From: Pancholy, Anita [anita.pancholy@spglobal.com]
Sent: Wednesday, September 7, 2016 2:57 PM
To: David Thomson
Subject: RE: S&P credit rating review for Lambert- St. Louis Airport

Classification: Internal

David,
My apologies that this is so late in the day. As a note, most of my questions are based off of items I pulled from the audit, airport's website, and attached disclosure. If a revision to the disclosure has been done, let me know. I have highlighted items that are document requests.

<u>Operational update:</u>

1) What are you hearing from the airlines in terms of scheduled service? How has service on Southwest fared with the new gates and destinations? Are most of these likely to stay through 2017? YTD results demonstrate a large increase of course, but in the airport's view is this sustainable going into 2017?
Based on conversations with Southwest Airlines, their Lambert-St. Louis International Airport (STL) operation is performing well. It is the Airport's view that the current schedule of service, across the board, is sustainable and will likely grow.

2) What routes have been added or expanded or reduced or eliminated since our last review (fall 2015)?
Southwest Airlines expanded operations at STL with new daily service to Little Rock AR, Pittsburgh PA, Des Moines IA, Wichita KS, Cleveland OH, Oakland CA, and Portland OR so far this calendar year. The only routes that were eliminated were Grand Rapids MI (WN) and Pittsburgh PA (AA). Pittsburgh was immediately pick-up by Southwest Airlines.

3) What are budgeted enplanements for fiscal 2016?

ENPLANEMENTS	Actual FY2016	Forecast FY2017
Signatory EP	6,644,250	6,658,000
Non-Signatory EP	24,832	1,900
Total EP's	6,669,082	6,659,900
Growth Rate	6.4%	-0.1% *

* The base Forecasted FY2017 enplanements were developed prior to receiving the results for FY2016 which indicated a growth rate of 6.4% over the prior year, we anticipate the FY2016 growth is sustainable going into FY2017 which may outpace the growth rate and non-signatory enplanements shown here. All forecasts are subject to uncertainty and actual performance may differ from the forecast as various factors can influence the future demand for travel.

<u>Financial information:</u>

4) Please provide unaudited or draft fiscal 2016 financial performance and the fiscal 2017 budget if approved.
Please note that we are providing unaudited FY2016 financial information due to our recent June 30 fiscal year end, the annual audit will commence soon and we anticipate the audit will be completed by December. We will be happy to forward more detailed financial information at that time. See attached unaudited FY2016 financial performance data and the FY2017 operating budget.

5) Are the cash and investment balances up because of bond proceeds being included in some of the unrestricted cash balances?
No. Cash and investment balances have not increased due to bond proceeds. The City of St. Louis has not issued any new General Airport Revenue Bonds (GARBs) in several years, however, please see question # 10 below regarding our plans to issue debt in the future.

6) Please provide fiscal 2016 unaudited cash balances. Based on the airport's CIP where do you expect cash balances to remain through 2017?
See attached unaudited FY2016 cash and investments balances. We anticipate our CIP planned for FY2017 will have a $4.3M net impact on cash balances during the fiscal year.

7) Fiscal 2017 budgeted CPE and DSC if available
FY2017 Budget
CPE – $12.99
DSC – 1.39

8) Can you provide an update on the airline use and lease agreement and how it may impact rates and charges going forward? The disclosure was pre-expiration so I am not incorporating those numbers into my analysis unless the airport feels these are good numbers.
The City of St. Louis entered into a new master Airport Use and Lease Agreement ("AUA") effective July 1, 2016, and expiring June 30, 2021. Contemporaneously, the City also adopted a new Airline Operating Agreement and Terminal Building Space Permit ("AOA"), which it makes available to airlines that elect not to enter into an AUA. The new 2016 AUA maintains a modified residual formula under which the signatory airlines pay fees and charges sufficient to ensure that the City has the wherewithal to continue operating the Airport in a safe and serviceable condition while continuing to meet all of the Airport's financial obligations.

Also, the new agreement includes a pre-approved, 5-year capital improvement program totaling approximately $170 million. The debt service associated with the capital projects included in the pre-approved list (approx. $86 million GARB funded) may be included in the rate-setting formulas. See question #4 below for more detailed information regarding the capital improvement program. The new AUA also provides more flexibility for capital improvement projects by:

- raising the threshold that triggers airline approval rights to projects with a net cost in excess of $200,000 (net of federal or state grants-in-aid or PFCs) (previously $100,000);
- providing more flexibility for changing previously approved projects (both for substitutions and higher bid amounts); and
- all together eliminating airline approval for projects funded by Airport Development Fund Deposits in excess of 6 percent.

Capital improvement plan

9) Please provide the airport's multi-year CIP.
Please see our attached 5 Year Capital Improvement Plan, By Project with Funding Sources.

10) What is the airport's 5-year plan focused on? What are the key funding sources, and how much of the plan is deferrable?
The new master AUA agreement includes a pre-approved 5 year capital improvement program totaling approximately $170 million. The 5 Year CIP Program consists of projects involving the maintenance, refurbishment, replacement, and modernization of existing Airport facilities, infrastructure, and equipment. The City is looking at using up to $86 million in General Airport Revenue Bonds (GARBs) with a 30 year term to fund the Net Cost (i.e., cost remaining after Passenger Facility Charge funds (PFC), Airport Improvement Program funds (AIP), Airport Development Funds (ADF) and other equity sources). The City contemplates that approximately $58 million in GARBs would be issued in FY2018 and approximately $28 million in GARBs in FY2020.

11) Are there any additional debt needs?
No.

I might have more based on responses but this is the bulk of the update I need. Thank you for facilitating—I am available for any follow up questions as needed of course.

Anita