

National Rural Leadership Lenders' Roundtable
Rural Community Infrastructure Roundtable Meeting
Denver, Colorado

Raymond James Public Finance

PREPARED BY

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USDA Loan Considerations for U.S. Airports

July 24, 2018

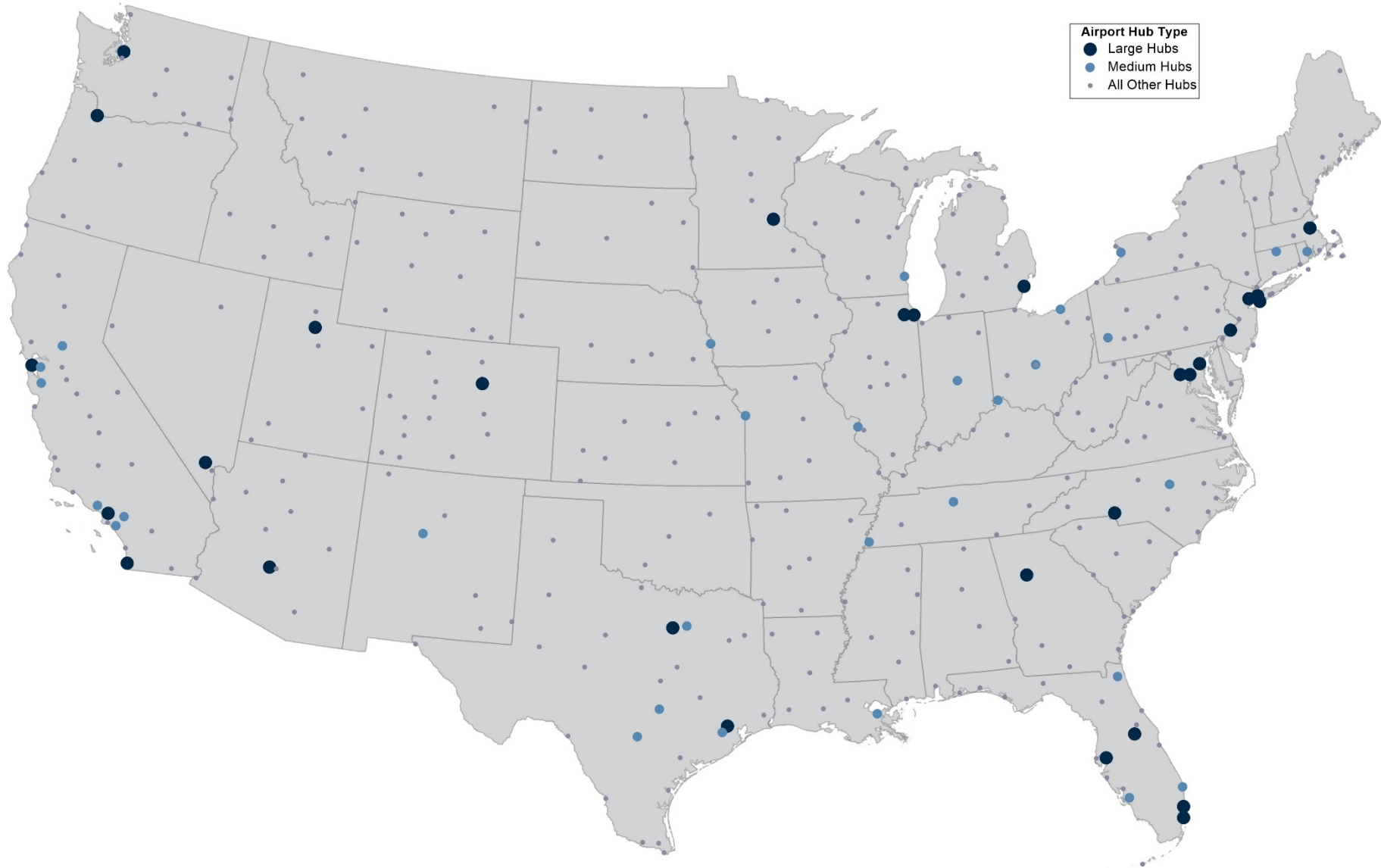
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SECTION 1

U.S. Airport Market Overview

U.S. COMMERCIAL AIRPORTS



An economic impact study found that the 485 U.S commercial service airports:

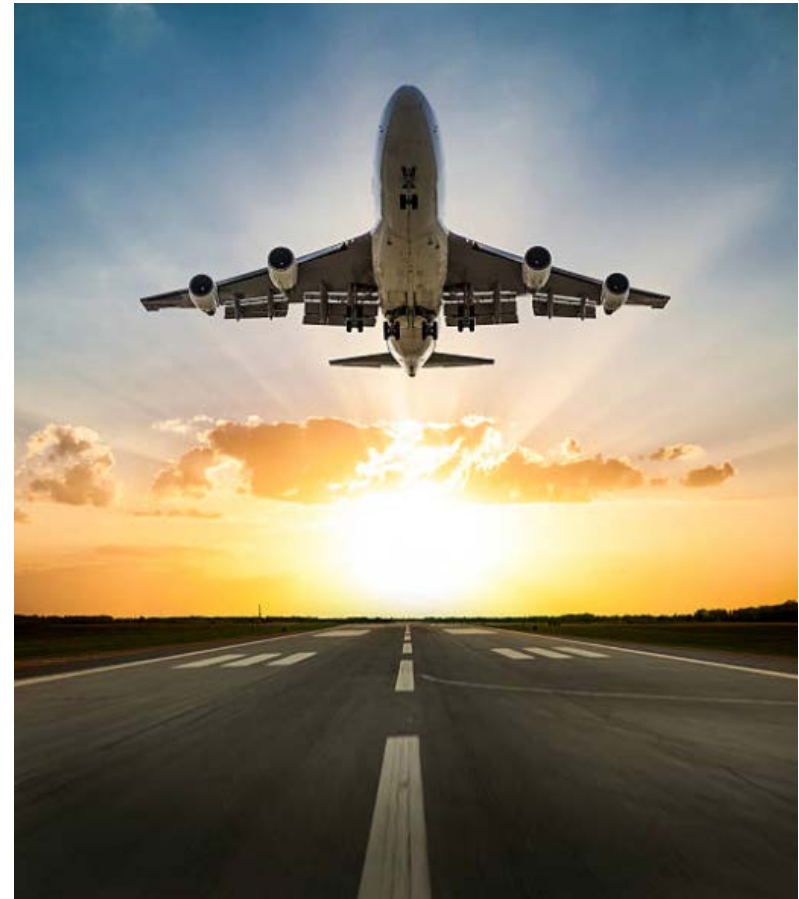
Support 9.6 million jobs

Create an annual payroll of \$358 billion

Produce an annual output of \$1.1 trillion

Account for nearly 7% of the national GDP

Support more than 6% of the country's workforce



The Outlook for U.S. airports is positive. The economy’s expansion, airline profitability, and robust seat capacity have led to enplanement growth.

POSITIVE

- U.S. economic expansion will help push enplanement growth
- Airlines will add seats faster than in 2017
- Airports face parking revenue decline from shifting transportation choices
- Medium and Small hub airports should have the strongest enplanement growth



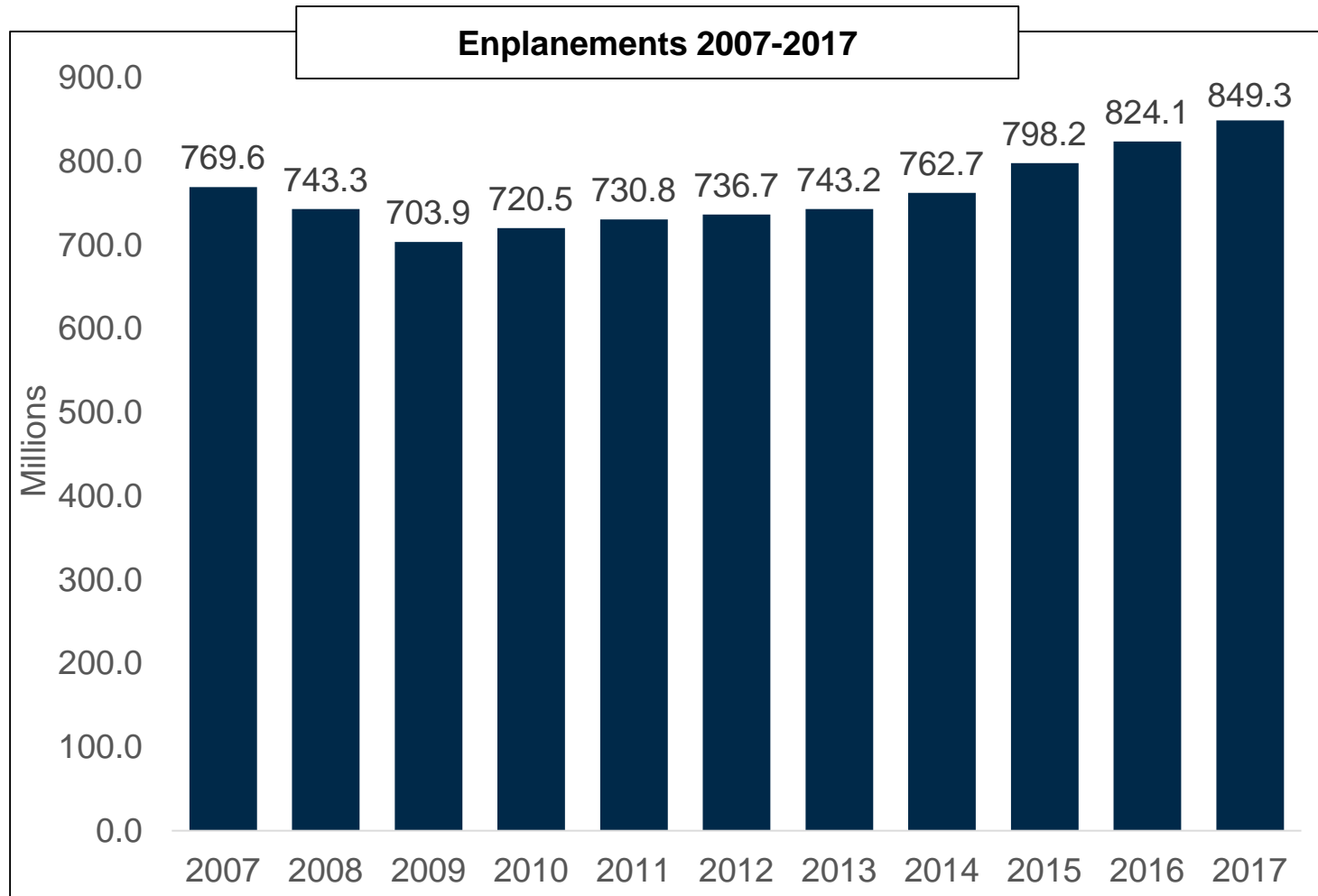
STABLE

What could change the outlook to stable?

- A decline in enplanement growth below 3% which could happen if the U.S. economy weakens **or if airports have to restrict capacity due to insufficient infrastructure to meet demand**

Source: Moody’s Investor Service US Public Infrastructure Outlooks

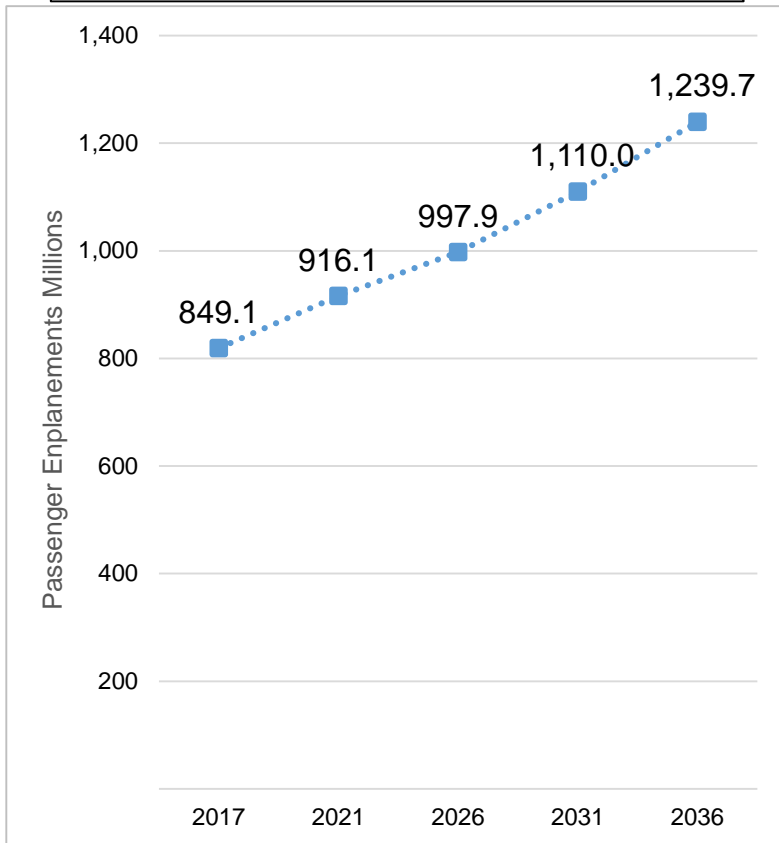
For eight straight years, total U.S. air traffic has increased. YTD enplanements for 2018 are up and on track for another year of positive growth.



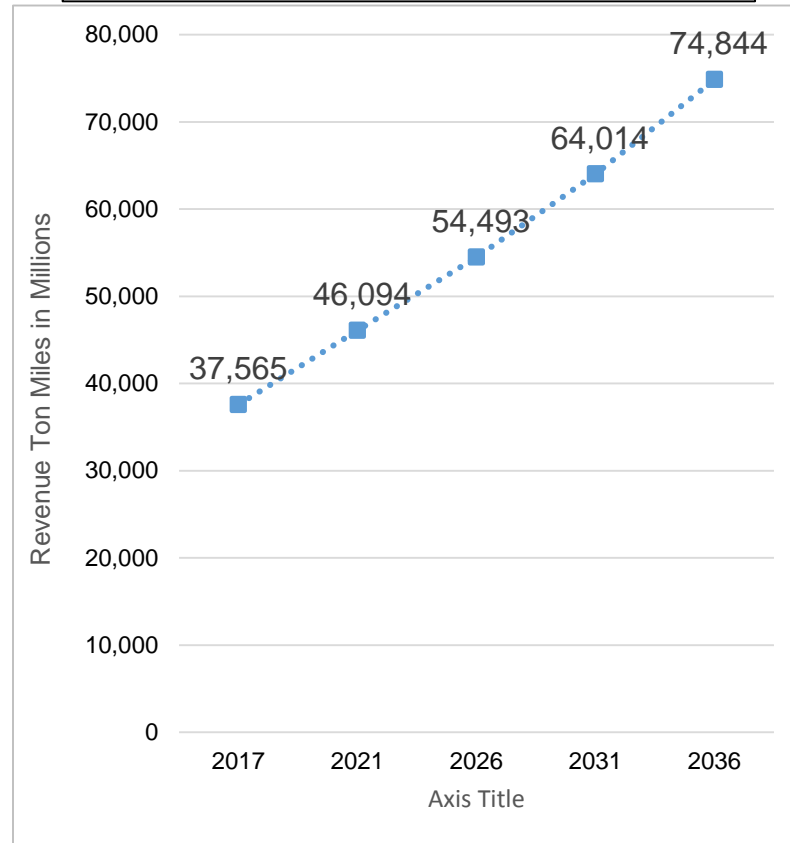
Source: U.S. Department of Transportation

Over the next 20 years, the FAA projects continued enplanement and air cargo growth.

FAA Projected Passenger Growth



FAA Projected Air Cargo Growth



Source: FAA

SECTION 2

Funding Needs and Opportunities



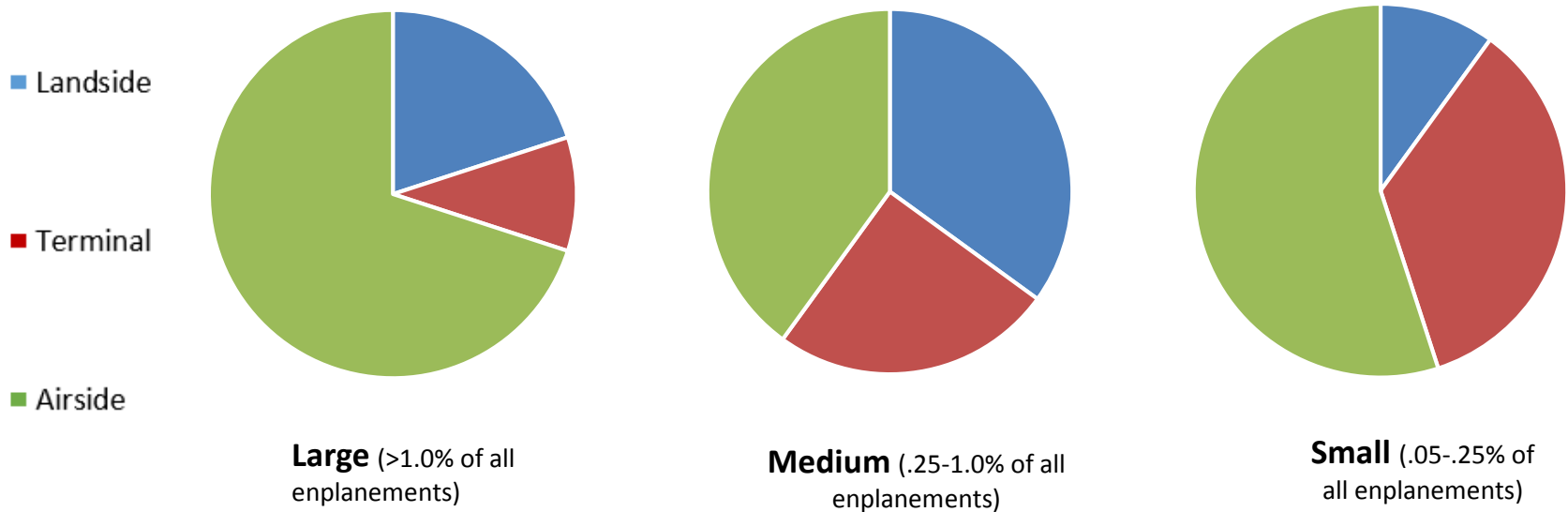
- Secretary Sonny Perdue’s Report to the President from the Task Force on Agriculture and Rural Prosperity was issued on January 8, 2018.
- The report highlighted strategies to promote economic development, job growth and infrastructure improvements, among others.
- **Rural airport infrastructure** and related facilities provide services that are critical to rural economic prosperity in the immediate and surrounding regions.
- Community Facilities Program funding has been used in the past to finance airport facilities located in rural areas.

Per Airports Council International, between 2017 and 2021 America’s airports have \$99.9 Billion in capital needs (up from \$75.7 Billion in 2015).

Top 4 Airport Infrastructure Needs



Infrastructure Needs by Hub Size



Source: ACI Infrastructure Needs Study

Federal Grants

- Airport Improvement Program (AIP) grants, often referred to as federal grants, are primarily funded by fees and the taxes paid by passengers
- Most of the money is distributed by a formula, based on an airport's passenger and cargo traffic

Passenger Facility Charges

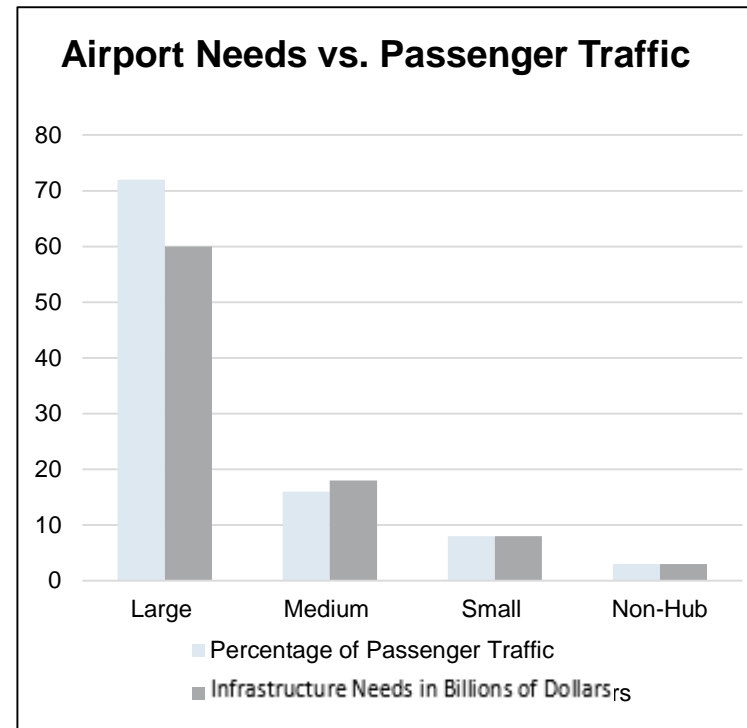
- User fees collected by the airlines on behalf of the airport to fund capacity, safety, security or environmental projects

Bonds

- Tax-exempt and taxable municipal bonds to finance long-term construction projects. Issued by the airport sponsor – cities, counties, and Airport Authorities

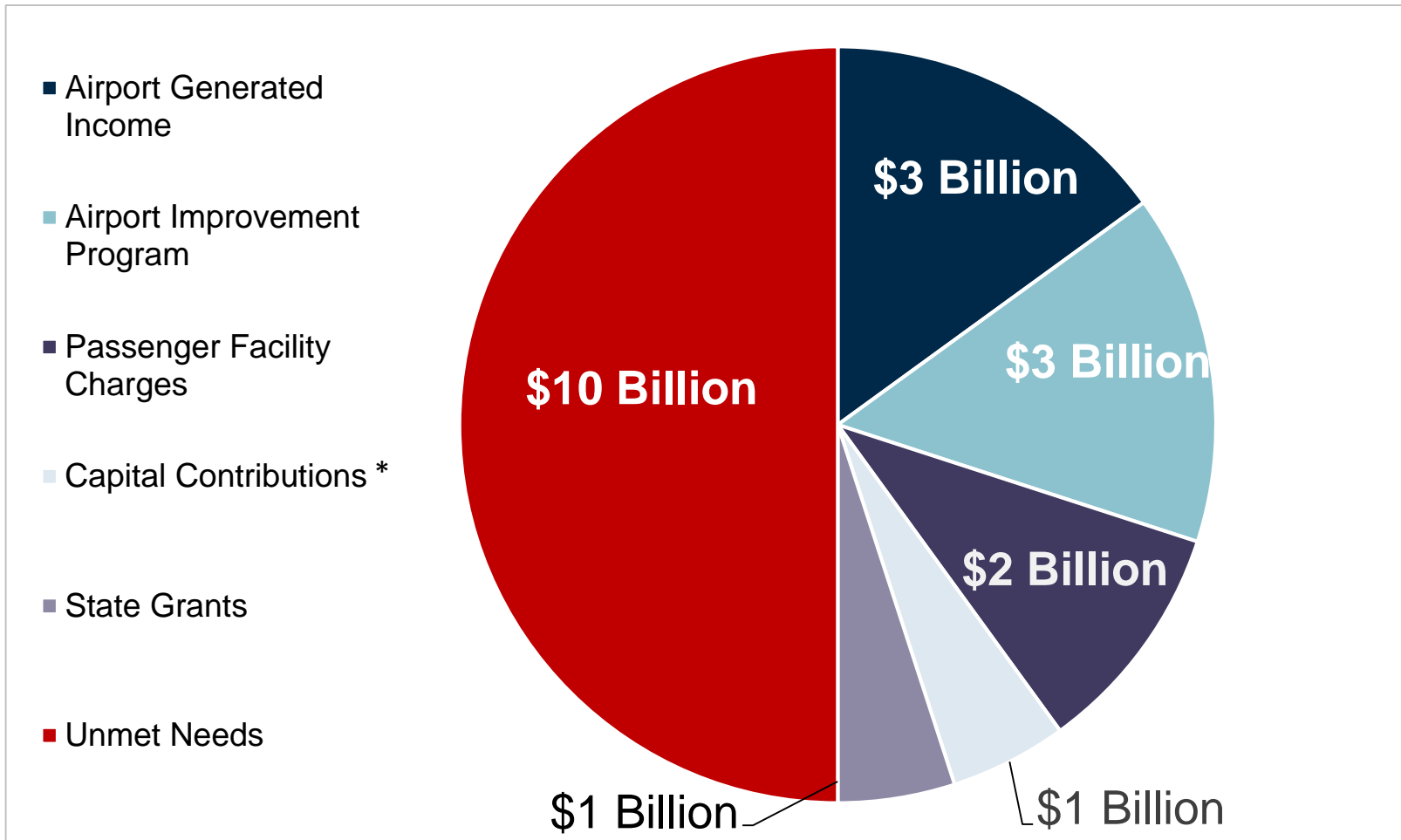
Local Grants

- Most states provide funding for airports



Source: ACI Infrastructure Needs Study

Annually, airports generate about \$10 Billion to fund infrastructure projects. That leaves a \$10 Billion gap to meet the \$20 Billion of airport infrastructure needs.



*Funds contributed for infrastructure projects by airport sponsor or entities that use the airport such as airlines and tenants

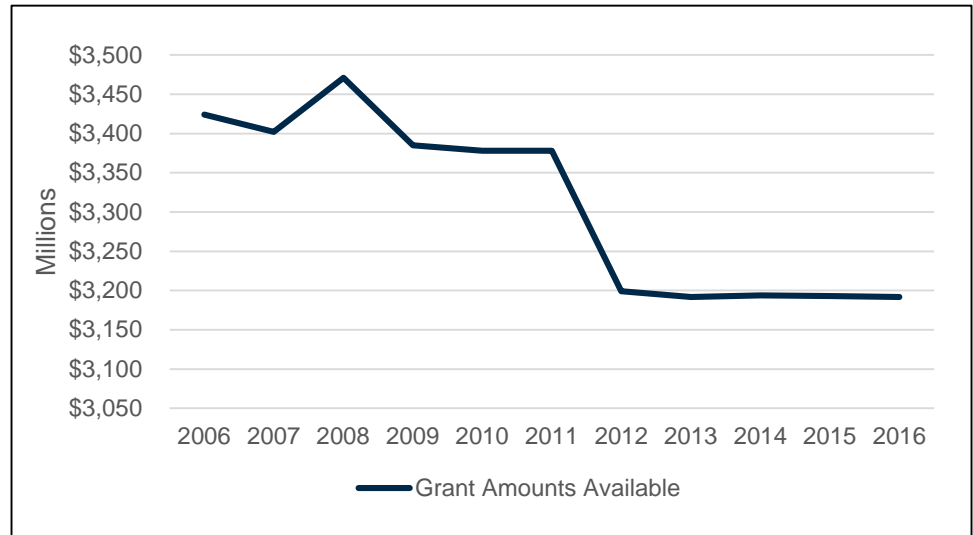
Source: ACI Infrastructure Needs Study

For decades, AIPs and PFCs have not kept pace with inflation or airport infrastructure needs.

AIP Grant

- Federal AIP grants for airport and development and planning have been in place since the passage of the Airport and Airway Improvement Act of 1982.
- AIP funding is usually spent on projects that support airline needs and aircraft operations (runways, taxiways, land purchase, safety, security)
- Funds are supported by a variety of user fees and fuel taxes.
- Smaller airport rely on AIP funding much more than larger airports.

AIP Grants



PFCs

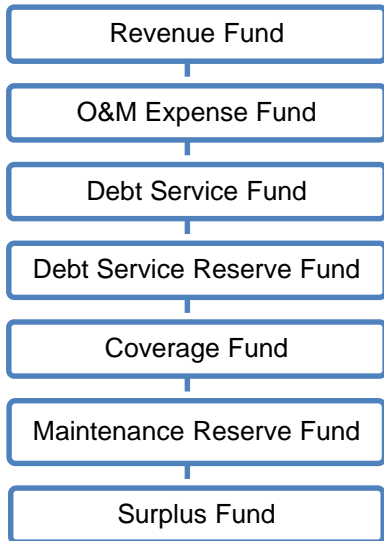
- The max PFC rate has been capped at \$4.50 per passenger since 2000 with no adjustment for inflation
- Much of PFC funding is already committed
- The Obama Administration proposed raising the cap to \$8.00 but Congress did not approve the increase

SECTION 3

Best Practices

A diversified basket of revenue helps secure the \$10 billion of annual airport issuance

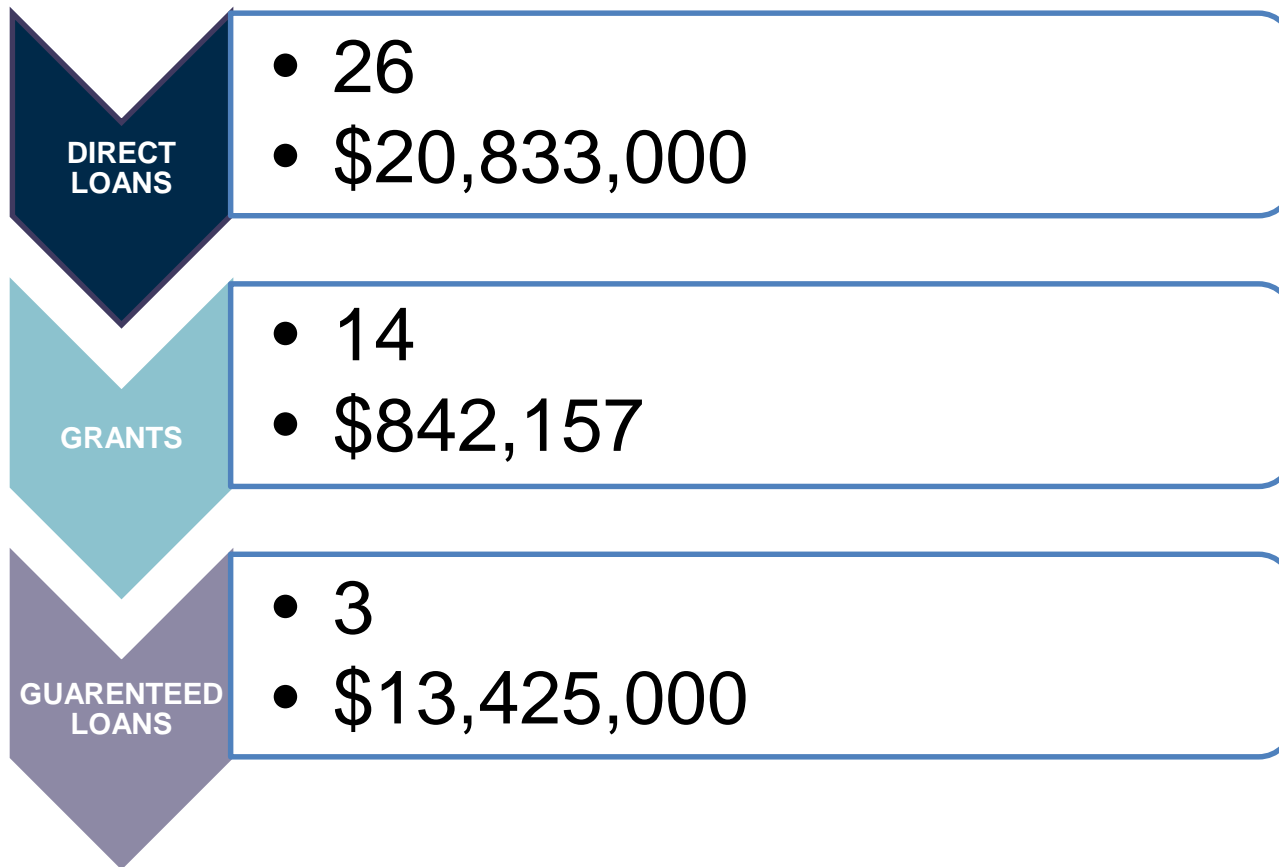
- **The Security**
 - Pledge all project net revenues
 - Net revenues (with rate covenant \geq 125% of debt service) after payment of O&M expenses



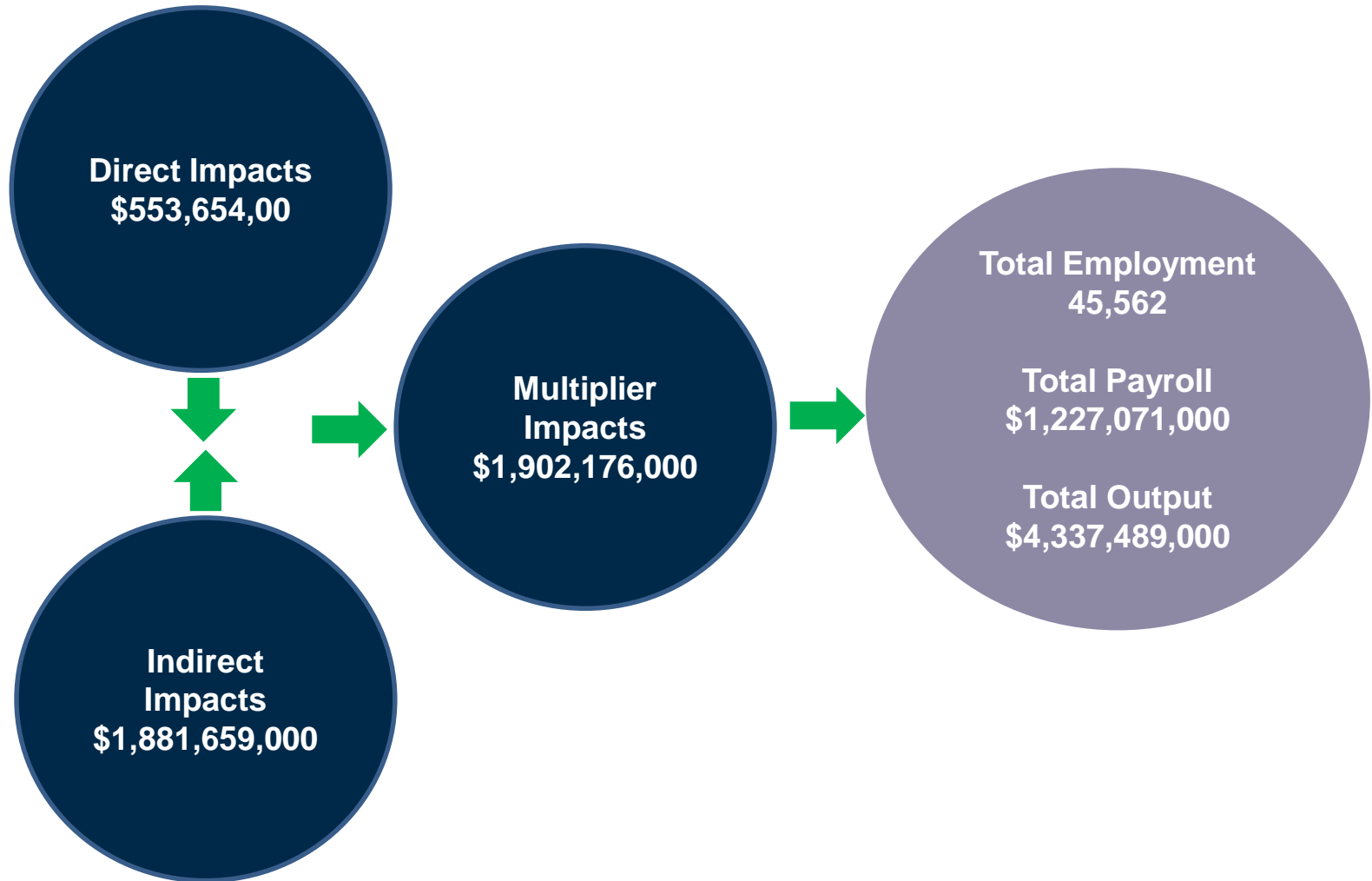
- **Airport Revenues**
 - Landing Fees
 - Terminal Rents
 - Parking
 - Rental Car Revenues
 - Concessions
- **Other funds often pledged to repay the debt**
 - Debt Service Fund
 - Debt Service Reserve Fund



Many airports that we have spoken with are not familiar with USDA Community Facilities loans



An economic impact study of a medium sized airport in the Southeast that we believe currently qualifies for a community facilities loan found the following:



We estimate a USDA loan would offer annual debt service approximately \$500,000 less than the debt service associated with a bond issue.

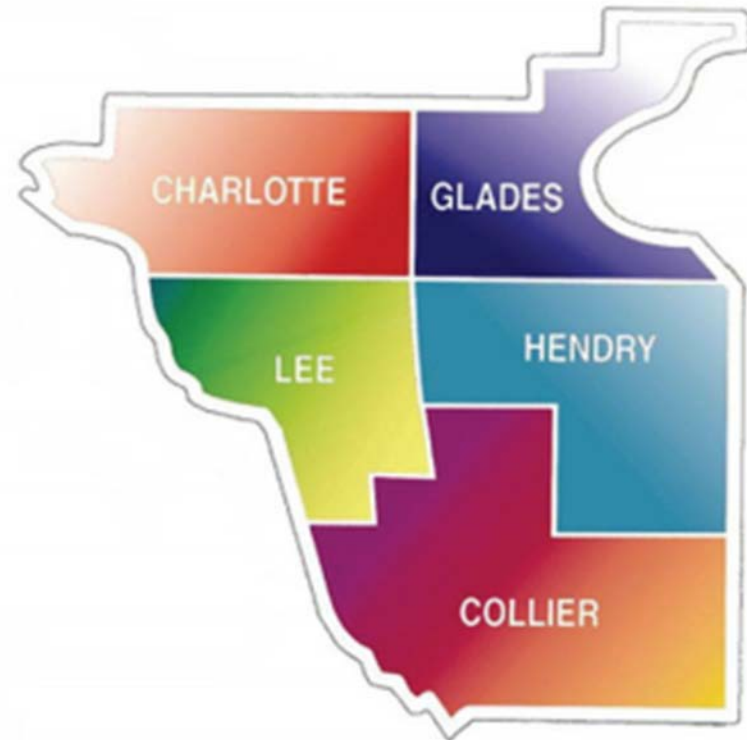
“A” Rated Airport	Bonds	USDA Financing
Project Fund	\$140,000,000	\$140,000,000
Maturity	30 Years	30 Years
TIC	4.400%	3.875%
MADS	\$8,528,000	\$8,011,000
Total Debt Service	\$253,636,000	\$238,275,000

1. The airport demonstrates its CF eligible non-profit or public body. The project must be located in a CF eligible, rural area.
2. The facilities will enhance economic prosperity in rural jurisdictions surrounding the facilities.
3. The airport complies with all requirements outlined in 7 CFR Parts 1942-A, 3575-B and 3570-A as applicable.
4. The airport demonstrates that it has been a financially successful operation for a period of time sufficient to indicate project success when assured income is not available.
5. The project is secured by net revenues of the airport facility to adequately meet debt service obligations.

How do we identify eligible airports?

- Residents residing in towns with a population < 20,000
- Cities within the designated airport service area must be made up primarily of rural residents
- The facilities used enhance economic prosperity in rural jurisdictions to include the transporting of goods and services, technologies, personnel and materials

Airport Service Area Guidelines



- U.S. enplanements have seen 8 straight years of growth. Airline analysts and the FAA predict the expansion will continue.
- Nationally, airports are struggling to keep pace with capital demands due to increasing enplanements and rising costs under the funding available to them. This problem is more pronounced in small and medium hub airports.
- Barring an unexpected increase in the PFC or FAA grants, airports will need to find innovative methods to keep pace with their capital needs.
- The USDA Community Facilities program offers airports a distinct financial benefit. Most airport operators do not realize the program is an option.
- Investing in rural airport infrastructure and related facilities will provide services that are critical to rural economic prosperity.



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