

**COUNCIL ACTION FORM**

**SUBJECT:**           **APPROVAL OF SECOND ADDENDUM TO AGREEMENT WITH ISU FOR PUBLIC IMPROVEMENTS AT AMES MUNICIPAL AIRPORT**

**BACKGROUND:**

On February 10, 2015, the City entered into the attached airport improvements funding contract with ISU whereby the University agreed to pay to the City any shortfall as required under Section VII of the agreement as shown below:

- 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 (Fixed Based Operator) 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).*

Because of a premium payment made to the City by the purchaser of the bonds, the City was able to issue the University's portion of the debt over a twenty year term in the amount of \$915,000 in order to finance the site work for the itinerant hanger/terminal and the construction of the new terminal building. It was expected that the contract with the new FBO would be completed shortly thereafter. Unfortunately, it took significantly longer than expected to complete the FBO selection process, and the effective date for the new FBO to assume responsibilities at the Airport was not until April 2017. Because of this delay, the additional revenue expected from a new FBO agreement to minimize the University's obligation under the first two years of this agreement, was not be realized as planned. As a result, if the existing agreement is adhered to, the University would owe the City in excess of \$105,000 for the first two years.

Realizing this might not be fair, on October 11, 2016 the Council directed staff to prepare an addendum to the existing agreement that would delay the University's obligation to backfill any shortfall by two years with the creation of an 18 year debt service schedule that will end in conjunction with the City's actual debt schedule for the airport improvements. As is evidenced in the attached comparison sheet, the original 20 year debt service schedule is re-amortized over 18 years. The ISU guarantee of debt service remains the same as in the original contact. The only adjustment is in the term to reflect the delay in the implementation of the FBO contract.

**ALTERNATIVES:**

1. The City Council can approve the second addendum to the agreement that reflects a new maximum financial obligation schedule for the University to backfill any shortfall for each year that non-farm revenues do not exceed non-farm expenditures at the Airport.

Under this alternative, the University would not be subject to any financial responsibility under the agreement until June 30, 2018.

2. The City Council can decide not to approve the proposed second addendum.

Under this alternative, the University would owe the City \$107,251 by the end of October.

3. The City Council can refer this issue back to the staff to negotiate different terms for the second addendum.

**MANAGER'S RECOMMENDED ACTION:**

When the agreement was negotiated with the University to pay any shortfall each year for the difference between non-farm expenditures plus the debt service obligation minus non-farm revenues, it was anticipated that the new FBO contract would be in place by the time the bonds were issued. Therefore, more revenue would be available to the City to cover the operating and debt service costs. Thus, the financial exposure to the

University would be reduced. Unfortunately, it took longer than expected to select an FBO which resulted in a delay in receiving the anticipated revenue from the new FBO agreement.

In order to prepare the construction site and to be able to move ahead expeditiously with the building construction, the City issued bonds for the total project before the FBO start date was finalized. Because this date was later than anticipated, it seems appropriate to recalculate the debt service for purposes of determining the possible financial obligation of the University under Section VII of the agreement. **What is being recommended, therefore, is a new schedule inserted as an addendum to the contract that recalculates the University's debt service exposure based on retiring the City's debt over 18 years with the same final maturity of the actual debt service schedule of June 1, 2035.**

Therefore, it is the recommendation of the City Manager that the City Council approve Alternative #1 and approve the attached second addendum to the agreement with Iowa State University for Airport Improvements.

## **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

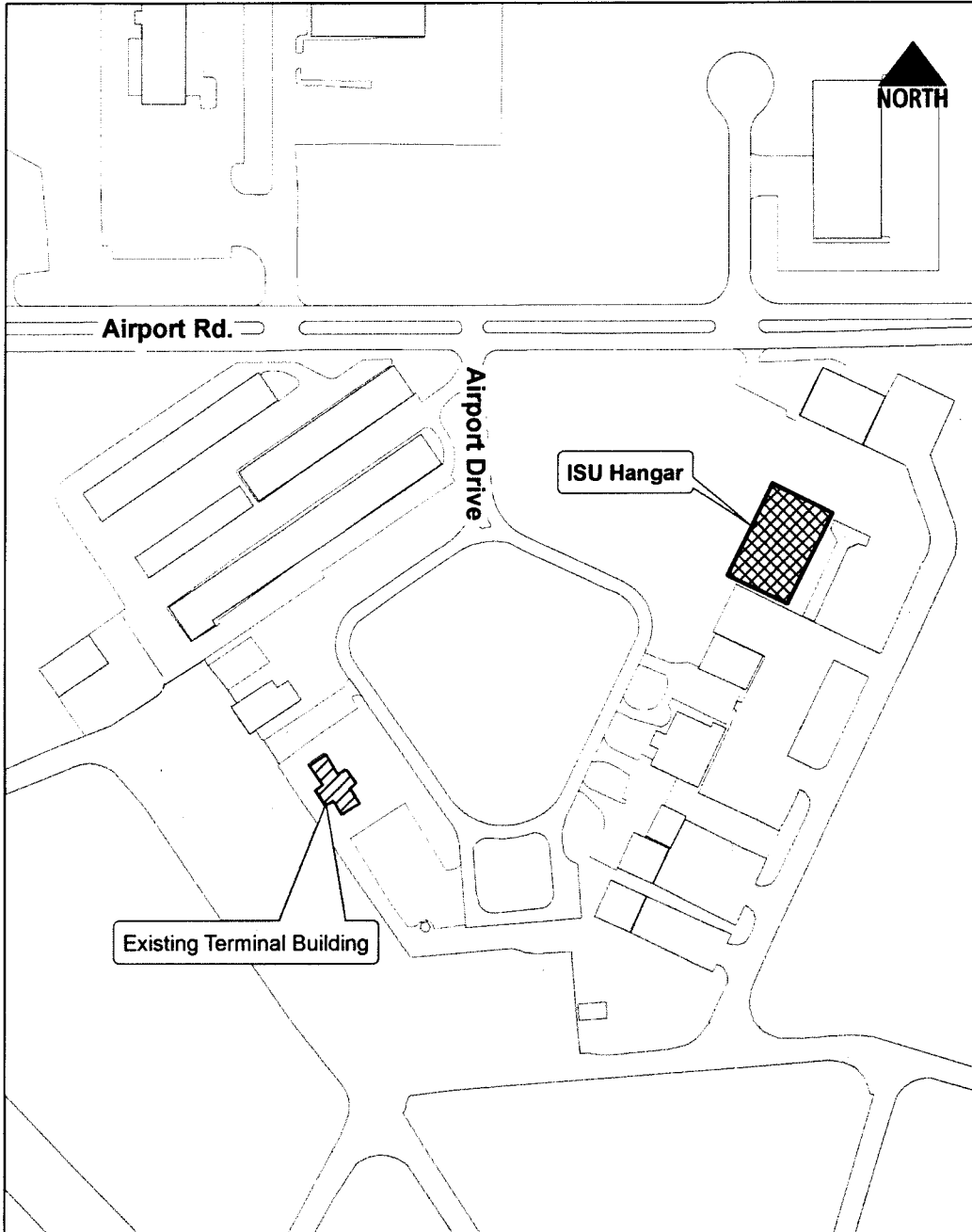
By: Warren R. Madden 2/8/15  
Warren R. Madden,  
Senior Vice President for  
Business & Finance

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

Attest: Diane Voss  
Diane Voss, City Clerk



# Exhibit I



**SECOND ADDENDUM TO FEBRUARY 10, 2015 AGREEMENT FOR PUBLIC IMPROVEMENTS  
AT THE AMES MUNICIPAL AIRPORT**

**THIS ADDENDUM TO THE CONTRACT AND AGREEMENT** made and entered into by and between IOWA STATE UNIVERSITY (hereinafter called "ISU") and THE CITY OF AMES, IOWA (hereinafter called the "City"); for purposes of making public improvements to the Ames Municipal Airport, is effective as of September 27, 2017. The original agreement was entered prior to the issuance of bonds to fund the airport improvements. This addendum is made to reflect the terms of the debt service guaranteed by ISU as part of the original agreement.

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

Paragraph B. of Section VII is replaced as follows: In order to fund the remainder of the anticipated terminal building costs, the City issued general obligation bonds beyond the amount specified in Paragraph A. The bond issue is the City of Ames \$18,445,000 General Obligation Corporate Purpose and Refunding Bonds Series 2015A with a bond delivery date of September 22, 2015. Of this issue, proceeds with a principal amount of \$958,990 and a final maturity on June 1, 2035 were dedicated for funding improvements at the Ames Municipal Airport. The debt service schedule for this portion of the bond issue was determined by Securities and Exchange Commission Registered Municipal Advisor PFM Financial Advisors, LLC. The schedule of debt service subject to the ISU guarantee as described in VII.(C). is provided below:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Annual Debt Service</b>	<b>Guarantee Sept 30 Payment (If Due)</b>
2018	\$38,150	\$32,829.46	\$70,979.46	2018
2019	40,060	30,921.96	70,981.96	2019
2020	42,060	28,918.96	70,978.96	2020
2021	44,160	26,815.96	70,975.96	2021
2022	45,050	25,932.76	70,982.76	2022
2023	47,300	23,680.26	70,980.26	2023
2024	49,660	21,315.26	70,975.26	2024
2025	50,910	20,073.76	70,983.76	2025
2026	52,430	18,546.46	70,976.46	2026
2027	54,010	16,973.56	70,983.56	2027
2028	55,630	15,353.26	70,983.26	2028
2029	57,290	13,684.36	70,974.36	2029
2030	59,010	11,965.66	70,975.66	2030
2031	60,780	10,195.36	70,975.36	2031
2032	62,610	8,371.96	70,981.96	2032
2033	64,560	6,415.40	70,975.40	2033
2034	66,580	4,397.90	70,977.90	2034
2035	<u>68,740</u>	<u>2,234.06</u>	<u>70,974.06</u>	2035
<b>Totals</b>	\$958,990	\$318,626.36	1,277,616.36	

Paragraph F. of Section VII is replaced as follows: By September 30 following the end of each fiscal year, beginning with the fiscal year ending June 30, 2018, the City shall provide ISU with an annual accounting of the Ames Municipal Airport non-farm operating revenues and non-farm operating

**SECOND ADDENDUM TO FEBRUARY 10, 2015 AGREEMENT FOR PUBLIC IMPROVEMENTS  
AT THE AMES MUNICIPAL AIRPORT**

expenses for the previous fiscal year. If an amount is owed to the City as required by Section VII(C); ISU shall make payment to the City within 30 days of the receipt of this accounting.

The City maintains sole discretion for decisions related to refunding or pre-payment of the outstanding bonds at any time during this agreement. In the case of early retirement of the debt for refunding or early repayment, a Registered Municipal Advisor will be engaged to determine a new debt service schedule as provided in Paragraph B. In no case shall the new payment schedule include an increase in the debt service guaranteed by ISU in total or any individual fiscal year.

**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: \_\_\_\_\_  
Miles Lackey, Chief Financial  
Officer/Chief of Staff

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

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

**ISU Guarantee of Debt Service for Ames Municipal Airport Terminal  
Schedule of Debt Payments Guaranteed.**

ISU Debt Svc. Per Bond Issue	Adjusted Payment 2 Year Delay	Difference	ISU Payment Date	Debt Svc Guarantee for FY Ending
42,250.05	-	(42,250.05)	9/30/2016	6/30/2016
66,168.76	-	(66,168.76)	9/30/2017	6/30/2017
64,418.76	70,979.46	6,560.70	9/30/2018	6/30/2018
62,668.76	70,981.96	8,313.20	9/30/2019	6/30/2019
65,918.76	70,978.96	5,060.20	9/30/2020	6/30/2020
63,918.76	70,975.96	7,057.20	9/30/2021	6/30/2021
63,118.76	70,982.76	7,864.00	9/30/2022	6/30/2022
61,118.76	70,980.26	9,861.50	9/30/2023	6/30/2023
64,118.76	70,975.26	6,856.50	9/30/2024	6/30/2024
62,993.76	70,983.76	7,990.00	9/30/2025	6/30/2025
61,643.76	70,976.46	9,332.70	9/30/2026	6/30/2026
65,293.76	70,983.56	5,689.80	9/30/2027	6/30/2027
63,793.76	70,983.26	7,189.50	9/30/2028	6/30/2028
62,293.76	70,974.36	8,680.60	9/30/2029	6/30/2029
65,793.76	70,975.66	5,181.90	9/30/2030	6/30/2030
64,143.76	70,975.36	6,831.60	9/30/2031	6/30/2031
62,493.76	70,981.96	8,488.20	9/30/2032	6/30/2032
65,775.00	70,975.40	5,200.40	9/30/2033	6/30/2033
63,900.00	70,977.90	7,077.90	9/30/2034	6/30/2034
61,950.00	70,974.06	9,024.06	9/30/2035	6/30/2035
<u>1,253,775.21</u>	<u>1,277,616.36</u>	<u>23,841.15</u>		

Based on City of Ames Bond Issue Series 2015A

Schedule is adjusted based on Interest Deferral and addition to Principal

First Column is original debt service. Second column is debt service with 2 year delay and credit for interest earned on proceeds.