



**Request for Proposals for
Fixed Rate Direct Placement**

Responses to Submitted Questions – July 5, 2018

- 1. In the 2017 Audit, the report states that the Airport Use Agreement expires on September 30, 2018. When will the Agreement be extended and what is the expected expiration date? In this extension, will there be any material changes to the Agreement? If material, what are these changes?*

A: The current airport use agreement (AUA) between the Authority and the airlines expires September 30, 2018. The Authority and the airlines over the past year have been discussing both parties' desire to extend the current AUA for an additional one or two years under substantially the same terms. In the past, AUA extensions have included airline approval of the Authority's capital improvement programs (CIP) for the length of the extension and it is anticipated that this requirement would also be included in a new extension agreement. One issue that has delayed execution of an extension is the City of Tucson's effort to annex the airport terminal and airfield areas into the City of Tucson. The airlines and the City have been working on a pre-annexation agreement that is expected to be finalized prior to the current expiration date of the AUA. The Authority and the airlines will be meeting in August to discuss, among other things, the FY 2019 budget and CIP, and whether the parties are ready to proceed with an extension of the existing AUA. If a final agreement on extension is not reached prior to expiration, the current AUA would continue on a month-to-month basis while extension negotiations are completed or work is completed on an alternative arrangement.

- 2. Since the Series 2018 Refunding Bonds will be the only outstanding debt of the Authority, why is the Authority issuing the debt under the Subordinate Lien Bond Resolution?*

A: Since the Series 2001 and Series 2006 Bonds are Subordinate lien, the Authority intends to issue the Series 2018 Refunding Bonds as Subordinate lien debt.

3. *Under what circumstances does the Authority contemplate issuing debt under the Senior Lien Bond Resolution?*

A: Depending on future capital needs, the Authority would consider issuing Senior lien debt based on market conditions at the time.

4. *Is there a possibility that the Authority could issue debt secured by PFCs with a lien on PFCs senior to the Series 2018 Refunding Bonds?*

A: Neither the current Senior Lien nor Subordinate Lien Resolutions provide for the issuance of PFC-backed bonds with a lien senior to that of the Series 2018 Refunding Bonds.

5. *Has the Authority extended its use and lease agreements with the airlines (existing agreement expires September 2018)? If so, how long does the new agreement run? If not, where is the Authority in that process?*

A: Please refer to the answer to Question 1.

6. *With no Senior Lien bonds currently outstanding, and no intent to issue in the near term, why does the Authority desire to reserve the rights to issue Senior Lien Bonds in the future?*

A: Please refer to the answer to Question 3.

7. *What is the Authority's projected Capital Expenditures plans over the next 10 years?*

A: Please refer to the Authority's Master Plan Update which can be found at:

<https://www.flytucson.com/about-tus/master-plans/>

8. *Do we know the length of contracts with the two carriers which account for 70% of enplanements, Southwest and American Airlines?*

A: Please refer to the answer to Question 1.

9. *Any update on the residual airline use agreement which expires in Sept. 2018?*

A: Please refer to the answer to Question 1.

10. *Is there a 15-year capital improvement plan and Airport Strategic Plan?*

A: Please refer to the answer to Question 7.

11. *Is there currently a covenant compliance certificate? The reason we ask is that we want to see how the senior lien (if issued) and sub debt ratios are calculated*

A: There is not currently an annual covenant compliance certificate. However, the Statistical Section of the Authority's Comprehensive Annual Financial Report (CAFR) contains 10 years of financial information, including various debt and debt service ratios.

12. *Is there an internal policy on minimum liquidity levels held by the airport?*

A: The Authority has no formal policy on liquidity.

13. *Given the strong liquidity position, how does the authority plan to use those funds moving forward?*

A: Historically, discretionary funds have been used to internally finance capital projects as an alternative to external bond or bank financing.

14. *Will the authority consider an interest rate SWAP to hedge all or a portion of the interest rate?*

A: No.

15. Are YTD performance/metrics available for 2018? This would include enplanement levels, revised budget etc.

A: Please see the attached monthly reports with year to date 2018 information.

16. Is the 2019 draft budget available?

A: A draft budget for FY 2019 is not available at this time. The FY 2019 budget is expected to be submitted to the Authority's Board of Directors for approval on September 12, 2018.

17. Is there an acceleration clause on either senior (if issued) or sub debt?

A: No.

18. It appears that the 2001 Subordinated Debt issue was Ambac insured and credit rated. With the proposed direct private placement are you seeking to avoid such credit enhancements?

A: The Authority is not pursuing any credit enhancements for the Series 2018 Refunding Bonds.

19. Will the issuance go through the IDA as a tax-exempt bond issue?

A: No. The Series 2018 Refunding Bonds will be issued by the Authority. Note that the Series 2018 Refunding Bonds will be subject to the AMT for individuals.

20. Please confirm that ownership of all land and improvements which are operated by the Authority is through the City of Tucson. Will the ownership allow for the pledge of these assets as security for the proposed subordinated bond issue? Will the buyer of the bonds be able to file a UCC on all assets? A Leasehold Deed of Trust on the Real Estate?

A: The ownership of all land and improvements which are operated by the Authority is through a long-term lease and operating agreement with the City of Tucson. Government ownership will not allow for the pledge of these assets as security for the proposed issue. The buyer of the bonds will not be able to file a UCC on assets and there will not be a Leasehold Deed of Trust on the Real Estate.

21. The Subordinated Bond Resolution allows for Senior Bonds, additional Subordinated Bonds pari pasu with the proposed 2018 issuance, Junior Subordinate Lien Obligations, and specific PFC Revenue Bonds. The only restriction in place is a debt service coverage factor of 1.10x. Will the Authority be open to additional restrictions, limitations and/or approval rights on overall debt imposed by the buyer of these subordinated bonds?

A: No.

22. Pages 7 and 31 of the 2017 Annual Report appears to tie the PFC income to the payment of debt service on the 2001 and 2006 subordinated bonds. Section 2.07 of the Bond Resolution appears to carve out this source of revenue for potential future borrowing. Please confirm is the PFC income should be relied upon for the payment of debt service for this bond issue.

A: PFC Revenue is pledged towards the payment of debt service on the Series 2018 Refunding Bonds in an amount equal to 100% of debt service.

23. Please provide a copy of the 5-year CIP budget. With access to government grants and significant amounts of operating cash flow, is there any indication that additional bonds will need to be issued to cover capital costs in the next 5 to 10 years?

A: Please refer to the answer to Question 7. The need for additional bond financing over the next five to ten years is expected to depend on the level of grant funding available for the Airfield Safety Enhancement project that is discussed in the Master Plan Update. The Authority is currently working with the Federal Aviation Administration (FAA) on the funding plan for this project, assuming the project is approved by the FAA later this year.

24. What is the structure of Landing Fee agreements with airlines? Are the airlines obligated to pay a minimum amount of fees for a minimum amount of years? Do the airlines rent terminal space? What gives you the most comfort that the remaining airlines will continue to operate out of TUS?

A: A description of significant terms of the Authority's current Airline Use Agreement appears in the Introduction Section of the FY 2017 CAFR under "Transmittal Letter – Financial Policies and Practices – Budgetary Controls." The five major airlines that accounted for 99.8% of passenger traffic at TUS in FY 2017 - Alaska, American, Delta, Southwest and United - have each served TUS for a minimum of 23 years, with most having served TUS for much longer.

25. How are revenues impacted in a recession? I tried to find historical annual reports on flytucson.com but was unsuccessful. Can you provide annual reports for 2008-2015?

A: CAFRs from FY 2009 through FY 2017 may be downloaded from EMMA. Also, note that 10 year financial information may be found in the CAFRs.

26. Will the holder of the bonds have an opportunity to bid on cash management and/or investment opportunities with the Authority?

A: The Authority has no current plans to bid out cash management or investment services. However, nothing would prohibit the holder of the Series 2018 Refunding Bonds from having an opportunity to bid on these services in the future if the Authority decided to solicit for such services.