

JERSEY AIRPORT, ST. PETER: ALPHA TAXIWAY FINANCING

**Lodged au Greffe on 2nd January 2001
by the Harbours and Airport Committee**



STATES OF JERSEY

STATES GREFFE

180

2001

P.2

Price code: B

PROPOSITION

THE STATES are asked to decide whether they are of opinion -

for the purpose of financing the construction of the Alpha taxiway at Jersey Airport -

- (a) to approve the granting of a lease (“The Head Lease”) by the public to the HSBC Bank International Ltd. (“HSBC”) for a period of 125 years of an area of land (measuring approximately 31,000 square metres) (“the site”) at Jersey Airport, the exact area of land to be agreed between the Committee and HSBC;
- (b) to accept from HSBC a sub-lease of the site for a term of 25 years at the annual payments referred to in paragraph 2 of the report of the Harbours and Airport Committee dated 5th December 2000;
- (c) to authorise a scheme whereby the public would be entitled to purchase the Head Lease from HSBC, such entitlement to be exercisable 15 years after the start of the construction of the Alpha taxiway and its associated works;
- (d) to authorise the Attorney General and the Greffier of the States to pass, and the Greffier of the States to sign, as appropriate, on behalf of the public such contracts or agreements as may be necessary;
- (e) to authorise the Treasurer of the States to receive the sum of £12 million from HSBC and to credit it to the trading fund established for the Harbours and Airport Committee under Article 25C of the Public Finances (Administration) (Jersey) Law 1967, as amended.

HARBOURS AND AIRPORT COMMITTEE

Note: The comments of the Finance and Economics Committee will follow.

REPORT

The President of the Harbours and Airport Committee reported to the States in October 1998 that the Committee intended to seek external finance from the private sector of approximately £12 million, as the Policy and Resources Committee had recommended that the Alpha taxiway should be funded from the Airport Trading Account and not the Capital Fund.

In November 1995, the States approved a funding arrangement for the Airport Terminal Development, which was set out in P.155/95. The Committee wishes to finance the Alpha taxiway construction by a similar leasehold financing arrangement.

The Alpha taxiway has reached the end of its useful life and will soon be of inadequate strength for current air traffic movements - it has become uneconomic to maintain. In addition, the Alpha taxiway is inadequately separated from the runway by current United Kingdom Civil Aviation Authority safety standards.

The scheme of works being undertaken has resulted from consultation between the Committee, Airport users, airline operators, Public Services Department Engineers and the Jersey Aero Club. It involves the realignment of part of the Airport approach road, the demolition and relocation of the Aero Club Hangar and Clubhouse and the replacement of the taxiway itself. The estimated costs of the project are £15 million, of which £3 million will be met from the Airport Trading Account and, if the States agree, £12 million by external funding. The cost of the construction of the Aero Club was the subject of a separate States' approval, and a relocation grant of £650,000 was made in early 2000. (P.20/2000).

The Committee began negotiations with financial institutions in mid-2000 and the outcome of these was considered by the Finance and Economics Committee on 30th October 2000. That Committee agreed that the Harbours and Airport Committee could enter into discussions with HSBC Bank International Limited to negotiate the detailed arrangements for a "lease - lease back" funding arrangement using the model set out in P.155/95. The arrangements were approved in principle by the Finance and Economics Committee on 11th December 2000.

The Committee now wishes to enter into a leasehold financing arrangement with HSBC Bank International Limited "HSBC" relating to the funding of the £12 million. The principal features for this arrangement will be as follows-

1. **Head Lease**

If approved, the States will grant to HSBC a lease of an area of land ("the site") for a term of 125 years at a peppercorn rent of £1 a year; the exact area will be agreed between the Committee and HSBC. The consideration for the Head Lease will be an obligation by HSBC to finance the construction of the Alpha taxiway up to a cost of £12 million. HSBC will appoint the Harbours and Airport Committee as its agent to carry out the construction.

2. **Sub-lease**

Immediately after the granting of the Head Lease, HSBC will grant to the States a sub-lease of the site for a period of 25 years on which the new Alpha taxiway will be constructed. The Committee will pay fixed annual sums of approximately £1.4 million for 13.5 years commencing after the estimated development period of 15 months and peppercorn rent of £1 a year for the remainder of the term of the lease. The fixed annual sum will be part rent and part deposit as set out in the table in the Appendix. The rate of interest payable will be fixed between the Committee and HSBC, which will ensure that the interest accruing in the deposit account will be sufficient to meet the option price in year 15.

3. **Option to purchase**

HSBC will grant to the States an option to require HSBC to sell its interest in the Head Lease to the States, such option to be exercisable by the States 13.5 years after the completion of the construction of the Alpha taxiway. The cost of the option to purchase the Head Lease will be met in full from the accumulated sum in the deposit account.

4. **Alpha taxiway Project**

All decisions relating to the development and construction of the Alpha taxiway on the site and of the operation and control of the whole development will vest in the Harbours and Airport Committee during the period of the sub-lease.

5. All leases and other agreements pursuant hereto will be subject to Jersey Law.

Timetable

- 1990** Airport Runway resurfaced. Committee identifies 2000 as the year to replace Alpha taxiway.
- 1997** Planning votes granted by the Finance and Economics Committee; detailed design work covered 15 different schemes.
- 1998** Present scheme selected - States notified.
- 1999** Detailed design of the road realignment and the Alpha taxiway completed.
- 2000** Road realignment project completed on time and under budget.
Jersey Aero Club hangar and clubroom constructed and occupied. Tender process for main works completed.
- 2001** Contract to be signed in January and work will continue for 15 months.
- 2002** The whole project to be completed in May.

Summary

The Harbours and Airport Committee is advised that the various leasing arrangements set out above offer the best opportunity to secure external financing at the most competitive rate in order to construct the Alpha taxiway. The sum of £12 million will be used to meet the costs of the construction of the Alpha taxiway; other monies allocated from the Airport's Trading Account will complete the various other parts of the project.

5th December 2000

APPENDIX**JERSEY AIRPORT**

<i>Year</i>	<i>Rent £000</i>	<i>Deposit £000</i>	<i>Total Payment £000</i>
1	100	581	681
2	210	1,152	1,362
3	221	1,141	1,362
4	232	1,130	1,362
5	243	1,119	1,362
6	255	1,107	1,362
7	268	1,094	1,362
8	281	1,081	1,362
9	296	1,066	1,362
10	310	1,052	1,362
11	326	1,036	1,362
12	342	1,020	1,362
13	359	1,003	1,362
14	377	985	1,362

This payment profile relates to the phrase in the report “approximately £1.4 million”, as the exact payments will be determined by the long-term interest rates prevailing on the day that the agreement is signed.