



# COUNCIL STAFF REPORT

CITY COUNCIL of SALT LAKE CITY

**TO:** City Council Members

**FROM:** Russell Weeks  
Senior Policy Analyst

**DATE:** October 31, 2022

**RE: RESOLUTION: AIRPORT REVENUE BONDS, SERIES 2021A AND SERIES 2021B**

**Item Schedule:**

Briefing: May 18, 2021

Set Date: June 1, 2021

Public Hearing: July 13,  
2021

Potential Action: June 1,  
2021

## **NEW INFORMATION**

This report pertains to the July 13, 2021, public hearing pertaining to the resolution to authorize the issuance and sale of not more than \$1 billion in airport revenue bonds.

Utah law regulates bond issues, including the sequence of adopting a bond resolution and holding a public hearing. Under Utah law, a city council adopts a resolution first, then takes public comment at a later hearing. After the public hearing, a Council could amend a resolution, but amending a resolution is a rare occurrence.<sup>1</sup>

Under the law, the public hearing will focus on two things: the issuance of ... the Bonds themselves; and (b) “the potential economic impact that the project(s) will have on the private sector.”

If the Council closes the public hearing and determines not to amend the resolution after the July 13 hearing, Mayor Erin Mendenhall’s Administration would take several steps to prepare for the bond sale. The bonds tentatively are scheduled to be sold on either on July 27 or July 28, 2021, pending the July 13 public hearing and market conditions.<sup>2</sup> The same day the bonds are sold the Mayor and City Council Chair will sign a “certificate of determination” as part of the sale process. The bond sale tentatively would close about two weeks after the sale and signing.<sup>3</sup>

Given past City Council actions pertaining to airport revenue bonds, Council staff has prepared a motion to close the public hearing.



To recap briefly the project's and the new airport's effect on the private sector:

- The new Salt Lake City International Airport is the largest public works project in Utah's history.
- The estimated total construction cost of the new airport when it's completely built is about \$4.45 billion.<sup>4</sup>
- The project's economic impact is estimated at \$5.5 billion.<sup>5</sup>
- Of more than \$2 billion in contracts awarded for the project to date, \$1,359,453,965 in contracts have been awarded to 124 companies along the Wasatch Front. The remaining \$672,091,052 in contracts have been awarded to 29 out of state contractors.<sup>6</sup>
- The new airport "provides Delta (Air Lines) a strategic presence in the western half of the U.S., and allows Delta to provide more efficient traffic flows than it could otherwise offer from its other hub airports to and from connecting markets in the western U.S. The Airport serves a unique purpose in Delta's network, as both a north-south and east-west connecting point. The absence of the Airport hub would create a noticeable void in Delta's network, as it could not otherwise connect passenger traffic efficiently to key markets throughout the western U.S."<sup>7</sup>
- The airport is the 23rd busiest in the North America and the 85th busiest airport in the world in terms of passenger numbers.<sup>8</sup>

A detailed analysis of the Airport project's potential for the bond issue can be found in the draft *Report of the Airport Consultant*. The report starts at Page 157 of the Administration transmittal.

**Information below this line has appeared in previous reports.**

The City Council received a briefing on this item at its May 18 work session. The Council is scheduled to formally consider the proposed resolution at its June 1 meeting. Adopting the resolution starts a formal process to issue the airport revenue bonds, including a July 13 public hearing. A motion sheet is attached to this report.

To recap, the proposed resolution would authorize the issuance and sale of not more than \$1 billion in airport revenue bonds. Formal Council adoption of the resolution at its June 1 meeting also would do two things: 1) Start publication in a newspaper of record of a notice of the proposed bond issue. The second publication of the notice would start a 30-day "contest" period pertaining to the bonds. 2) Set a date for a July 13 public hearing before the City Council to "receive input from the public with respect to (a) the issuance of ... the Bonds; and (b) the potential economic impact that the projects will have on the private sector."

Page 2 contains a tentative schedule presented by Department of Airports officials at the May 18 work session:

|                            |  |
|----------------------------|--|
| <b>Tuesday, May 18</b>     | City Council Work Session                  |
| <b>Tuesday, June 1</b>     | City Council Meeting – Resolution Adoption |
| <b>Week of June 7</b>      | Meet with Rating Agencies                  |
| <b>Week of June 28</b>     | Receive Ratings                            |
| <b>Week of July 12</b>     | Post the Preliminary Official Statement    |
| <b>Week of July 26</b>     | Bond Pricing                               |
| <b>Week of August 16th</b> | Closing                                    |

If the Council takes no further action after the July 13 hearing, Mayor Erin Mendenhall’s Administration would take several steps to prepare for the bond sale. The bonds tentatively are scheduled to be sold on July 26, 2021, pending the City Council’s formal consideration of the resolution at its June 1 meeting, and a July 13 public hearing.<sup>9</sup> The same day the bonds are sold the Mayor and City Council Chair will sign a “certificate of determination” as part of the sale process.

At the May 18 meeting, Department of Airports officials said the assumed interest rate on the bond issue is 3.5 percent on the based on current market conditions. The resolution contains a not to exceed interest rate of 6 percent.

State law regulates bond issues, including the sequence of adopting a bond resolution and holding a public hearing. Under Utah law, a city council adopts a resolution first, then takes public comment at a later hearing. After the public hearing, a Council could amend a resolution, but amending a resolution is a rare occurrence.<sup>10</sup>

**Information below this line has appeared in a previous report.**

**ISSUE AT-A-GLANCE**

***Goal of the briefing: To inform the City Council about the schedule and particulars of a proposed issuance of up to \$1 billion of airport revenue bonds to continue the project to build the new Salt Lake City International Airport and supporting facilities.***

Mayor Erin Mendenhall’s Administration is scheduled on May 18 to brief the City Council on a proposed resolution to issue up to \$1 billion in airport revenue bonds to continue what is now known as the New Salt Lake City International Airport project. Project construction has been under way since 2014 and is scheduled to end in 2024. The bonds would mature over a period no more than 40 years.

The bonds tentatively are scheduled to be sold on July 26, 2021, pending the City Council’s formal consideration of the resolution at its June 1, and a July 13 public hearing.<sup>11</sup> The same day the bonds are sold the Mayor and City Council Chair will sign a “certificate of determination” as part of the sale process. The public hearing will focus on the proposed bond issue and the potential economic impact the Airport project will have on the private sector. The entire transaction tentatively is scheduled to close “on or about August 19, 2021.”<sup>12</sup>

The resolution before the City Council would:

- Authorize the issuance and sale of “not to exceed” \$1 billion aggregate principal of one or more series of airport revenue bonds.
- Give authority to “certain officials and officers” to approve the final terms and provisions of the series of 2021 bonds.
- Authorize and approve the delivery of documents related to issuing the bonds.
- Provide for the publication of a July 13, 2021, public hearing notice.

If issued, the bonds would be airport revenue bonds. Bonds like that are limited obligation bonds paid solely from revenue generated at the Airport including landing fees collected from airlines, rental revenues collected from airlines and concessionaires operating at the Airport, and parking fees collected at parking facilities located at the Airport. The revenue bonds do not oblige the City’s taxing power or pledge the City’s “full faith and credit” to repay the bonds.

It might be noted that the proposed resolution lists an interest rate on the bonds that would “not exceed 6 percent” a year.<sup>13</sup> However, the Administration estimates that the bond will be sold “at a true interest cost” of about 3.5 percent a year “assuming interest rates remain at their present levels.”<sup>14</sup>

It also might be noted that the Department of Airports estimates that total construction costs pertaining to the new airport will be \$4.45 billion, including construction funded by the proposed bonds.<sup>15</sup>

## **POLICY QUESTIONS**

1. Given the available information, including documents pertaining to the May 18 briefing and the Department of Airports budget presentation for the next fiscal year on April 20, 2021, is the City Council sufficiently comfortable to formally consider the proposed resolution at its June 1 meeting?
2. Given the continued upward pressure on the cost of construction materials, will the final cost of building the new airport be within current estimated expenses for the project?

## **ADDITIONAL & BACKGROUND INFORMATION**

According to the department of Airports, “The Series 2021 Bonds are being purchased by Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, [BofA Securities, Inc. Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, and ZB National Association] (collectively, the “Underwriters”), for whom Citigroup Global Markets Inc. (“Citi”), is acting as representative (the “Representative”). The Underwriters have agreed, subject to certain conditions, to purchase all of the Series 2021 Bonds” ...<sup>16</sup>

The proposed bond sale is scheduled to take place at a fluid time. The Department of Airports draft *Official Statement* and draft *Report of the Airport Consultant* acknowledge and address the effect of the Covid-19 pandemic on the airport and the airlines. For example, here is a pertinent section from the draft *Official Statement*:

“During the first eight months of FY 2020 (the City’s fiscal year ends June 30), prior to the COVID-19 outbreak, the Airport continued to experience strong business activity. Airport Revenues, enplaned passengers, landed weights and PFCs collected increased each fiscal year from 2016 through 2019, but Revenues were 7% less in FY 2020 than FY 2019, and enplaned passengers were reduced by 22.9% during the same period. Since the COVID-19 outbreak, however, the Airport has seen steep declines in many financial and operating metrics, although many of these same metrics have shown improvement since spring 2020.

April 2020 represented the low point in terms of enplaned passengers, which totaled 87,557 or 8.1% of April 2019 enplanements. Scheduled seat capacity was reduced starting in April 2020, although actual passenger traffic was reduced starting mid-March 2020. Decreases in passenger numbers started in mid-March 2020, and by March 2021 had recovered to 62.4% of those recorded in March 2019. Unlike many U.S. airports, domestic service at the Airport has begun to rebound and did not dip as substantially as at other airports during the same period. In particular, Delta has increased seat capacity at the Airport in April and May 2021 compared to the same months in 2019, before the impacts of the pandemic.”<sup>17</sup>

As the paragraphs indicate, the amount of air travel has risen from 2020 pandemic levels and may continue on an upward arc as the pandemic diminishes.

As with previous bond issues, two things besides the project itself and the City's record of managing of the project and department appear to make rebuilding the airport an attractive public investment: the market for origin and destination air passengers, and the airport's position as a hub for Delta Air Lines.

Here is how Landrum and Brown of Cincinnati describe the area served by Salt Lake City International in its draft *Report of the Airport Consultant*:

- The region has historically exhibited stronger employment trends than the nation as a whole. As of March 2021, the region's unemployment rate is 2.8% as compared to the overall U.S. of 6.2%.
- The region is in relatively close proximity to many national parks, state parks, and ski resorts that offer unique outdoor activities that are more conducive for visitors during the COVID-19 pandemic. Visitor traffic to these areas was robust during the latter portion of 2020 and early 2021.
- Passenger traffic at the Airport has not been as impacted as the overall U.S.
- Scheduled departing seats for the Airport for May 2021 as compared to May 2019 are up by 4.3%. The seat capacity for the nation is still down as compared to 2019 levels.
- As the 4th largest airport for Delta in terms of seat capacity, the Airport is currently scheduled to have an increase of 7.2% in departing seats for FY 2021 as compared to FY 2020. The Airport is the only airport within Delta's ten largest that is scheduled to have an increase in seats.<sup>18</sup>

### **Origin and Destination Market**

To elaborate, according to the draft *Report*, "There are 38 Combined Statistical Areas (CSAs) in the U.S. with a population in excess of 1.5 million people, including the Salt Lake City CSA. According to the U.S. Census Bureau, population in the Salt Lake City CSA or Air Service Area has increased from 2.3 million in 2010 to an estimated 2.6 million in 2019. This relatively rapid growth ranked the Salt Lake City CSA as the 11th fastest growing CSA with a population in excess of 1.5 million people."<sup>19</sup>

The draft *Report's* assessment of the area's economic base for air traffic goes on to say:

- The Air Service Area has a lower proportion of working age residents (25 to 64 years old) than the U.S. (48.9% versus 52.1%). However, it does have a higher proportion of population in the younger working age range or ages 24 to 46. This provides an opportunity for the Air Service Area to maintain a robust working age population for years to come as the population ages. Additionally, the Air Service Area has a higher population with college degrees as compared to the U.S. (45.9% versus 41.7%). Both demographics have historically accounted for a higher demand for air travel.
- The Air Service Area has historically exhibited more favorable employment trends than the nation; however, both the Air Service Area and U.S. have experienced significant unemployment increases since March 2020 related to the COVID-19 pandemic. State unemployment claims have decreased significantly since the peak in April 2020. While unemployment rates are still relatively high on a national level, the Air Service Area's unemployment rate for March 2021 was 2.8%. The Congressional Budget Office forecasts that the national unemployment rate will continue to decrease as the economic recovery continues. It is expected that the Air Service Area would continue to follow the national trend while continuing to be at a more favorable rate.
- The Air Service Area has historically exhibited strong income indicators. It has a higher proportion of household income greater than \$100,000 than the nation, which is indicative of a higher demand for air travel.
- On a per capita basis, the Air Service Area's gross regional product (GRP) has consistently been lower than that of the gross domestic product (GDP) for the U.S. It is generally assumed that the Air Service Area's lower share of working age population as compared to the U.S. contributes to GRP per capita being lower. The CBO has forecast GDP recovery for the nation and is currently estimating that GDP will return to 2019 levels in the third quarter of 2021. It is expected that the GRP for the Air Service Area would continue to generally trend with that of the U.S. As described previously, the economy in the Air Service Area is also connected to visitors to the region, including both leisure and business travelers.

- The Air Service Area is in relatively close proximity to many national parks (including the Mighty 5), state parks, and ski resorts that offer visitors unique and exceptional activities in an open and outdoor natural setting more conducive to restrictions in place during health pandemics. Many of these activities have been as popular as ever during the COVID-19 pandemic. While, overall, the associated impacts and restrictions resulting from the COVID-19 pandemic have negatively affected the regional economy, tourism, conventions, and events over the past year, it is anticipated these will recover as the spread of COVID-19 is controlled and the U.S. economy continues to recovery and again stimulate demand for air travel.<sup>20</sup>

It also should be noted that the draft *Report* says, “All cargo airlines’ landed weights actually increased during the COVID-19 pandemic and are projected to remain relatively stable.”<sup>21</sup>

### **Position within Delta Air Lines System**

The draft *Report* describes Salt Lake City International as providing “Delta a strategic presence in the western U.S. allowing for connectivity to and from the U.S. mountain-west and Pacific regions.” It goes on to say, “For Delta’s passengers traveling to and from the west region the Airport served as the connecting point for 25.8% of passengers in FY 2020. This was only second to Delta’s largest airport of Atlanta (ATL) which served 28.4% of west region connections.

Indicative of its connecting share, the Airport provides Delta a strategic presence in the western half of the U.S., and allows Delta to provide more efficient traffic flows than it could otherwise offer from its other hub airports to and from connecting markets in the western U.S. The Airport serves a unique purpose in Delta’s network, as both a north-south and east-west connecting point. The absence of the Airport hub would create a noticeable void in Delta’s network, as it could not otherwise connect passenger traffic efficiently to key markets throughout the western U.S.”<sup>22</sup>

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<sup>1</sup> Email, Brian Butler, February 11, 2021.

<sup>2</sup> Emails, Brian Butler, May 13 and July 2, 2021.

<sup>3</sup> Email, Brian Butler, July 2, 2021.

<sup>4</sup> Administration Transmittal letter, May 11, 2021, Bill Wyatt, Page 2.

<sup>5</sup> New SLC International Fact Sheet, Airport Website, *Financial Facts*.

<sup>6</sup> Email, Mike Williams, July 7, 2021.

<sup>7</sup> Draft Report, Page 55.

<sup>8</sup> *SLC Fast Facts*, Airport Website.

<sup>9</sup> Email, Brian Butler, May 13, 2021.

<sup>10</sup> Email, Brian Butler, February 11, 2021.

<sup>11</sup> Email, Brian Butler, May 13, 2021.

<sup>12</sup> Administration Transmittal Letter, May 11, 2021, Bill Wyatt, Page 1.

<sup>13</sup> Proposed Resolution, Page 5, Section 3 (b) (iii).

<sup>14</sup> Transmittal letter, Page 2.

<sup>15</sup> Transmittal letter, Page 2.

<sup>16</sup> Draft *Preliminary Official Statement of Salt Lake City Utah Relating to Its Airport Revenue Bonds*, Page 81.

<sup>17</sup> Draft *Official Statement*, Page 11.

<sup>18</sup> Draft *Report of the Airport Consultant*, Landrum and Brown, Page vi.

<sup>19</sup> Draft *Report*, Page 28.

<sup>20</sup> Draft *Report*, Page 47.

<sup>21</sup> Draft *Report*, Page 94.

<sup>22</sup> Draft *Report*, Page 55.