

TO: James L. App, City Manager  
FROM: Mike Compton, Director of Administrative Services  
SUBJECT: Payoff Airport Promissory Note with General Fund  
DATE: March 1, 2005

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Needs: For the City Council to consider early retirement of promissory note due the General Fund from the Airport Operations Fund.

Facts:

1. During the presentation of Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004, it was reported that the continuing improvement of cash balances in the Airport Operations Fund provided an opportunity to retire this internal debt early.
2. At June 30, 2003, the Airport Operations Fund held \$548,800 in cash resources.
3. At June 30, 2004, cash assets had increased to \$575,400.
4. The balance outstanding on the promissory note is \$161,460.72 as of February 28, 2005.

Analysis  
and  
Conclusion:

In 1993, the Airport Operations Fund and other aviation related funds had negative cash balances totaling \$680,000. It was concluded that these negative cash balances were not compatible with Generally Accepted Accounting Principles (GAAP) and needed to be dealt with accordingly.

It was determined that the best solution was to consolidate all these sub-aviation funds into a single fund and eliminate the negative cash positions. This gave rise to the Airport Operations Fund and the borrowing of \$680,000 from the General Fund to eliminate the negative cash positions. The borrowing was accomplished via an internal promissory note between the two funds with an interest rate of 7.5%.

While the interest rate is favorable to the General Fund, the cost to the Airport Operations Fund is considerably greater than its earning on invested cash balances which at February 21 had risen to \$593,500.

It is recommended that the promissory note be retired.

Fiscal  
Impact:

There will be a loss of interest income to the General Fund of approximately \$17,000. over two and half years. A portion of the loss will be recouped from the re-investment of the payoff proceeds. The Airport Operations Fund would experience an identical reduction in its interest expense and would eliminate \$161, 460.72 in principal payments during this same time frame.

Options:

- a. That the Council authorize the early repayment of the outstanding balance of the Airport Promissory Note; or
- b. Amend, modify, or reject the above option.