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Northwest Regional Airport Authority Cherry Capital Airport



Proposed Capital Financing

October 14, 2024

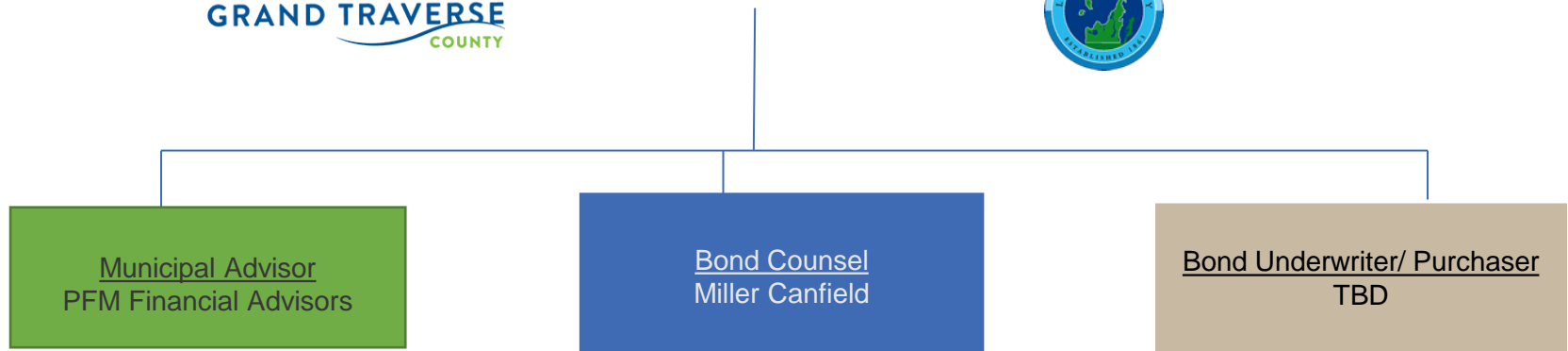
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Finance Working Group

- The main team that will work with the Authority on the financing of the debt include:



- ✓ Works closely with Authority
- ✓ Advises Authority on all facets of bond financings including
 - Bond structure / bond sizing
 - Assist preparing offering documents
 - Assistance with credit rating process
- ✓ Serves in a fiduciary capacity to always look out for the best interest of the Authority

- ✓ Works closely with Authority
- ✓ Ensures Authority complies with state and federal laws
- ✓ Prepares legal documents on behalf of Authority
- ✓ Reviews offering documents
- ✓ Provides opinion that bonds are exempt from state and federal taxation, where applicable

- ✓ Has arm's length relationship with Authority
- ✓ Deals directly with the investors (lenders of money)
- ✓ Underwrites/purchases the bonds
- ✓ Works with both the Authority and the investors
- ✓ Provides proceeds of sale to the Authority



Legal Framework

Northwest Regional Airport Authority

- Chapter VIIA of Aeronautics Code (Act 327 of 1945) allows for creation of regional airport authorities
- NRAA was created by Grand Traverse County and Leelanau County in 2020
- Section 148 of Act 327 authorizes Authority to issue self-liquidating revenue bonds under the Revenue Bond Act
- Article XIII of NRAA Articles of Incorporation requires both counties to approve the issuance of any indebtedness by resolution

Article XIII of NRAA Articles of Incorporation

- Article XIII – Indebtedness of the Authority

The Authority shall not incur indebtedness pledging, on a parity basis, any revenue from airport facilities that are otherwise pledged to secure any obligation, note, bond, or other instrument of indebtedness for which the full faith and credit of a County has been pledged, unless the Leelanau County and Grand Traverse County Board of Commissioners first approve the issuance of such indebtedness by resolution.

Airport Revenue Bonds

- Revenue Bond Act - Act 94 of 1933
 - Act 94 allows a “public corporation” to issue bonds to pay the costs to acquire, construct, improve, enlarge, extend or repair “public improvements, ” including “aeronautical facilities”
 - Principal and interest on the Bonds are payable primarily from Net Revenues from the operation of the Airport
 - As additional security for the Bonds for Airports, the Bonds may be secured by a full faith and credit pledge of the county where the Airport improvements are located

Full Faith and Credit Pledge – MCL 141.107

- As additional security for the payment of bonds that are . . . specifically authorized by another law pertaining to the public improvements for which bonds are to be issued under this act, a public corporation, by majority vote of the elected members of its governing body, may include as a part of the ordinance authorizing the issuance of the bonds a pledge of its full faith and credit for payment of the principal of an interest on the bonds.
- For bonds issued for airports or airport improvements under the aeronautics code of the state of Michigan, 1945 PA 327, MCL 259.1 to 259.208, a public corporation, by majority vote of the elected members of its governing body, may agree that if funds pledged for payment of bonds are not sufficient to pay principal and interest on the bonds as the bonds become due, the public corporation shall advance sufficient funds out of its general funds for the payment **if the proceeds of the bonds are used exclusively within the territorial limits of the county in which the political corporation is located.**

Full Faith and Credit Pledge – MCL 141.107

- If a pledge is made, and the net revenues primarily pledged to the payment are insufficient to make a payment, the public corporation shall be obligated to pay the bonds and interest on the bonds in the same manner and to the same extent as other general obligation bonds of the public corporation, including the levy, when necessary, of a tax on all taxable property in the public corporation without limitation as to rate or amount, in addition to all other taxes that the public corporation is authorized to levy, but not exceeding the rate or amount necessary to make the payment.
- If a public corporation makes payment from taxes or general funds pursuant to a full faith and credit pledge or agreement to advance, it shall be reimbursed from net revenues subsequently received by the public improvement for which the bonds are issued that are not otherwise pledged or encumbered.



Plan of Finance



Cost to be Financed

Project Phasing, Estimated Costs and Sources of Funds

Year	Project	Estimated Cost	Grant Funding	Local Funds	Bond Funding	Funding Sources
2025	Design: Terminal Gate Hold Room Expansion	\$3,500,000	\$3,325,000	\$175,000	-	AIP Entitlement Grants; State Grants
2025	Design: Commercial Apron Expansion – Terminal Phase 1	2,000,000	1,900,000	100,000	-	AIP Entitlement, AIP Discretionary; BIL AIG, BIL -ATP, State Grants, \$39.8M Bonds
2026	Construct: Terminal Gate Hold Room Expansion – Phase 1	49,700,000	11,522,677	-	38,177,323	
2026	Construct: Commercial Apron Expansion - Phase 1	12,620,000	10,450,000	550,000	1,620,000	AIP Entitlement, BIL -ATP, State Grants, \$18.3M Bonds
2027	Construct: Terminal Gate Hold Room Expansion - Phase 2	21,300,000	3,265,000	-	18,035,000	
2027	Construct: Terminal Gate Hold Room Expansion - Phase 3	11,100,000	10,822,500	-	277,500	
2028	Construct: Commercial Apron Expansion	12,620,000	10,450,000	550,000	1,620,000	AIP Entitlement, AIP Discretionary; State Grants, \$1.62M Bonds
Total		\$112,840,000	\$51,735,177	\$1,375,000	\$59,729,823	

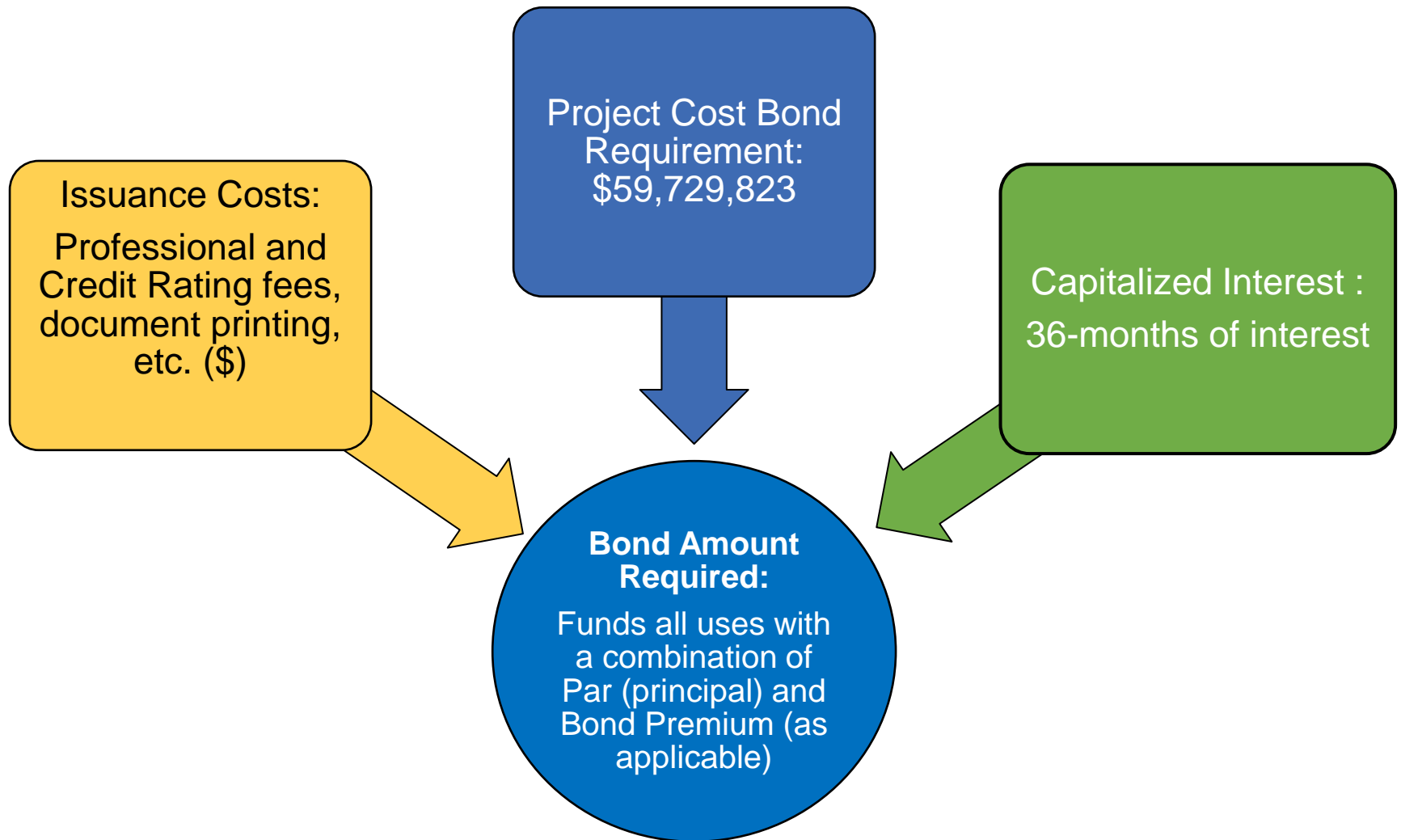
Source: Terminal Financial Plan Update, Northwest Regional Airport Authority Cherry Capital Airport (TVC), August 2024

Key Financing Assumptions:

- Total expected bond proceeds required for project cost is \$59,729,823.
- First series of bonds issued in 2026
- Anticipated 36-month capitalized interest period for a bond term of 29/30 years.



Developing a Plan of Finance from Project Requirements





Preliminary Bond Sizing

Uses:	Airport Revenue Bonds, Series 2026	Airport Revenue Bonds, Series 2027	Total
Construction Fund Deposits:	\$39,797,323.00	\$19,932,500.00	\$59,729,823.00
Debt Fund -Capitalized Interest (36 mo.)	6,352,527.08	3,258,787.50	9,611,314.58
Cost of Issuance/Underwriting/Misc.	481,343.32	271,539.25	752,882.57
Total Uses:	\$46,631,193.40	\$23,462,826.75	\$70,094,020.15
Sources:			Total
Par Amount	\$43,685,000.00	\$22,410,000.00	\$66,095,000.00
Premium	\$2,946,193.40	\$1,052,826.75	\$3,999,020.15
Total Sources:	\$46,631,193.40	\$23,462,826.75	\$70,094,020.15
Estimated True-Interest Cost (TIC)	4.55%	4.69%	
Average Life (years)	22.76	22.69	

Key Financing Assumptions:

- **Total Project Cost Funded of \$59,729,823**
- **Current** AMT market rates (assuming County FFC) as of **October 4, 2024**
- January 1 Principal Payments (1/1 and 7/1 interest payments)
- 36-months of capitalized interest by series
- 30-year bond terms
- No bond funded reserve fund (est. \$6.3M)
- **Structured for level coverage ratios on an annual basis (~2.10x coverage)***

*Source: Terminal Financial Plan Update, Northwest Regional Airport Authority Cherry Capital Airport (TVC), August 2024; assumes projected revenue grows by 2.50% annually in years 2035 and beyond, subject to change

*Assumes 1/1 Principal and Interest Payments are including in the previous fiscal year (12/31)

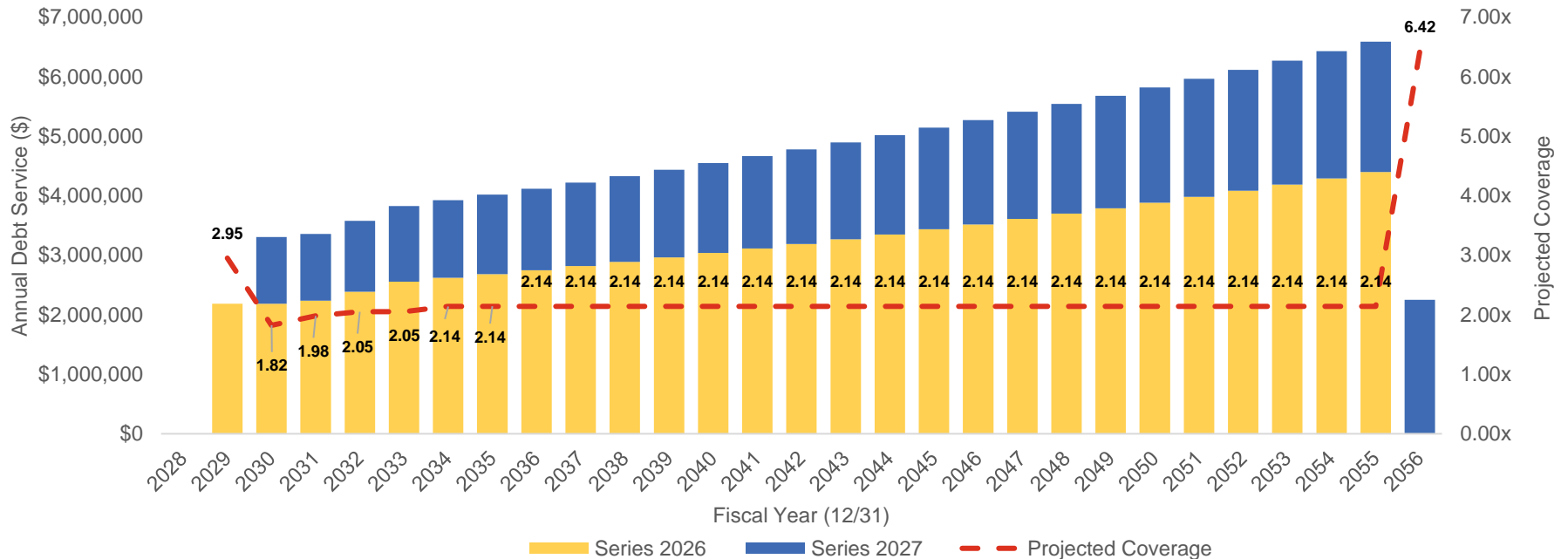


Plan of Finance – Annual Debt Service and Coverage

Projected Net Airport Revenue Coverage*

	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total Airport Operating Revenues	\$12,875,078	\$13,867,854	\$18,885,101	\$20,456,873	\$20,590,102	\$21,812,383	\$23,106,370	\$24,216,083	\$25,374,752
Plus Est. Interest Income	511,261	485,719	574,368	523,799	551,382	561,735	595,034	653,890	731,136
Less O&M Expenses	(11,582,045)	(12,044,984)	(13,981,150)	(14,542,141)	(15,126,899)	(15,736,478)	(16,371,981)	(17,034,561)	(17,725,425)
Net Revenues Available for DS	\$1,806,320	\$2,310,616	\$5,480,347	\$6,440,560	\$6,016,615	\$6,639,671	\$7,331,455	\$7,837,445	\$8,382,497
Projected Debt Service	-	-	-	2,184,250	3,304,750	3,354,750	3,577,250	3,823,500	3,921,750
Projected Debt Service Coverage	N/A	N/A	N/A	2.95	1.82	1.98	2.05	2.05	2.14

Projected Annual Net Debt Service*

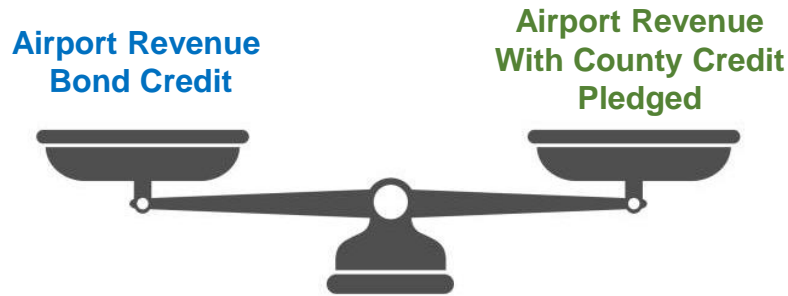


²Source: Terminal Financial Plan Update, Northwest Regional Airport Authority Cherry Capital Airport (TVC), August 2024; assumes projected revenue grows by 2.50% annually in years 2035 and beyond, subject to change

*Assumes 1/1 Principal and Interest Payments are included in the previous fiscal year (12/31)



Financial Benefit of County Pledge



Airport Revenue with County Full Faith and Credit

- Double barrel credit; considers Airport operations, financials, legal structure as well as County financial and economic metrics
- Grand Traverse County credit ratings:
 - S&P Global: AA+ (stable outlook) last reviewed September 2023
 - Moody's: Aa2 last reviewed February 2024

Airport Revenue Bond Credit Without County Full Faith and Credit

- Sole focus on Airport operations, financials, legal structure (rate covenant, bond reserve requirement, additional bonds test, etc.) as well as County financial and economic metrics
- Assumed revenue rating for purpose of analysis: 'A3'

Given the strength of the County's outstanding credit ratings, we anticipate Airport issuances with the County of Grand Traverse full-faith and credit pledge will carry a stronger credit rating than a stand-alone Airport revenue credit



Estimated Impact on County Rating – S&P Global

- Rating agencies utilize both quantitative and qualitative measurements in assigning bond ratings.
- We have prepared a preliminary analysis of the quantitative scoring S&P Global uses including the proposed Airport debt, and the preliminary indicative outcomes¹ are shown below
 - Grand Traverse County's credit rating of AA+ is expected to remain unchanged if it were to assume the Airport's proposed Bonds

Category	Weight	Current	With Airport
		Indicative	Debt
Institutional Framework Score:	10%	2.00	2.00
Economic Score:	30%	2.00	2.00
Management Score:	20%	2.00	2.00
Budgetary Flexibility Score:	10%	1.00	1.00
Budgetary Performance Score	10%	1.00	1.00
Liquidity Score:	10%	1.00	1.00
Debt and Contingent Liability:	10%	2.00	3.00
Weighted Average Score:		1.70	1.80
Indicated Rating	-	AA+	AA+

Source: Internal PFM Credit Calculator designed utilizing criteria described in S&P Public Finance Local Government Criteria .¹Does not include qualitative adjustments applied by the rating agency during the rating process.



Estimated Impact on County Rating – Moody’s

- As the County also has an outstanding Moody’s rating (Aa2); PFM reviewed the anticipated impact on the County’s quantitative credit metrics (based on 2023 financials) with and without the proposed Airport debt, and the preliminary indicative outcomes¹ are shown below
- Grand Traverse County’s credit rating of Aa2 is expected to remain unchanged if it were to assume the Airport’s proposed Bonds

Category	Weight	Current	Indicated Rating
		Indicated Rating	w/Airport Debt
Economy Score	30%	2.16	2.16
Financial Performance Score	30%	0.57	0.57
Institutional Framework Score:	10%	6.00	6.00
Leverage Score	30%	1.94	2.86
<i>Preliminary Score</i>	<i>100%</i>	<i>2.00</i>	<i>2.28</i>
Sum of Notching Factors	-	-0.50	-0.50
Indicated Rating Score	100%	2.50	2.78
Indicated Rating	-	Aa2	Aa2

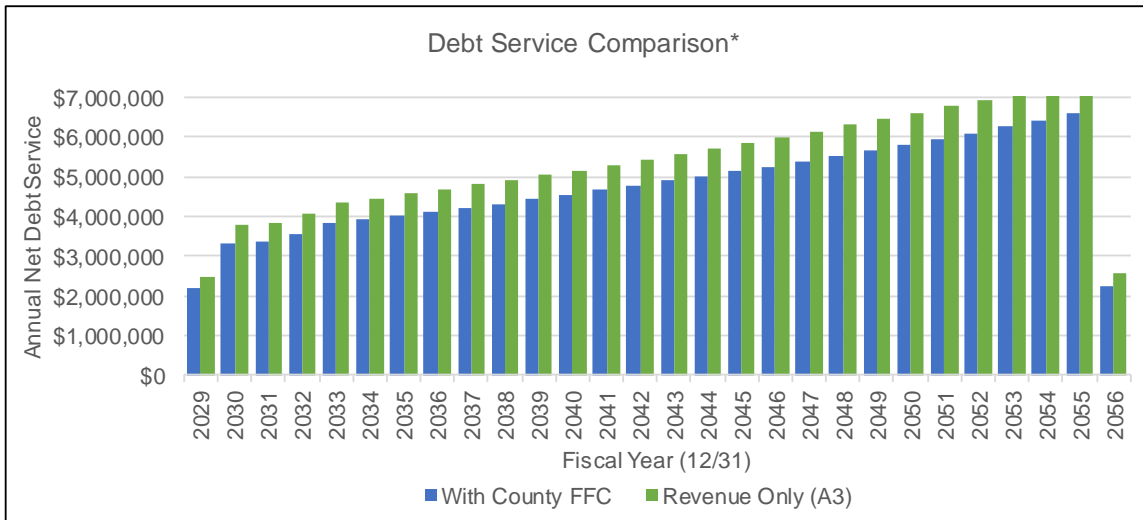
Source: Internal PFM Credit Calculator designed utilizing criteria described in Moody’s Investors Service “US Cities and Counties: US Cities and Counties Methodology published on November 2, 2022. ¹Does not include qualitative adjustments applied by the rating agency during the rating process.



Impact of Credit on Cost of Borrowing

- Credit structure will have a direct impact on the cost of capital for the Authority
- County full-faith and credit pledge will result in more favorable interest rates and investor demand.
- The County pledge is estimated to save approximately \$634,500 per year (over \$18.23M over the life of the bond financings) in debt service costs*

Airport Revenue Bonds, LTGO (With County FFC / 'AA+' rating)*		Airport Revenue Bonds (Revenue Only / Est. 'A3' rating)*	
Est. Total Interest Cost (\$):	\$75,126,065	Est. Total Interest Cost (\$):	\$86,152,139
Reserve Fund:	N/A	Reserve Fund:	\$6,504,400
Average Annual Debt Service (\$):	\$4,569,029	Average Annual Debt Service (\$)	\$5,203,520
Total Net Debt Service (\$):	\$131,609,750	Total Net Debt Service (\$)	\$149,845,438



*For illustrative purposes only, estimated subject to change. Assumes current market AMT rates as of October 4, 2024, 30-year bond terms, Capitalized Interest, COI and UWD are estimates only

*Assumes 1/1 Principal and Interest Payments are included in the previous fiscal year (12/31)



Procedure

Procedures and Steps for Bonds

Preliminary Approvals (on agenda today)

- Authority Board adopts Resolutions approving Project and issuance of Bonds.
- Grand Traverse County Board adopts Resolution Approving Bond Financing and Pledge of Full Faith and Credit
- Leelanau County Board adopts Resolution Approving Bond Financing

Notice of Intent Resolution – Authority Board (Nov/Dec 2024)

- Airport Board adopts Notice of Intent Resolution indicating its intent to issue Revenue Bonds and the maximum amount of the Bonds
- Revenue Bonds may be issued without a vote of the electors, unless a referendum petition is signed by at least 10% of the registered voters in Grand Traverse and Leelanau Counties and filed with the Airport Board Secretary.
- Authority Secretary publishes Notice of Intent in Record-Eagle to begin the 45-day period.

Airport Board Resolution Calling Public Hearing on Bonds (2025 or early 2026)

- Airport Board adopts Resolutions Calling a Public Hearing on Bonds to be held by Airport CEO
- Airport Board publishes or posts Notice of Public Hearing
- Airport CEO holds public hearing and files Report of Public Hearing with Grand Traverse County Board of Commissioners

Procedures and Steps for Bonds (cont.)

Grand Traverse County Board Resolution Approving Issuance of Bonds and Pledging Full Faith and Credit (2025 or early 2026)

- Grand Traverse County Board approves the issuance of Bonds for federal tax purposes, and reaffirms its pledge of full faith and credit pledge on the Bonds

Airport Board adopts Ordinance Authorizing Bonds (2025 or early 2026)

- Airport Board adopts Ordinance Authorizing Bonds with the terms of the Bonds and the parameters for the sale of the Bonds.

Airport Staff Prepares for Bond Sale (2025-2026)

- Before and after receipt of construction bids, Airport staff works with its consultants to prepare for the Bond sale, including preparation of Official Statement, determining method of sale, selecting financing team, investor/rating presentations and obtaining bond rating.

Bond Sale (2026)

- Authority sells Bonds at a competitive or negotiated sale.
- Airport CEO signs Sale Order and other documents to finalize Bond sale.

Bond Closing (2026 – 3 weeks after Bond Sale)

- Authority receives the Bond proceeds and delivers Bonds to purchasers.



Questions?



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