



PFC Financings

January 2000

WHY ARE AIRPORT SPONSORS LEVERAGING PFC REVENUES?



Since the PFC program began, many airport sponsors have leveraged their future PFC revenues to

provide near-term funding for airport projects. The ability to leverage PFC revenues, as opposed to using them on a pay-as-you-go basis, has become a flexible and important source of funding for large-scale capital improvements. Different approaches to leveraging PFC revenues have been used successfully by airport sponsors, including three “double-barreled” approaches (incorporating a combined flow of funds, direct debt service offset, or back-up pledge of subordinate airport revenues) and a PFC stand-alone approach—discussed in more detail later. These financings have ranged from short-term bridge financings to long-term fixed- and variable-rate debt based on cash flow requirements.

Benefits of Leveraging PFC Revenues

- Maximize PFC funds available for near-term project costs
- Preserve airport revenue bond capacity (possible under certain bond indentures and PFC leveraging approaches)
- Maximize airport management control over airport financing decisions
- Reduce airline operating costs at the airport
- Initiate larger-scale “identifiable” projects that the PFC-paying public can see
- Construct projects proactively to accommodate growth and competition (PFC revenues used to pay debt service can be generated as growth occurs)

Considerations

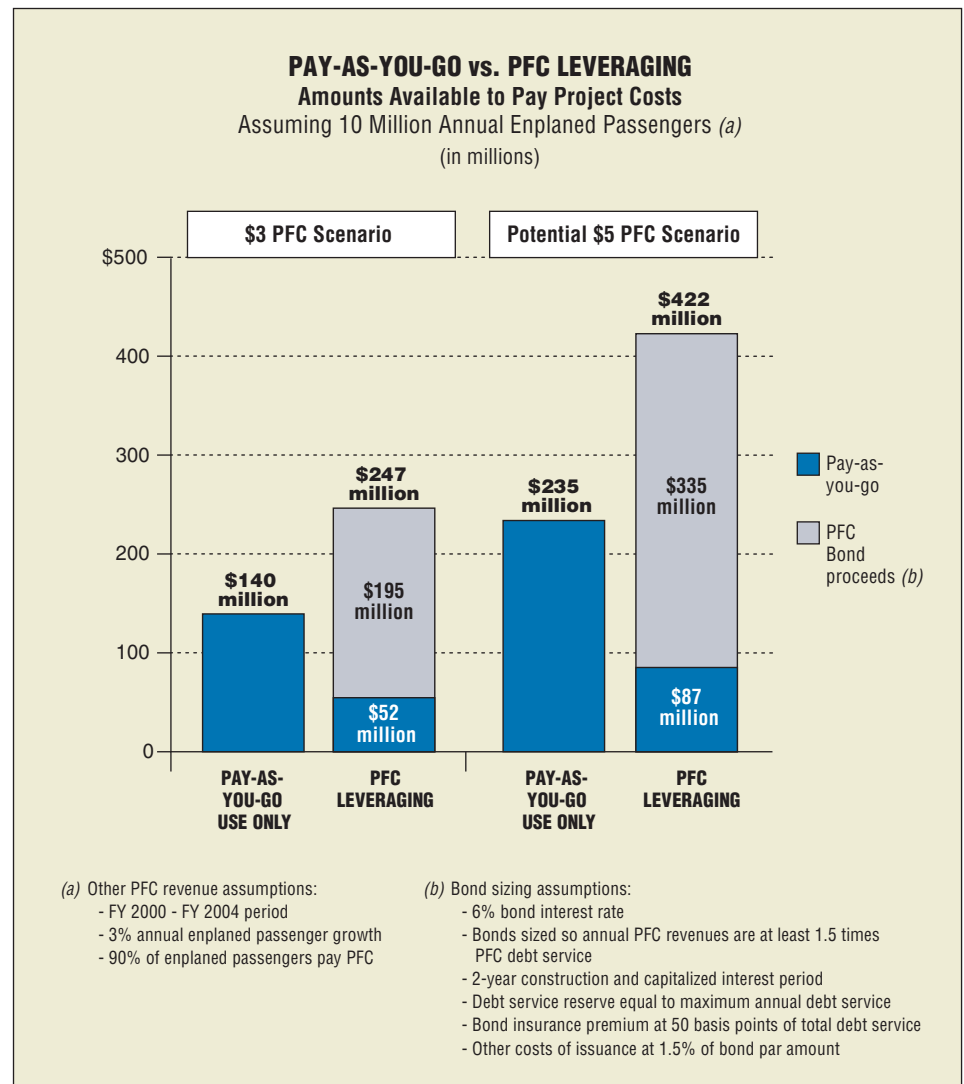
- Using PFC revenues on a pay-as-you-go basis may make more sense for small projects or capital programs—where annual PFC revenues more closely match annual expenditure requirements—because interest and financing costs can be avoided
- The FAA and the investment community look for airport sponsors to maintain balanced PFC programs that include the use of PFC revenues both on a pay-as-you-go basis and to pay debt service on bonds

Regardless of the approach and structure used, leveraging PFC revenues provides airport sponsors with more available up-front PFC funding for airport projects. The graph below shows the additional funding that can be available up-front by leveraging PFC revenues under both a \$3 and a \$5 PFC—if a \$5 PFC were to be authorized by Congress.

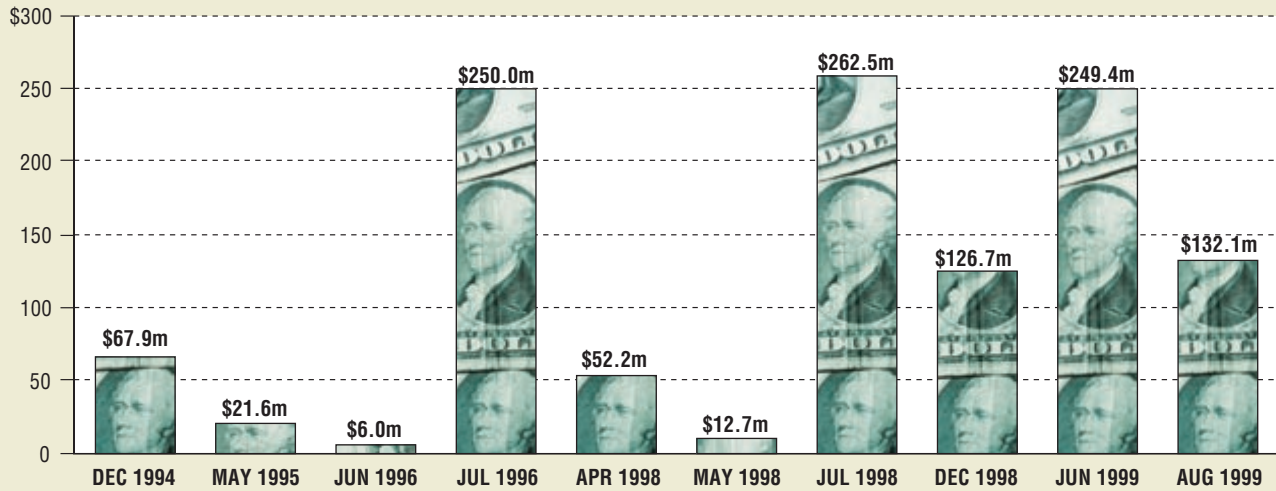
Two examples of alternative approaches to leveraging PFC revenues are The Port of Portland’s stand-alone PFC financing and the City of El Paso’s revenue bond financing involving a direct debt service offset.

The Port of Portland Series 1999 Stand-Alone PFC Financing

In August 1999, The Port of Portland issued \$132.1 million of stand-alone PFC revenue bonds to finance terminal expansion, roadway improvements, and the Port’s share of a light-rail extension to Portland International Airport. By using stand-alone PFC bonds, the Port was able to maintain its general airport revenue bond capacity for other required airport projects. The Port’s existing bond ordinance did not address the use of PFC revenues to support bonds. The Port created a master PFC bond



STAND-ALONE PFC BOND ISSUES TO DATE
Excluding Refunding and Line-of-Credit Financings
(in millions)



Issuer:	New Orleans Aviation Board	City of Little Rock	Capital Region Airport Comm. (Richmond, VA)	City of Chicago	Lee County (Fort Myers)	Palm Springs Financing Authority	Port of Seattle	Broward County (Fort Lauderdale)	Massachusetts Port Authority (Boston)	The Port of Portland
Underwriter:	Alex. Brown & Sons	Lehman Brothers	NationsBank	Smith Barney	Salomon Smith Barney	Stone & Youngberg	Goldman Sachs	Lehman Brothers	PaineWebber	Goldman Sachs
Bond insurer:	Banque Paribas/Canadian Imperial (1)	Ambac	First Union National (1)	Ambac	Ambac	FSA	MBIA/Ambac	Ambac	FSA	Ambac
Underlying bond ratings:	A1 / VMIG-1 (2) A / A-1 (2) NR	NR (3) A - (4) BBB	NR A +/-A-1 (2) NR	A3 (5) A A	NR NR NR	NR NR NR	A2 A A	A3 A- A-	A2 A A	NR A NR

NR = No underlying rating. (1) Letter of credit backing. (2) First rating shown is long-term rating and second rating shown is short-term rating. (3) Moody's did not initially rate this issue, but subsequently gave this issue an insured rating of "Aaa". (4) S&P initially rated this issue "BBB". S&P upgraded the rating for this issue to an "A-" in July 1999. (5) Moody's issued this rating after bonds had been issued.

ordinance that provides flexibility in the use of excess PFC revenues and the optional future use of other revenue sources to pay debt service. The Port's PFC bond ordinance structure (similar to structures used in Seattle, Boston, and Fort Lauderdale) allows the Port to use PFC revenues in excess of annual PFC debt service for approved pay-as-you-go projects—after meeting a first lien sufficiency test.

Key Features of the Portland Approach

- Bonds are secured by PFC revenues only.
- Bonds are long term (25 years).
- Open lien structure allows PFC revenues in excess of PFC debt service to be used for approved pay-as-you-go projects and permits the issuance of additional bonds if certain tests are met.
- First lien sufficiency covenant helps ensure the availability of PFC revenues to pay future PFC debt service (see page 4).
- FAA granted limited waiver of termination on a project-by-project basis, protecting PFC collections to pay debt service for 5 years (except for violations of the Airport Noise and Capacity Act, i.e. the Noise Act).
- The Port can substitute other revenue sources for PFCs in the future.

To give rating agencies and investors confidence in the future PFC revenue stream, numerous sensitivity analyses of potential risks were conducted, including slow to no growth in enplaned passengers, loss of low-fare service, changes to Delta's hub operation at the airport, and a lower percentage of passengers paying a PFC. The bonds were given an underlying rating of "A" by Standard & Poor's.

City of El Paso Series 1996 Airport Revenue Bond Financing

In November 1996, the City of El Paso issued \$46.8 million of airport revenue bonds to fund certain projects at El Paso International Airport, including renovation of the terminal and reconstruction of a runway and the terminal ramp. With no outstanding debt at the time, the City was able to create a bond ordinance with a flexible PFC leveraging approach. In addition to net airport revenue, the City planned to use PFC revenues to pay debt service on approved PFC projects. Under this direct debt service offset approach, PFC revenues committed to pay the PFC portion of the following year's debt service are transferred to the revenue bond debt service account—and in the calculation of debt service coverage, debt

service is offset directly by PFC revenues before coverage is calculated. Any remaining PFC revenues are either applied to other approved pay-as-you-go PFC projects or accumulated in a PFC capital project account.

Key Features of the El Paso Approach

- Bonds are secured by general airport revenues; PFC revenues are directly applied to offset PFC debt service but do not secure the bonds.
- Demonstrated debt service coverage is higher relative to approaches in which PFC revenues are defined as airport revenues.
- The City covenants to apply PFC revenue to pay debt service for only a specific period (first 5 years of the bonds).
- PFC revenues are collected in one year and set aside for payment of debt service in the following year (prefunded) to provide greater payment certainty.
- Debt service may be included in the airline rate base if PFC revenues are unavailable or required for other uses.

These bonds were initially given underlying ratings of "A" by Moody's Investors Service and "A+" by Fitch IBCA. In 1998, Moody's refined its underlying rating from "A" to "A2." ■

APPROACHES TO LEVERAGING PFC REVENUES

Four approaches used by airport sponsors to leverage PFC revenues are highlighted below. Several factors must be considered when deciding which approach to use, including (1) existing bond structure(s)/indenture(s), (2) existing airline agreement(s), (3) existing and future capital

project requirements, (4) airport financing goals, and (5) the need for future flexibility in financing capital projects. To date, most airport sponsors that have leveraged PFC revenues have used approaches that either supplemented or combined PFC revenues with airport revenues

(or some other revenue source) to pay debt service. Ten airport sponsors to date have completed stand-alone PFC financings, several of which have brought long-term stand-alone PFC bonds into the mainstream in terms of credit market acceptability. ■

Combined Flow of Funds

PFC revenues, or certain PFC revenues, are defined as airport revenues in bond indenture. Combined airport revenues are used to pay general airport revenue bond debt service.

Advantages

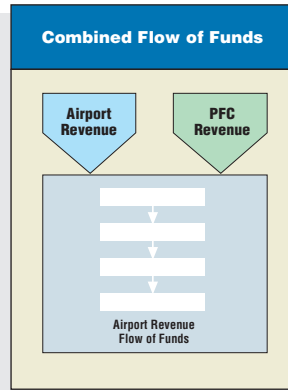
- Relatively easy to incorporate into existing revenue bond indenture
- Lower acceptable debt service coverage relative to stand-alone approach—combined airport revenues greater than 1.25x - 1.35x debt service

Disadvantages

- Bonds issued under this approach reduce sponsor's general airport revenue bond capacity
- Airline majority-in-interest (MII) approval may be required

Airports using this approach include those in:

Albuquerque, Guam, Orlando



Back-Up Pledge of Subordinate Airport Revenues

Bonds are secured by PFC revenues with a back-up pledge of subordinate airport revenues.

Advantages

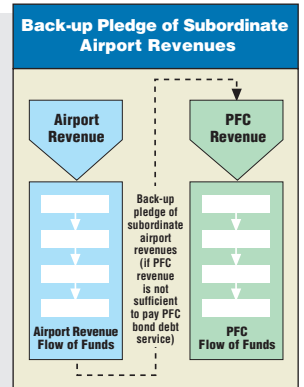
- Enhances creditworthiness of issue with second security pledge
- Keeps costs out of airline rate base
- Lower acceptable debt service coverage relative to stand-alone approach—PFC revenues greater than 1.25x - 1.35x debt service
- Preserves senior lien general airport revenue bond capacity
- Maximizes airport management control over airport financing decisions

Disadvantages

- Not applicable to airports with an existing bond indenture that includes PFC revenues in the definition of airport revenues or pledges them elsewhere

Airports using this approach include those in:

Baltimore, Las Vegas, Nashville, Sacramento



Direct Debt Service Offset

Bonds are secured by general airport revenues. PFC revenues are used to pay (or help pay) general airport revenue bond debt service, but do not secure the bonds. Debt service may be included in the airline rate base if projected PFC revenues are not realized.

Advantages

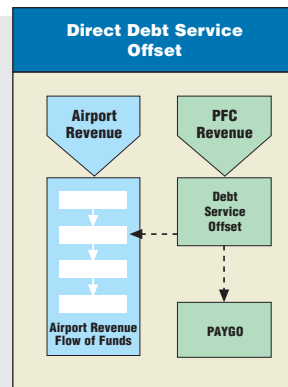
- Higher demonstrated debt service coverage relative to combined flow of funds approach as PFC revenues directly offset debt service
- Lower acceptable debt service coverage relative to stand-alone approach—airport revenues greater than 1.25x net debt service

Disadvantages

- Does not preserve general airport revenue bond capacity
- Not applicable to airports with an existing bond indenture that includes PFC revenues in the definition of airport revenues or pledges them elsewhere
- Airline MII approval may be required

Airports using this approach include those in:

Albany, Austin, Cleveland, Denver, El Paso, Grand Rapids, Providence



Stand-Alone

Bonds are secured by PFC revenues only.

Advantages

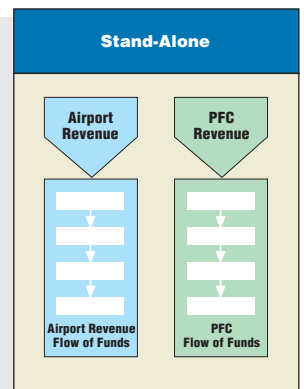
- Preserves general airport revenue bond capacity
- Keeps costs out of airline rate base
- Maximizes airport management control over airport financing decisions (no MII approval required)

Disadvantages

- Involves development of new bond indenture or structure
- Requires FAA termination waiver provisions and approval of PFC bond indenture
- Requires more rigorous tests and sensitivities
- Higher acceptable debt service coverage relative to “double-barreled” approaches—PFC revenues greater than 1.5x debt service
- Not applicable to airports with an existing bond indenture that includes PFC revenues in the definition of airport revenues or pledges them elsewhere

Airports using this approach include those in:

Boston, Chicago, Fort Lauderdale, Fort Myers, Little Rock, New Orleans, Palm Springs, Portland, Richmond, Seattle



THE FIRST LIEN SUFFICIENCY TEST—STAND-ALONE PFC FINANCINGS

When the first PFC stand-alone bond issues were being completed, rating agencies were concerned that the potential overcommitment of PFC spending would lead to insufficient PFC revenues to pay future PFC bond debt service. Specifically, rating agency analysts were concerned that an airport sponsor issuing stand-alone PFC bonds might reach its total PFC collection authority prior to final PFC bond maturity (due to higher-than-expected numbers of enplaned passengers or a higher percentage of passengers paying a PFC) and then overcommit its PFC fund balances, potentially resulting in insufficient funds to pay remaining PFC bond debt service. Working with Standard & Poor's to address these concerns, members of the Port of Seattle's

financing team developed the first lien sufficiency test in connection with the Port's \$262.5 million Series 1998 PFC Revenue Bonds—the largest stand-alone PFC financing to date. Pursuant to the First Lien Sufficiency Covenant included in its master PFC bond resolution, the Port of Seattle agreed to (1) manage PFC spending so that total unspent and uncollected PFC authority would always exceed total outstanding PFC bond debt service by at least 1.05 times and (2) perform a first lien sufficiency test periodically while PFC bonds were outstanding to demonstrate compliance with the covenant. The First Lien Sufficiency Covenant has also been used in stand-alone PFC financings completed by Broward County, the Massachusetts Port Authority, and The Port of Portland. ■

Sufficiency Covenant:

Unspent PFC Authority	=	$\frac{A}{B}$	=	At least 1.05
Projected Aggregate Principal and Interest on All Outstanding PFC Bonds				

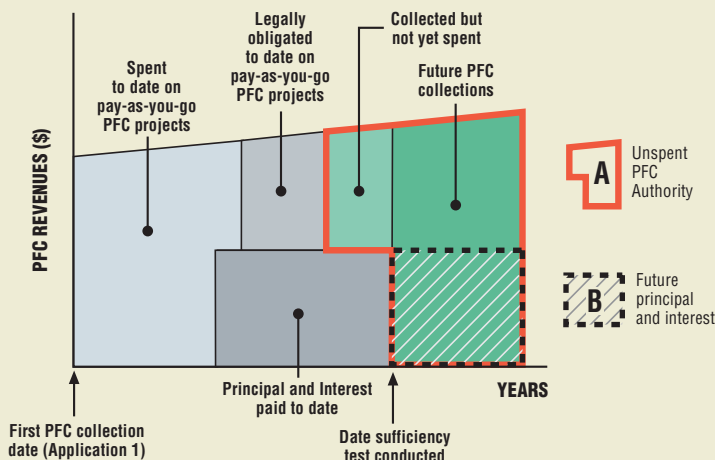
Where: Unspent PFC Authority = PFC authority under all FAA records of decision

Less: Amounts spent to date on PFC pay-as-you-go projects

Less: Amount legally obligated on PFC pay-as-you-go projects

Less: Principal and interest paid to date

TOTAL PFC AUTHORITY



WHAT ARE FAA TERMINATION WAIVER PROVISIONS?

A credit concern associated with stand-alone PFC bonds has been the FAA's ability to terminate an airport sponsor's authority to impose a PFC and use PFC revenues as a result of the sponsor potentially violating the Noise Act, the PFC Act, the PFC regulations, or any PFC approvals. To address this concern regarding potential violations (except violations of the Noise Act), the FAA has granted certain airport sponsors that leverage PFC revenues limited PFC termination protection in PFC records of decision. After obtaining PFC termination waivers from the FAA, the airport sponsor would follow the steps below to obtain the actual termination protection:

1. Certify to the FAA that approved PFC projects have been completed.
2. Certify that PFC bond proceeds have been used in accordance with the applicable PFC bond indenture, the PFC Act, the PFC regulations, and PFC approvals for those projects.

Then, in the event of a suspected violation by the airport sponsor of the PFC Act, the PFC regulations, or any PFC approvals that is not

satisfactorily addressed in the 180-day informal resolution process or any formal termination procedures, the FAA will (depending on the specific termination protection obtained) allow the airport sponsor to continue collecting PFC revenues to pay debt service on any outstanding stand-alone PFC bonds either (1) to the earliest date the bonds can be redeemed or (2) for a specific period of time following completion of formal PFC termination proceedings.

The FAA first granted limited termination protection in connection with PFC bond projects to the City of Chicago to the earliest date on which the bonds could be redeemed, including the amount of PFC revenues necessary to redeem those bonds. Broward County received the same long-term termination protection, as did the Port of Seattle, except Seattle's was on a project-by-project basis, and the Massachusetts Port Authority received such protection on a sub-project basis. Recently, the FAA granted termination protection in connection with PFC bond projects to The Port of Portland for 5 years following the completion of formal PFC termination proceedings. The FAA is expected to use this 5-year termination waiver as a standard feature in records of decision for

future stand-alone PFC bond issues. While the 5-year termination protection may initially have been viewed as less desirable than protections granted in earlier PFC stand-alone issues, The Port of Portland received an underlying rating of "A" from Standard & Poor's. This rating is comparable to ratings for previous PFC stand-alone issues with longer PFC termination waivers from the FAA. ■

Leigh Fisher Associates prepared the feasibility studies for stand-alone PFC bonds issued by Broward County, Lee County, the Massachusetts Port Authority, The Port of Portland, and the Port of Seattle and for numerous bond issues using double-barreled approaches.

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