THE BOND BUYER

PAB elimination could throw a wrench in Kansas City's airport P3

By

Yvette Shields

Published

November 20 2017, 2:04pm EST

CHICAGO – The elimination of private activity bonds could jeopardize Kansas City, Missouri's proposed $1 billion public-private partnership to overhaul the city's airport terminals, Mayor Sly James warned.

James is urging Congress to reject both the House GOP tax legislation and Senate Republicans' package. Only the version passed by the House last week eliminates PABs, but both packages would also ban advance refundings, which has helped lower city project costs.

Both tax bills would "slow economic growth, cripple the city's ability to deliver critical infrastructure projects, and increase the financial burden of Kansas Citians," James said in a statement late last week. "We need an agenda to revitalize and restore the infrastructure of our cities, not cripple future investment in our urban centers."

James called the elimination of PABs the most troubling provision, calling them "essential to a number of city infrastructure projects" and the expectation they would "be a significant tool in financing the new KCI airport."

"Elimination of PABs could throw the project's future into question," he warned.

City voters earlier this month endorsed the plan to shift from the existing three-terminal design to a single, modern terminal at Kansas City International Airport. The city council is working on a memorandum of understanding and final contract. The city hopes to open the terminal in late 2021.

A special selection committee chose Edgemoor Infrastructure in September from among four firms vying to lead a P3. The financing plan is still be crafted but most airport bonds fall under the PAB classification as does most borrowing used in the P3 sector.

Edgemoor has touted its flexibility on P3 financing and said a range of tax-exempt, private, and "innovative" options were on the table. The use of taxable debt would drive up the cost by millions annually, officials have warned.

In its weekly outlook report, Moody's Investors Service last week called voter approval a credit positive for the Kansas City airport "because the new terminal would meet the needs of airlines that serve the airport, which have indicated a willingness to provide full recovery of capital costs."

"A new terminal also eliminates capital expenditures on existing terminals that do not meet airline needs," Moody's analyst Earl Heffintrayer wrote.

The $1 billion project cost would increase the airport's leverage around $195 per passenger from $29 in fiscal 2016 with $200 being considered moderate for airports with new facilities, Moody's said.

Although increased costs are often considered a credit negative, Moody's said "without the new terminal, the airport would be forced to invest in shorter-term capital projects that do not address operational needs as airlines move toward using larger planes."

A finalized agreement with the consortium, design work, and approval from the Federal Aviation Administration are expected to take at least a year, while the construction period will be two to three years, based on similarly sized airport terminal construction projects, Moody's said.

The city has advance refunded $580 million of debt in recent years, resulting in $52 million of savings. Abolishing advance refundings also could jeopardize some projects from moving forward, James warned.

Both the House and Senate bills partially or fully eliminate the state and local income, property and sales taxes deduction, known as SALT, which James warned could result in double taxation for city resident -- increasing their tax burden and making it more difficult to own a home. "SALT has been a cornerstone of our system for 100 years and is fundamental to how the city budgets and provides services to residents," he said.