

**COUNCIL ACTION FORM**

**SUBJECT: AMENDMENT TO AGREEMENT WITH ISU FOR PUBLIC IMPROVEMENTS AT AMES MUNICIPAL AIRPORT**

**BACKGROUND:**

On February 10, 2015, the City entered into an 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 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 required to issue only \$915,000 in order to facilitate the site work for the itinerant hanger and new terminal and the construction of the new terminal building over a twenty year term. It was expected that the contract with the new FBO would be completed shortly thereafter. Unfortunately, it has taken significantly longer than expected to complete the FBO selection process, and the effective date for the new FBO to assume responsibilities at the Airport will not begin until April 2017. Because of this delay, the additional revenue expected from a new FBO agreement will not be generated until FY 17/18.

## **ALTERNATIVES:**

1. Direct staff to prepare an addendum to the existing agreement between the City and ISU so that the new debt service schedule reflected on Attachment I, Column D will be used for calculating the University's financial obligation under Section VII.

*This schedule will reflect the original principal amount of \$915,000, but with the starting of repayment delayed two years to reflect an 18 year debt service schedule to match the timing of the new FBO contract. The schedule also will reflect an increase in the total payment amount as the result of the City up-fronting payments for the first two years that debt is outstanding.*

2. Retain the existing language of the existing agreement between the City and ISU so that the current debt service schedule reflected on Attachment I, Column C will be used for calculating the University's financial obligation under Section VII.

*Based on the analysis of the operating expenditures and revenues for FY 2015/16, excluding the farm operation, the University would owe the City \$42,250.05 immediately and perhaps an additional \$66,168.76 at the close of FY 16/17, since the additional revenue from the new FBO contract will not have kicked in yet.*

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

When the agreement was negotiated with the University to pay the difference between the net revenues and debt service on the \$943,000, it was anticipated that the new FBO contract would be in place by the time the bonds were issued and, therefore, more revenue would be available to the City to cover the operating and debt service costs.

Unfortunately, in order to prepare the site for the construction of the itinerant hangar and new terminal, 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 is 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 into an amendment to the contract that would calculate the City retiring the \$915,000 debt, along with interest charged for the City advancing two years of payments, that will result in the City retiring the debt over 18 years with the same final maturity of the original debt service schedule, June 1, 2035. In this way, the City will be assured of being made whole over the same time period as the original agreement.**

Therefore, it is the recommendation of the City Manager that the City Council approve Alternative #1 as described above.

**ATTACHMENT I**

<b>Fiscal Year (A)</b>	<b>ISU Payment Date If Required (B)</b>	<b>Actual City Debt Service Schedule (C)</b>	<b>Adjusted Payment Schedule (D)</b>
FY 15/16	9/30/16	\$42,250.05	0
FY 16/17	9/30/17	\$66,168.76	0
FY 17/18	9/30/18	\$64,418.76	\$73,142.44
FY 18/19	9/30/19	\$62,668.76	\$71,182.80
FY 19/20	9/30/20	\$65,918.76	\$74,874.04
FY 20/21	9/30/21	\$63,918.76	\$72,602.34
FY 21/22	9/30/22	\$63,118.76	\$71,693.66
FY 22/23	9/30/23	\$61,118.76	\$69,421.96
FY 23/24	9/30/24	\$64,118.76	\$72,830.26
FY 24/25	9/30/25	\$62,993.76	\$71,552.42
FY 25/26	9/30/26	\$61,643.76	\$70,019.00
FY 26/27	9/30/27	\$65,293.76	\$74,164.58
FY 27/28	9/30/28	\$63,793.76	\$72,460.78
FY 28/29	9/30/29	\$62,293.76	\$70,757.00
FY 29/30	9/30/30	\$65,793.76	\$74,732.20
FY 30/31	9/30/31	\$64,143.76	\$72,858.04
FY 31/32	9/30/32	\$62,493.76	\$70,983.88
FY 32/33	9/30/33	\$65,775.00	\$74,711.64
FY 33/34	9/30/34	\$63,900.00	\$72,581.88
FY 34/35	9/30/35	\$61,950.00	\$70,366.94
		\$1,253,775.21	\$1,300,935.86