

# **Bond Case Briefs**

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## **Public vs. Private Financing for KCI? Officials Say the Details will Count.**

Tax-exempt bonds are usually the best, lowest-cost way to finance major public projects, but it's not yet possible to say that's superior to privately financing Kansas City International Airport improvements, city finance officials said Wednesday.

Other factors can include speed of construction, capitalized interest, other financing costs, timing of when bond funds versus private funds become available, and private equity in a project, City Finance Director Randy Landes told the council's finance and airport committees.

"We would encourage you to be open-minded," Landes urged the council members as they weigh the best financing approach to building a \$1 billion single terminal at KCI.

One assurance from both Landes and Aviation Department Chief Financial Officer John Green was that, regardless of financing, the city will retain ownership of the airport and operations would not be privatized.

Green said basic maintenance and operation expenses would be covered first, with surplus funds going for debt service or capital lease costs. He said the airlines would cover any debt service gap or private lease obligation, as they always have, and no general city taxpayer dollars would be at risk. The additional cost of a \$1 billion terminal, financed over time, would allow Kansas City to remain among the country's more affordable airports.

In early May, Mayor Sly James and City Manager Troy Schulte announced their support for a proposal from Kansas City-based engineering firm Burns & McDonnell to design, build and privately finance a new single terminal at KCI.

Burns & McDonnell and supporters argued the private financing option could be as affordable as public airport revenue bonds, and the airport improvements could be completed two years faster, in 2022 instead of 2024. They also said private financing would assure a skeptical public that no taxpayer dollars are used, even though the airport is already totally funded by user fees and other enterprise funds, not by Kansas City general taxpayer dollars.

But Councilwoman Katheryn Shields and some others argued that public financing is cheaper and still does not involve taxpayer dollars, so it could be the preferable option for airport improvements and should be given fair consideration.

Shields has sponsored an ordinance that the committees considered Wednesday, calling for a Nov. 7 election and authorizing up to \$990 million in aviation bonds, which would clearly signal voter preference for the public financing alternative. The committees took no action Wednesday, and Shields' idea remains on hold.

Shields argued Wednesday that, because KCI is healthy financially and has a good credit rating, and because public financing usually carries a lower interest rate, the public approach could potentially

save \$400 million in interest payments over 30 years, at no risk to taxpayers.

“It is only the revenue at the airport that will pay off those bonds,” she said, adding that she thought a design-build approach could be just as swift as a private construction model. She said voters need a clear comparison between public and private airport financing to judge the best solution.

But Landes and Green said it’s not possible yet to make a fair cost comparison with private financing, since the Burns & McDonnell pro forma and other engineering firm proposals haven’t yet been submitted.

After the Burns & McDonnell proposal surfaced, the city decided it was more fair to open up the bid process to other engineering firms. The deadline for firms to submit qualifications and airport concepts is July 27.

The city may then narrow the field before asking the finalists to submit their financing plans by Aug. 10. Presentations are expected Aug. 14.

All of this is a tight timeframe, because the City Council still wants to put an airport improvement plan to voters in November. The council’s deadline to adopt ballot language for the November election is Aug. 24.

Councilman Scott Wagner asked whether the city can realistically evaluate the private financing proposals against a public finance model between Aug. 10 and Aug. 24.

“It’s a matter of how much we sleep,” quipped Assistant City Attorney Galen Beaufort.

“This is arithmetic,” Landes replied. “It should work.”

Several economic development and labor representatives reiterated their support Wednesday for Burns & McDonnell as the hometown team with a reputation for hiring a diverse local workforce. They argued voters are more likely to support private financing in November, because they equate public financing with public taxes, even though that’s not accurate for the airport.

But Jim Fitzpatrick, a former longtime Kansas City Star reporter and editor and now a blogger, said public financing gives the public more control and more assurance of the best cost, and he said voters are smart enough to figure that out.

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