

Tower Gap Funding Analysis



Temporary Gap Funding/Cash Flow – Line of Credit

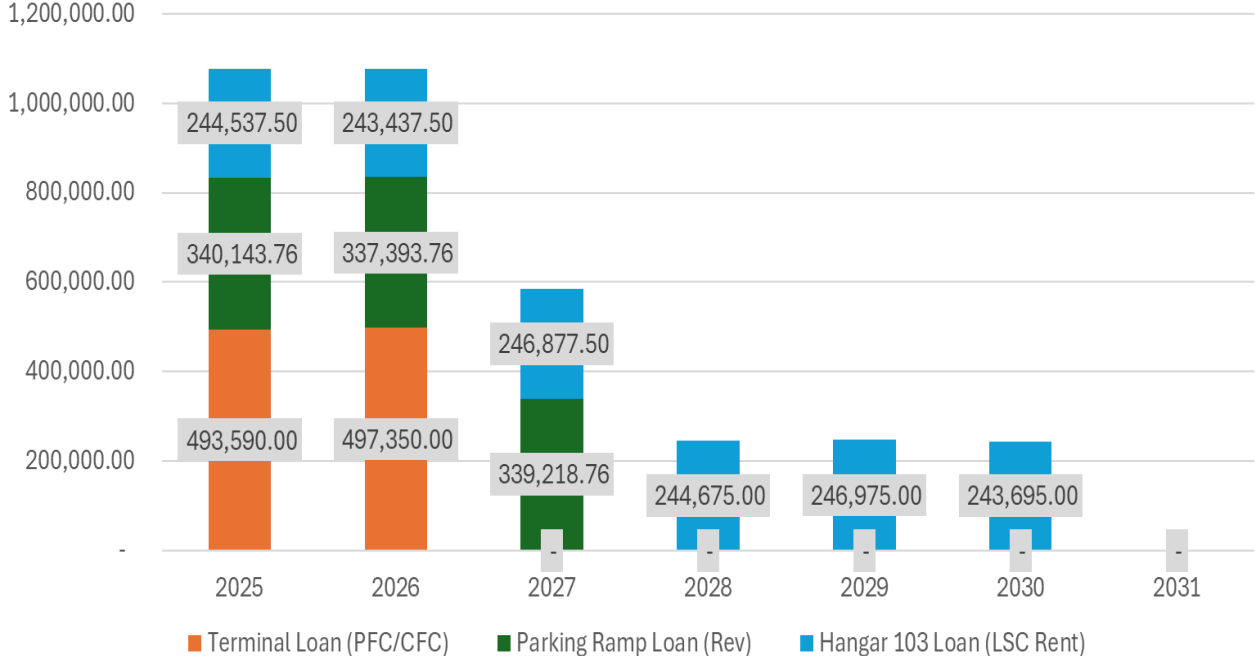
- Line of credit options discussions between the City and DAA have been occurring as the current line \$2M of credit expires on December 31, 2025.
- DAA has requested City support of a \$10M line of credit through the City of Duluth. The City staff has determined this would be acceptable with proper approvals.
- An agreement would need to be approved by the DAA board and the City Council to authorize the line of credit.
- A new line of credit will have an increased interest rate from the previous. Currently proposed at 4.5%.
- The DAA and City staff are working to come to terms and agreement on a new line of credit for \$10M which would could be established as soon as January 1, 2026.
- This line of credit would be used for cash flow purposes during construction as the grants are on a reimbursement basis as well as short term gap funding until funding package is finalized.
- Any long-term gap funding would need another source of funding, such as GO Bonds issued by the City of Duluth with a loan agreement to the DAA.

Gap Funding – GO Bonds

- If full funding is not received to complete the tower project, the DAA has the ability through the City of Duluth to have GO Bonds issued by the City and a new loan agreement written between the City of Duluth and DAA.
- Several GO Bond scenarios have been prepared as estimates for future debt service obligations on the tower.
- Each of these scenarios assume an October 2026 issuance date.
- Each of these scenarios have an annual debt service requirement above and beyond the debt service which will be paid off by the DAA within the next two years.

DAA Debt Service Capacity

Debt Service Outlook



- The DAA will naturally have some debt service capacity in 2028 as the parking ramp loan is paid off in 2027.
- The annual debt service capacity is around \$340k.
- Utilizing this debt service capacity comes with the risk of not implementing other components of the strategic plan, potential local shares for new revenue generating projects, etc.
- The LSC loan is paid off in 2030. It is uncertain whether additional capacity would be gained at that time. The LSC lease will need to be renegotiated beyond 2030.

GO Bond Scenarios

Deposit to Fund	Term (Yrs)	Total P&I Payments	Average Coupon	AIC Cost	Total Interest & Issuance Costs	Rounded Annual Payment	Monthly FAA Lease Debt Service Cost to Cover Full	Monthly FAA Lease Debt Service Cost if DAA Covers \$340K Annually
\$ 5,000,000.00	5	\$ 5,982,442	4.71%	5.60%	\$ 982,442	\$ 1,200,000	\$ 100,000.00	\$ 71,666.67
\$ 5,000,000.00	10	\$ 6,761,358	5.03%	5.51%	\$ 1,761,358	\$ 677,000	\$ 56,416.67	\$ 28,083.33
\$ 5,000,000.00	15	\$ 7,736,408	5.40%	5.73%	\$ 2,736,408	\$ 518,000	\$ 43,166.67	\$ 14,833.33
\$ 10,000,000.00	10	\$ 13,440,245	5.03%	5.40%	\$ 3,440,245	\$ 1,345,000	\$ 112,083.33	\$ 83,750.00
\$ 10,000,000.00	15	\$ 15,372,163	5.40%	5.65%	\$ 5,372,163	\$ 1,076,000	\$ 89,666.67	\$ 61,333.33
\$ 12,000,000.00	20	\$ 21,135,613	5.72%	5.89%	\$ 9,135,613	\$ 1,055,500	\$ 87,958.33	\$ 59,625.00
\$ 16,000,000.00	20	\$ 28,082,990	5.72%	5.85%	\$ 12,082,990	\$ 1,405,500	\$ 117,125.00	\$ 88,791.67

- Risks to DAA:
 - Each scenario commits to a debt service obligation above and beyond what DAA staff currently sees as debt service capacity.
 - There is no current commitment from the FAA to cover debt service costs in a lease agreement with the DAA. Due to the government shutdown, there was no way to get an answer to this question.
 - The FAA recently had requested only 5-year terms on lease agreements; however, a 10-year agreement had been approved in the past and would be requested by DAA staff.
 - If FAA is unable to pay for debt service as a part of a lease agreement, the DAA currently has no new sources of revenue to offset a new cost to the magnitude of any of the scenarios above.

Summary

- **Temporary & Long-term Cash Flow/Gap Funding:** LOC of \$10M can be issued by the City with approval from DAA Board and city council. GO Bonds/City Loan could be established for long-term needs.
- **Debt Service Capacity:** \$340k debt service capacity identified in 2028.
- **Loan Payments Estimates:** Payments for a \$5-\$16M loan would all be well above the \$340k debt service capacity identified and would place a significant financial constraints on the DAA.
- **Uncertain Future Debt Service Coverage:** There may be potential to include debt service payments in a lease agreement with the FAA, but at this time that is unknown.