoid costly termination payments associated with hedges.

Series	Amount (\$ millions)	Hedged?	Current Facilities		
			Bank/Product	Costs (bps)	Expiration
2003D1	\$64.8	No	Wells LoC	27	Mar 2013
2009D	\$132.5	Yes	BofA LoC	55	Jul 2013
2010C	\$165.7	Partial	Barclays LoC	55	Sept 2013
2010D	\$167.4	Yes	Wells DF	+75 <sup>1</sup>	Sept 2013

<sup>1</sup> The fees for the Wells Direct Funded Indexed Floater is 72% of one month LIBOR plus 75 bps.

## **DISCUSSION**

On July 20, 2012, the Airports Authority issued a Request for Proposals & Bids (RFP) to provide credit facilities for extending/refinancing a portion of the current bank facilities that expire in 2013. The RFP was distributed to 45 banking institutions directly and an advertisement was placed in the Bond Buyer newspaper on July 23 and 24. On August 13, the Airports Authority received nine responses. On August 29, after review of the proposals, an addendum was sent to those firms requesting clarification of the certain terms by September 5.

The Airports Authority received proposals from nine banks which included LOC bids and five DF proposals. Based on several factors including lien structure and tax status of the bonds, bank portfolio diversity, quality of the banks, ease of execution and cost, staff and the Financial Advisor recommend negotiating with the following bank facilities as replacements to expiring facilities:

Series	Amount (\$ millions)	Hedged?	Current Facilities			Recommended Facilities		
			Bank/Product	Costs (bps)	Expiration	Bank/Product	Costs (bps)	Expiration
2003D1	\$64.8	No	Wells LoC	27	Mar 2013	BofA DF	+60	Nov 2015
2009D	\$132.5	Yes	BofA LoC	55	Jul 2013	TD LoC	41	Nov 2015
							56	Nov2017
2010C	\$165.7	Partial	Barclays LoC	55	Sept 2013	Barclays LoC	50	Nov 2015
2010D	\$167.4	Yes	Wells DF	+75	Sept 2013	Wells DF	+65	Nov 2015

The banks have agreed to hold their proposed fees until December 31, 2012, providing adequate time to complete the process to refinance and extend the four bank facilities by the end of the year. Staff and the Financial Advisor plan to present the Finance Committee with the Authorizing Resolution and draft documents at its October 17 meeting with consideration by the full Board in November.

## **CONCLUSION**

Receive Committee consent for Staff and the Financial Advisor to complete the negotiations and prepare final documents for Finance Committee approval in October and Board approval in November.

Prepared by:  
Office of Finance  
September 2012