

GROVER C. ROBINSON, IV
MAYOR

MEMORANDUM

TO: Triumph Gulf Coast, Inc. Board of Directors

FROM: Grover C. Robinson, IV, Mayor



DATE: February 1, 2019

RE: Triumph Gulf Coast, Inc. - Board Meeting
February 8, 2019 9:30 AM
Panama City, Florida

Background

In its meeting on July 18, 2018, the Triumph Gulf Coast, Inc. Board of Directors (Triumph) approved a \$56 million grant award to the City of Pensacola (City) for the expansion of a Maintenance, Repair and Overhaul (MRO) Aviation campus (Project Titan) at Pensacola International Airport, contingent upon all other funding being secured by December 31, 2018. On October 23, 2018 Triumph approved a term sheet with the City, and both parties are currently working toward the finalization of a Grant Agreement consistent with the Term Sheet. Separately, Triumph has completed a Term Sheet and is working toward finalization of a Performance Agreement with VT Mobile Aerospace Engineering, Inc. (now branded as ST Engineering and hereinafter referred to as ST). In the interim, the City has been working diligently to secure all of the funding required for Project Titan and has made significant progress in securing grant funding from multiple parties, as detailed in **Funding Status** below. On December 7, 2018, Triumph extended the funding commitment deadline to March 31, 2019.

The following information is being submitted by the City to Triumph in support of City's request for an additional grant award of \$12.5 million, bringing the total grant award amount from Triumph to \$68.5 million. With this additional grant award from Triumph, City believes it will have secured, received firm commitments or have otherwise planned for 100% of the funding necessary to proceed with the development of Project Titan. Accordingly, City also requests that the March 31 grant contingency deadline regarding other financial commitments be removed, thereby providing assurance to ST and City that all funds are substantially committed in order to timely commence Project Titan.

Current Status of MRO Aviation Campus at Pensacola International Airport

On October 27, 2018, the City of Pensacola and ST entered into a binding MOU to enter into a Development Agreement for the construction of Project Titan at Pensacola International Airport, contingent upon the commitment of funding needed for the project.

Overall, the MRO Aviation Campus is a \$335 million development owned by the City, and Project Titan represents \$210 million of City owned infrastructure, which includes three MRO Aviation Hangars, an Administrative Office building and Warehouse/Shops and support facilities, along with supporting aprons, roadways, taxiways, and related site development. Upon completion of Project Titan, ST is committed to create 1,325 new direct jobs in the aviation/aerospace industry sector with an average annual wage of at least \$45,394. In addition to average compensation, ST provides an attractive benefits package to its employees. Further, ST will contribute \$35 million cash to Project Titan, will agree to pay rent of approximately \$1 million per year to City under a triple net Master ground lease and will, under the Master lease, the Triumph and other grant agreements, be subject to claw back provisions if their jobs commitment is not met.

City and ST have been in ongoing negotiations regarding the Development Agreement and Master Lease for Project Titan. Furthermore, both parties have commenced planning and development activities for Hangar 2 (part of Project Titan), again contingent upon obtaining full funding. However, Project Titan is now at a critical moment for two reasons. We have been told by ST leadership that by February 14, ST must be able to make a corporate decision about either proceeding with Project Titan in Pensacola or seeking an alternative to their business plans elsewhere. As they are the global leader in providing MRO services and the MRO business is a highly desirable sector in the Aviation/Aerospace industry, the competition from other cities is both abundant and intense. Second, the Triumph grant award commitment has a deadline of March 31, therefore it is essential to resolve all funding issues immediately.

Funding Status

As previously noted, the City has been diligent and tireless in its efforts to acquire funding for Project Titan. The Triumph board will recall that at the time of City's initial application, City had already identified a funding shortfall of \$10.125 million which it needed and planned to resolve (See Triumph application page 53). This shortfall was based on City's best estimate at the time of its potential funding partners and amounts. Since that time and notwithstanding the best efforts of the City, the expected Source of Funds did not materialize as City anticipated. The following chart illustrates how the grant awards actually received compared to what City forecast at the time of its initial application:

Source of Funds	PROJECT TITAN		
	Requested funds	Actual funds	Difference
ST Engineering	35,000,000	35,000,000	0
FDOT	50,000,000	25,000,000	(25,000,000)
County	12,000,000	10,000,000	(2,000,000)
City	8,000,000	10,000,000	2,000,000
Federal EDA	17,000,000	12,250,000	(4,750,000)
Governor's Job Growth Fund - Year 1	4,000,000	4,000,000	0
Governor's Job Growth Fund - Year 2	15,000,000	10,000,000	(5,000,000)
Legislative Appropriation	3,000,000	3,000,000	0
Triumph	56,000,000	56,000,000	0
Funding shortfall known at time of Triumph application	10,125,000	0	(10,125,000)

TOTAL CURRENT Over (Short)	210,125,000	165,250,000	(44,875,000)
Current Funding Activities (See discussion below)			
Additional request – City (February 6, 2019)			5,000,000
Additional request – County (February 7, 2019)			5,000,000
Additional request – FDOT			20,000,000
Anticipated Additional Funding - City			2,375,000
Triumph Request for Remaining Shortfall (February 8, 2019)			12,500,000
Total Additional Funding Activities			44,875,000

Status of Ongoing Funding Activities

Additional FDOT Funding

Given the change of administrations at both the state and city level; and the acknowledgement of the identified funding shortfall, Mayor Robinson, City Administrator Holley and City staff have gone back to state funding partners to discuss options for covering the shortfall. Now that Governor Desantis and most of his leadership team are in place, including new FDOT Secretary Thibault, the Mayor and staff met in Tallahassee January 23-25 with several key leaders and had positive discussions about the State of Florida and FDOT support for Project Titan. The Mayor also met with District 3 Secretary Phillip Gainer in Chipley, who continues to be supportive and an advocate for this project. Also, the Mayor has discussed Project Titan with the members of the NW Florida delegation and has their support for this project. Mayor Robinson has requested that FDOT make an additional award of \$20 million to Project Titan. While not confirmed at this time, it is reasonable to be optimistic that an additional \$20 million will be earmarked for this project by the state of Florida, and the City anticipates being able to provide additional information to the Triumph Board at its February 8 meeting.

Additional City and County Funding

The Mayor has asked for a special meeting of Pensacola City Council to be held on February 6, 2019 to consider the Mayor's request for an additional \$5.0 million for Project Titan. Also, the Mayor has made a request to the Escambia Board of County Commissioners for an additional \$5.0 million for Project Titan and will be appearing before the Board at its next meeting on February 7. If these meetings are successful and additional funding is committed by the City and County, City is hopeful that this demonstration of additional local "skin in the game" will be a positive influence on the Triumph board in its decision to provide the additional funding requested.

Additional Funding of \$2.375 million

The City will be responsible for the remaining \$2,375,000 as needed, however the City will continue to pursue additional funding sources to offset the remaining amount needed.

For example, the City has filed a \$6.0 million appropriations request with the Florida House of Representatives and Florida Senate for Project Titan. The final decision regarding this request will not be known until the 2019/20 budget is approved by the Governor in late April or early May. By way of background, last year the City also filed an appropriations request for \$6.0 million and actually received an appropriation of \$3.0 million. The City's local legislative delegation has assured the City that they will continue to seek additional legislative appropriations for Project Titan in future years as needed.

Jobs (Direct, Indirect and Induced) + Industry + Economic Diversification + Technical Workforce Training = Transformation

A frequently discussed evaluative metric is the cost per job associated with a Triumph grant. However, in the overall evaluation of any economic development project, there are many factors that should be considered in determining the economics of a grant award. As the Triumph board considers this request for additional funding, City urges Triumph to consider all of the transformative impacts this project will bring.

First, direct high-paying jobs subject to claw back are 1,325; and it is estimated that another 216 industry jobs will be created as a result of the MRO campus complex. When combined with the 400 new jobs associated with Hangar 1 (not a part of Project Titan) nearly 2,000 direct jobs in the targeted aviation/aerospace industry will be created. Further, indirect and induced jobs are estimated to be another 3,400, per the Haas Center study. The financial impact to the state of Florida is a net annual increase of GDP of \$600 million per year and a net annual increase in personal net incomes of \$400 million per year. These are incremental net new jobs and net new economic impacts and they are substantial. This type of economic impact is exactly the type of result Triumph was designed to create, and in the post-Hurricane Michael period, is absolutely essential to recovery and resiliency in the NW Florida region.

As a result of the scope and scale of this project, a new, vibrant and technologically advanced new industry is created in NW Florida, where none existed before. This industry creation is essential to future growth and will have significant spin-off effects including being a magnet for supply chain companies and most importantly, talent. The demand for talented workers will enhance local workforce development and certification programs currently in existence at local schools and colleges. Further it will provide job opportunities for transitioning military. And as a near-term strategy to meet the growing demand for a trained work force, the creation of an Aerospace Airman Academy, jointly developed by ST and local education providers, will develop a sustained pipeline of talent not only for ST but also for the aerospace industry in Florida. Chairman Gaetz has met directly with ST leadership and Triumph staff has had continuing discussions directly with ST about this Aerospace Airman Academy as a separate project from Project Titan. The term sheet between ST and Triumph includes a commitment between the parties to develop an MOU outlining the terms of an Aerospace Academy, as soon as practical after the grant agreement between City and Triumph is finalized.

Timing of Triumph funds – “Committed” Funds versus Schedule of Disbursements

The Triumph board may recall that the initial grant of \$56.0 million to the City was required to be committed from funds currently on hand and could not be contingent up Triumph's receipt of future BP payments. This requirement is based on the fact that the City cannot lawfully enter into contractual commitments to pay third parties if the primary source of funding is contingent. Further, ST has been

clear, in communications both to the City and to Triumph, that from a business perspective, the risk associated with the contingency for the expected receipt of future payments from BP is unacceptable to them. However, although the Triumph grant must be *committed* from funds on hand (as opposed to funds to be received in the future), the City has consistently acknowledged that those committed funds can be *disbursed* to the City over the course of several years if that is Triumph's desire. The City's position has not changed, but it should be noted that if, as and when Triumph receives the next annual \$80 million payment in April of this year, then Triumph's "funds on hand" will by definition increase by such amount.

With regard to the schedule of disbursement of funds, just as with regards to the initial \$56.0 million, City anticipates the additionally requested \$12.5 million would be disbursed in a manner consistent with the Funding Mechanism outlined in the agreed to Term Sheet, which basically follows the construction schedule for Hangars 3, 4 and the support facilities. The construction of Hangar 2 will not utilize Triumph funds; therefore, currently Triumph funds are not expected to be drawn until the first quarter of 2020, but, if Triumph so desires, the first disbursement of Triumph funds could conceivably be pushed back to 2021.

Airport Ground Rents from ST to Leverage Additional City Debt

One suggestion that the City has also evaluated in its efforts to reduce the funding shortfall is whether the stream of rental income to be received by the Airport from ST for its ground rents may be used to leverage additional debt to finance a portion of the construction costs. While this arrangement may be possible in normal commercial environments, the fact that the rental income is within the Airport and is Airport Revenue requires compliance with both Federal law as well as the Airline Operating Agreements between the City and the airlines utilizing Pensacola International Airport.

Under Federal law, Airport Revenue must be used exclusively for airport-related purposes. Federal law expressly prohibits the use of Airport Revenues for economic development and, consequently, the use of Airport Revenue to service a debt obligation related to general economic development is prohibited. Likewise, the FAA Compliance Manual provides that using airport revenue for general economic development is a prohibited use of airport revenue. The use of Airport Revenue for unauthorized or prohibited purposes is "revenue diversion", the penalties for which are severe, including the loss of future federal funding to the City.

Next and separate from the federal law prohibiting revenue diversion, any proposed diversion of ground rent to pay for debt service associated with special purpose facilities such as those in Project Titan would violate the City's Airline Operating Agreements and would likely result in a contract enforcement action by the airlines. The Airline Operating Agreements require all non-airline revenue to be used to reduce the annual airline landing fee requirement. Therefore, the Airport is prohibited from pledging ground rent to finance these type of costs as they would provide no direct benefit to the airlines and would not reduce landing fees. Such a use would cause the City to be in default of the Airline Operating Agreement and the mere filing of an enforcement action by the airlines would defer and ultimately make Project Titan not viable.

Short Term Transitional Financing

It is anticipated that Triumph funds will be drawn toward the latter stages of the project. Based on City's analysis of the timing of flow of funds, there will be years when transitional bridge financing may be needed to cover temporary fund shortfalls, pending the future receipt of grant funds. The City has the

ability to enter into bridge financing arrangements, similar to Hangar 1 transitional financing. Costs associated with such bridge financing will be project costs and consequently do not affect airport operations. Subsequent grant awards will be used when available to repay the temporary financing obligation.

Conclusion

The development of an MRO Aviation Campus at Pensacola International Airport is a transformative project for NW Florida and the state. The City is aware of no other projects in the pipeline that have the scale and scope to deliver high paying jobs, create a targeted industry, build a trained workforce and create economic resiliency that mitigates risks associated with either an economic downturn or a natural disaster. Project Titan is an outstanding example of the economic development activity that Triumph Gulf Coast was designed to promote.

We are grateful for the support that Triumph has shown to the City of Pensacola and urge the Board to approve the current request for \$12.5 million of additional funding. City also requests that the March 31 grant contingency deadline regarding other financial commitments be removed, thereby providing timely assurance to ST and City that all funds are substantially committed in order to commence Project Titan.

Project Titan Sources and Uses of Funds
Pensacola International Airport
For Periods Ending September 30

Funding Uses	Amounts					Total
	Total FY 2019 Project Year 1	Total FY 2020 Project Year 2	Total FY 2021 Project Year 3	Total FY 2022 Project Year 4	Total FY 2023 Project Year 5	
Hangar 2 Plans and Specifications Construction Costs	\$ 3,676,000	\$ 3,674,000	13,882,000			\$ 7,350,000
TOTAL	\$ 49,000,000	\$ 27,768,000				\$ 41,650,000
Hangar 3 Plans and Specifications Construction Costs		\$ 6,600,000	\$ 1,650,000	26,713,000		\$ 8,250,000
TOTAL		\$ 55,000,000	\$ 20,037,000			\$ 46,750,000
Warehouse Plans and Specifications Construction costs		\$ 2,280,000	\$ 570,000	6,460,000		\$ 2,850,000
TOTAL		\$ 19,000,000	\$ 9,690,000			\$ 16,150,000
Hangar 4 Plans and Specifications Construction costs		\$ 3,300,000	\$ 4,950,000	26,716,000	13,355,000	\$ 8,250,000
TOTAL		\$ 55,000,000	\$ 6,679,000			\$ 46,750,000
Office Building Plans and Specifications Construction costs		\$ 3,840,000	\$ 960,000	10,928,000		\$ 4,800,000
TOTAL		\$ 32,125,000	\$ 16,397,000			\$ 27,325,000
Total Use of Funds	\$ 210,125,000	\$ 47,462,000	\$ 74,815,000	\$ 70,817,000	\$ 13,355,000	\$ 210,125,000

Funding Sources	Amounts					Total
	Total FY 2019 Project Year 1	Total FY 2020 Project Year 2	Total FY 2021 Project Year 3	Total FY 2022 Project Year 4	Total FY 2023 Project Year 5	
Beginning Balance Fund Requirement - Over/(Short)						
ST Engineering Aerospace (formerly VT MAE)	\$ 1,838,000	\$ 9,848,000	\$ 6,998,000	\$ 23,314,000	\$ -	\$ 35,000,000
Legislature	3,000,000	-	-	-	-	3,000,000
Governors Job Growth	4,000,000	10,000,000	-	-	-	14,000,000
FDOT - Grant ¹	-	8,000,000	14,000,000	1,000,000	2,000,000	25,000,000
FDOT - Grant ²	-	-	-	10,000,000	10,000,000	20,000,000
City	6,000,000	6,000,000	2,000,000	7,000,000	-	15,000,000
Federal EDA	12,250,000	12,250,000	-	-	-	12,250,000
Triumph	68,500,000	-	51,817,000	16,683,000	-	68,500,000
Anticipated Additional Funding (City Responsibility)	2,375,000	-	-	-	2,375,000	2,375,000
Total	\$ 14,838,000	\$ 43,298,000	\$ 67,817,000	\$ 59,997,000	\$ 24,175,000	\$ 210,125,000
Net Funding	\$ 14,838,000	\$ 54,460,000	\$ 74,815,000	\$ 59,997,000	\$ 13,355,000	
Annual Project Fund Requirement - Over/(Short) -- negative years will require cash flow financing.	\$ 11,162,000	\$ 6,998,000	\$ -	\$ (10,820,000)	\$ -	