

**COUNCIL ACTION FORM**

**SUBJECT:**     **AIRPORT IMPROVEMENTS FUNDING AGREEMENT WITH ISU**

**BACKGROUND:**

The City's 2015-2020 Capital Improvements Plan (CIP) includes an updated project to construct a new terminal building, a short-term storage hangar, and related site improvements at the Municipal Airport. A copy of this CIP page is attached. In the previous year's CIP the City had hoped that the anticipated local costs of \$2,600,000 could be split three ways between the City, the University and the private sector. However, ISU and the private sector were unable to generate \$866,000 each to fulfill that desire.

**MAJOR PROVISIONS OF THE AGREEMENT**

As an alternative to the funding model reflected in the previous CIP, a new funding strategy was introduced by ISU and the private sector. This strategy reflects three main components that have been incorporated into the proposed agreement that is attached.

**I. Use of ISU Hangar by Fixed Base Operator for Maintaining Private Aircraft**

Section IV, page 2 of the agreement calls for ISU to make a portion of its current aircraft hangar available to the City's Fixed Base Operator (FBO) to use in providing aircraft mechanical and maintenance services to its clients.

**II. ISU Commitment to Ensure Third Party Constructs and Donates Aircraft Storage Hangar to City**

In Section V, page 3 of the agreement, ISU is responsible to ensure that a third party constructs an approximately 11,500 square foot storage hangar that will be deeded to the City upon completion.

ISU officials have indicated that they have arranged for the ISU Research Park to leverage some of its supporters to augment local private contributions for this structure. This will lead to an approximate 50/50 cost share on the hangar between the private sector and ISU. The hangar is estimated to cost \$1,000,000.

**III. ISU Guarantee To Backfill Debt Service Obligation**

Under this new funding strategy, the City will continue to commit \$867,000 in General Obligation (G.O.) bonds towards the cost of the terminal and site improvements. These bonds will be retired from the City's debt service levy, which is funded by property taxes. In addition, the project budget anticipates \$600,000 in grants from the Federal Aviation

Administration and the Iowa Department of Transportation. The final element of this new strategy is the issuance of an additional \$943,000 in G.O. bonds to complete the terminal.

It is anticipated that the cost of the debt service on this \$943,000 will be paid for by the additional revenue received from a renegotiated FBO contract with the City.

Under the current FBO agreement with Hap's Air Service, the City receives approximately \$50,000 per year in revenues. The additional aircraft maintenance space, hangar space, and terminal space contemplated under this agreement are expected to make the airport much more attractive and competitive, both to the flying public and to firms that provide FBO services. For that reason, it is anticipated that an updated FBO contract based on the new facilities will generate sufficient revenues to cover this additional debt service.

Because the City has yet to solicit proposals and finalize negotiations for an updated FBO contract, there is no assurance that there will be sufficient incremental revenue to cover this additional debt. One option would be to delay action on moving ahead with any terminal improvements until the FBO negotiations have been completed. However, this option could delay the project by a year. Since both parties would prefer to move as soon as possible with the improvements, City staff sought a method for protecting the City from issuing more than \$867,000 of tax supported debt for these improvements as originally planned by the Council.

Therefore, in Section VII, page 4 of the agreement, ISU agrees to cover any shortfalls in the debt service on this \$943,000 bond issue. The attached agreement includes the following formula to accomplish this on an annual basis:

Add annual **FBO revenues**

Add all **other operating revenues** (excluding airport farm revenues)

These equal **total revenues** available for operating expenses & debt service

Subtract **operating expenses** (excluding farm expenses)

Subtract **annual principal & interest** on the \$943,000 debt

If total is **greater than zero**, ISU pays the City the difference (capped at the debt service amount)

If total is **less than zero**, the City and ISU evenly split up to the first \$6,000 (thus covering ISU's annual land lease payment for its hangar – currently \$3,000/year). The City retains any amount greater than this amount.

Under this formula, ISU agrees to assume the risk of covering any shortfall in the annual debt service above the \$867,000 and the annual non-farm operating costs at the airport. In return, should the net non-farm revenues be more than needed to cover this debt service, ISU will share in those revenues up to the amount currently paid for its hangar

land lease (\$3,000). That provision is made in recognition of ISU making a portion of that hangar available for the FBO's use in maintaining airport users' aircraft.

Airport farm revenue and expenses are excluded from this formula. Net revenues from the farm, which currently total approximately \$94,000 per year, are needed as the local match for other future capital improvements at the airport. The FAA requires a 10% local match on those improvements. The first five years' improvements are shown on page 118 of the CIP.

### **ALTERNATIVES:**

1. Approve the attached airport improvements funding agreement with Iowa State University.

With the guarantee provided by ISU, the City can proceed with the terminal project prior to the finalization of a new FBO contract with the assurance that the level of property tax support for this project will be as originally planned.

2. Delay the approval of this agreement and direct staff to work with ISU to modify the attached agreement.

Since the Council would not be sure if ISU will support any modifications to this proposal, at tonight's meeting the City Council may not want to certify the FY 2015/15 budget with \$867,000 of property tax supported debt service. Hence, the improvements could be delayed for, at least, one year under this alternative.

3. Choose to not approve a funding agreement with ISU for the planned airport improvements.

This option would involve not moving ahead with the airport terminal improvements at this time.

4. Delay any action on the Airport Terminal Project until a new FBO contract is finalized and, therefore, revenues are known.

### **MANAGER'S RECOMMENDED ACTION:**

While the new funding model is different from what was reflected in the original CIP project, with the guarantee provided by ISU in the attached agreement, the City can proceed with the terminal project prior to the finalization of a new FBO contract with the assurance that the maximum level of property tax support for this project (\$867,000) will be as originally planned.

The attached agreement confirms participation by ISU, and through ISU the private sector, in financing needed capital improvements at the Municipal Airport. Therefore, it is the recommendation of the City Manager that the City Council approve Alternative No. 1 as stated above.

**AIRPORT TERMINAL BUILDING AND HANGAR****PROJECT STATUS:** NewCity of Ames, Iowa  
Capital Improvements Plan**DESCRIPTION/JUSTIFICATION**

This is a special program to facilitate the design and construction of a new Terminal Building and attached Hangar at the Ames Municipal Airport.

**COMMENTS**

FY 2014/15 will begin the site work portion of the Terminal Building and Hangar project to prepare the site for construction of the Hangar in summer of 2015, which is estimated to be approximately an \$700,000 first phase of the project. FY 14/15 will be funded using \$450,000 in Federal Funds and \$250,000 in G.O. Bonds. Staff will also be applying for an additional \$100,000 in State funds, however this is a competitive grant selection process and therefore those funds are not shown in the funding summary for FY 2014/15. If received, State grant funds will reduce revenue abated bonds. Revenue abated bonds will be repaid from user fees. The FY 2015/16 terminal building replacement project will continue with the second phase that will update the current aged facility. The overall project is anticipated to be complete in the summer of calendar year 2016. This project assumes that the private sector will construct the hangar and donate the structure to the City of Ames, which the projected value is estimated to be \$960,000.

**LOCATION**

Ames Municipal Airport

	<b>TOTAL</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>COST:</b>						
Engineering	440,000	440,000				
Construction	1,970,000	1,970,000				
<b>TOTAL</b>	<b>2,410,000</b>	<b>2,410,000</b>				
<b>FINANCING:</b>						
G.O. Bonds	867,000	867,000				
G.O. Bonds (Revenue Abated)	943,000	943,000				
FAA Funding	450,000	450,000				
State Grant Funds	150,000	150,000				
<b>TOTAL</b>	<b>2,410,000</b>	<b>2,410,000</b>				
<b>PROGRAM – ACTIVITY:</b>	<b>DEPARTMENT:</b>	<b>ACCOUNT NO.</b>				
Transportation – Airport	Public Works	376-7076-439				
		330-7076-439				

## **AGREEMENT FOR PUBLIC IMPROVEMENTS AT THE AMES MUNICIPAL AIRPORT**

**THIS CONTRACT AND AGREEMENT**, made and entered into this 10<sup>th</sup> day of February, 2015, by and between IOWA STATE UNIVERSITY (hereinafter called "ISU") and THE CITY OF AMES, IOWA (hereinafter called the "City");

### **WITNESSETH:**

**WHEREAS**, the City is the owner and operator of the Ames Municipal Airport, which is a public airport bound by all pertinent regulations of the Federal Aviation Administration; and

**WHEREAS**, the Airport serves as an important entry point to the City and to ISU; and

**WHEREAS**, the Airport sits immediately adjacent to the Iowa State University Research Park; and

**WHEREAS**, current and potential tenants at the Research Park have expressed particular interest in having certain improvements made to support and strengthen their business operations; and

**WHEREAS**, it is the desire of both the City and ISU to facilitate certain improvements that will expand the operational capabilities and enhance the attractiveness of the Airport to visitors to the City and to businesses within the City; and

**WHEREAS**, it is agreed that these improvements should include a new aircraft storage hangar and a new airport terminal building; and,

**WHEREAS**, the City's original plan to finance these improvements called for the City, ISU, and the private sector to each contribute \$867,000 to finance these facilities; and,

**WHEREAS**, a new funding strategy has been identified to accomplish these improvements; and

**WHEREAS**, the City operates the Airport as a self-supporting venture; and

**WHEREAS**, ISU has space available in an existing hangar that could be used by a new Fixed Base Operator to provide aircraft maintenance at the Airport; and

**WHEREAS**, a new Fixed Base Operator (FBO) contract will not yet have been negotiated prior to initiation of the planned terminal and hangar projects;

**NOW, THEREFORE**, in consideration of the mutual promises hereinafter set forth, the parties hereto do agree and covenant as follows:

## **I PARTIES**

A. The Parties to this agreement are the City and ISU. No other parties shall be admitted to this agreement, nor shall there be any assignment of this agreement without the express written consent of the existing parties hereto.

B. It is not the intention of the parties to this agreement that any new legal entity be created by virtue of this agreement; and the provisions of this agreement shall not be deemed to have created a partnership, trust, or other legal entity.

## **II DURATION**

This agreement shall endure and remain in effect until the debt incurred by the City for financing the new terminal has expired, unless both parties mutually agree to terminate or extend this agreement earlier for whatever reason and upon whatever terms they may then agree.

## **III PURPOSE**

**In general.** The purpose of this agreement is to provide for a joint and cooperative effort by the parties hereto to enhance the facilities available at the Ames Municipal Airport in accordance with the financing strategy outlined herein.

## **IV AIRCRAFT MAINTENANCE HANGAR SPACE**

A. ISU agrees to make available approximately half of its existing hangar (located as shown on Exhibit I) for the City's designated Fixed Base Operator to utilize for providing aircraft mechanical and maintenance services.

B. The City agrees to include a provision in its lease agreement with the Fixed Base Operator that the designated portion of this hangar building shall be used solely as an aircraft maintenance facility.

C. The City shall require the Fixed Base Operator to obtain and maintain both liability and property insurance while utilizing its portion of this maintenance hangar in accordance with terms and limits prescribed by ISU.

D. Any revenue derived from the use of this hangar by the Fixed Base Operator shall be paid to the City and not to ISU, based upon the City's separate agreement with the Fixed Based Operator.

**V.**  
**NEW AIRCRAFT STORAGE HANGAR**

A. ISU shall be responsible to ensure that the following responsibilities are accomplished by a third party of its choosing:

1. The third party shall design and construct an aircraft storage hangar approximately 11,500 square feet in size to temporarily store aircraft overnight. This hangar shall be constructed on a site designated by the City in accordance with the City's site specifications. The plans and specifications for the hangar building shall be approved in advance by the City. The estimated cost of this hangar is \$1,000,000.
2. The third party shall construct the hangar structure and any other improvements on the hangar site in compliance with all ordinances, policies, and regulations of the City. All requirements for plans, permits, and approvals shall be adhered to by the third party.
3. The third party, in the use of the land on which the airport storage hangar is constructed, will not, on the grounds of race, color, or national origin, discriminate or permit discrimination against any persons or group of persons in any manner prohibited by Part 15 of the Federal Aviation regulations.
4. The third party shall complete construction of the aircraft storage hangar by no later than December 31, 2016.
5. Once the aircraft storage hangar has been constructed and the City's Building Official has issued a Certificate of Occupancy, ownership of this structure shall be transferred from the third party to the City by quit claim deed within thirty (30) days after issuance of the Certificate of Occupancy.
6. Prior to the issuance of a building permit for construction of this hangar, the third party shall confirm with the City in writing its commitment to comply with the provisions specified in this section.

B. The Parties agree that the above list of responsibilities is essential to this contract. Therefore, the Parties confirm that the City shall be allowed to obtain from ISU specific performance of the requirement for ISU to arrange for a third party to fulfill the responsibilities in Section V(A) in the event the initial third party does not or cannot perform these responsibilities.

**VI.**  
**NEW AIRPORT TERMINAL BUILDING AND SITE IMPROVEMENTS**

A. The City shall construct a new terminal building approximately 6,500 square feet in size, as well as associated site improvements adjacent to the terminal building and the

aircraft storage hangar referenced in Section V. The estimated cost of this building, including design, engineering and inspection, is \$1,700,000. The estimated cost of the site improvements is \$710,000.

B. In recognition of ISU's guarantee of a portion of the debt needed to construct the terminal improvements, in the event that the terminal building construction bid exceeds an amount that can be guaranteed by ISU, the City shall, at ISU's request, reject all bids for the terminal building construction. If a decision is made to reject all bids for the terminal building construction, the parties agree to work together to modify the design specifications in order to reduce the estimated cost of the terminal building.

## **VII. ISU GUARANTEE OF TERMINAL DEBT SERVICE**

A. The City shall provide funding in the amount of \$867,000 to help finance construction of the terminal building and associated site improvements noted in Section VI.

B. In order to fund the remainder of the anticipated terminal building costs, the City shall take action to issue additional general obligation bonds beyond the amount specified in Paragraph A up to an estimated principal amount of \$943,000 with a twenty (20) year final maturity. It is the parties' expectation that these bonds will be retired with the revenues derived from the FBO agreement in combination with other revenue from airport operations (exclusive of the airport farm).

C. For any fiscal year during which debt payments are made pursuant to Section VII(B), in the event that the combined revenues generated by the FBO agreement and by all other airport operating revenues (excluding airport farm revenue) are not adequate to cover the sum of (1) all airport operating expenses (excluding airport farm expenses) and (2) the City's annual debt service obligation for the debt specified in Section VII(B), ISU agrees that it shall guarantee and pay to the City any shortfall.

D. For any fiscal year during which ISU must make payment under Section VII(C), the parties further agree that ISU's maximum financial obligation shall be no greater than that same year's annual debt service payment for the bonds specified under Section VII(B).

E. For any fiscal year during which the combined revenues generated by the FBO agreement and by all other airport operating revenues (excluding airport farm revenue) exceed the sum of (1) all airport operating expenses (excluding airport farm expenses) and (2) the City's annual debt service obligation for the debt specified in Section VII(B), the parties shall equally share any such additional revenue. However, the maximum amount credited to ISU under this provision shall be equal to the annual land lease payment for the land upon which ISU has its hangar shown on Exhibit I.



F. By September 30<sup>th</sup> following the end of each fiscal year, the City shall provide ISU with an annual accounting of the non-farm operating revenues, of the non-farm operating expenses, and of the annual debt service paid under Section VII(B) for the previous fiscal year. If an amount is owed to the City as required by Section VII(C) above, ISU shall make such payment to the City within 30 days of the receipt of this accounting. If a credit is due ISU, the credit shall be applied against the current year's land lease payment.

### **VIII. ADDITIONAL PROVISIONS**

A. During construction of the airport storage hangar, the City reserves the right to take any action it considers necessary to protect the aerial approaches of the airport against obstruction, together with the right to prevent ISU from erecting or permitting to be erected, any other permanent or temporary building, structure or obstruction on the airport which, in the opinion of City, would limit the usefulness of the airport or constitute a hazard to aircraft.

B. This lease shall be subordinate to the provisions of any existing or future agreement between the City and the United States, relative to the operation or maintenance of the airport, the execution of which has been or may be required as a condition precedent to the expenditure of Federal funds for the development of the airport.

**IN WITNESS WHEREOF**, the parties hereto have caused this instrument to be signed and sealed by their authorized representatives as of the date first above written.

IOWA STATE UNIVERSITY

CITY OF AMES

By: \_\_\_\_\_  
Warren R. Madden,  
Senior Vice President for  
Business & Finance

By: \_\_\_\_\_  
Ann H. Campbell, Mayor

Attest: \_\_\_\_\_  
Diane Voss, City Clerk

## Exhibit I

