

File No. 170211

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee Date April 20, 2017

Board of Supervisors Meeting Date _____

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Completed by: Linda Wong Date April 14, 2017
Completed by: Linda Wong Date _____

1 [Airport Commission Capital Plan Bonds - \$4,358,694,227 - Airport Commission Commercial
2 Paper Notes - \$100,000,000]

3 **Resolution approving the issuance of up to an additional \$4,358,694,227 aggregate**
4 **principal amount of San Francisco International Airport Second Series Revenue Bonds**
5 **to finance and refinance Airport Capital Plan projects; approving the issuance and re-**
6 **issuance from time to time of up to an additional \$100,000,000 aggregate principal**
7 **amount of San Francisco International Airport Subordinate Commercial Paper Notes**
8 **for any lawful Airport purpose; and ratifying and confirming certain Resolutions of the**
9 **Board and the Airport Commission related to the foregoing.**

10
11 WHEREAS, The Airport Commission of the City and County of San Francisco (the
12 "Airport Commission"), by its Resolution No. 91-0210, adopted on December 3, 1991 (as
13 supplemented and amended, the "1991 Resolution"), provided for the issuance of San
14 Francisco International Airport Second Series Revenue Bonds (the "Bonds") for any lawful
15 purpose of the Airport Commission; and

16 WHEREAS, The 1991 Resolution provides that the Airport Commission may issue
17 Bonds from time to time as the issuance thereof is authorized by the Airport Commission; and

18 WHEREAS, The Airport Commission, by its Resolution No. 08-0035, adopted on
19 February 19, 2008, as supplemented and amended, including by Resolution No. 10-0307,
20 adopted on October 5, 2010, Resolution No. 12-0050, adopted on March 20, 2012, Resolution
21 No. 14-0024, adopted on February 18, 2014, and Resolution No. 15-0182, duly adopted on
22 September 22, 2015 (collectively, the "Prior Capital Plan Bond Resolutions"), authorized the
23 issuance from time to time of up to \$5,016,725,000 aggregate principal amount of Bonds (the
24 "Capital Plan Bonds") for the purpose of financing and refinancing the development,
25 construction, acquisition and equipping of certain capital projects undertaken by the Airport

1 (the "Capital Plan") which are approved by the Airport Commission, of which an aggregate
2 principal amount of \$2,727,605,000 remains to be issued; and

3 WHEREAS, The Airport Commission, by its Resolution No. 16-0274, adopted on
4 November 1, 2016 (the "Nineteenth Supplemental Resolution"), authorized the issuance of up
5 to an additional \$2.775 billion aggregate principal amount of Capital Plan Bonds; and

6 WHEREAS, The Nineteenth Supplemental Resolution is intended to establish a
7 financing mechanism for the Capital Plan and does not constitute approval of or a
8 commitment to fund any particular project, which are approved by separate action of the
9 Airport Commission and/or the Board of Supervisors (the "Board"); and

10 WHEREAS, Under the Nineteenth Supplemental Resolution, the Airport Commission
11 may not authorize the sale of Capital Plan Bonds for construction costs of any project unless
12 and until the required environmental review, if any, for such project has been completed and
13 the Airport Commission has determined to proceed with such project and California
14 Environmental Quality Act ("CEQA") findings have been adopted as required by law; provided,
15 that Capital Plan Bonds may also be used to fund planning and development costs necessary
16 to prepare other projects for environmental review and the necessary approvals; and

17 WHEREAS, This Board by its prior resolutions, including by Resolutions Nos. 1006-92,
18 583-98, 224-99, 811-00, 800-03, 174-06, 229-08, 50-11, 349-12, 125-14 and 433-15
19 (collectively, the "Prior Board Revenue Bond Resolutions"), approved, among other things,
20 the 1991 Resolution, the Prior Capital Plan Bond Resolutions and the issuance of the Capital
21 Plan Bonds in an aggregate principal amount of not to exceed \$3,433,030,773, of which an
22 aggregate principal amount of \$1,143,910,773 remains to be issued; and

23 WHEREAS, The Airport Commission now seeks approval by this Board of (i) the
24 remaining \$1,583,694,227 aggregate principal amount of Capital Plan Bonds which the Airport
25 Commission has previously authorized but which have not yet been approved by this Board,

1 and (ii) the additional \$2.775 billion aggregate principal amount of Capital Plan Bonds
2 authorized by the Airport Commission pursuant to the Nineteenth Supplemental Resolution,
3 for a total requested approval by this Board of an additional \$4,358,694,227 aggregate
4 principal amount of Capital Plan Bonds; and

5 WHEREAS, The Airport Commission, by its Resolution No. 97-0147, adopted on
6 May 20, 1997, as supplemented and amended, including by Resolution No. 97-0148, adopted
7 on May 20, 1997, Resolution No. 99-0299, adopted on September 21, 1999, Resolution
8 No. 09-0088, adopted on May 5, 2009, and Resolution No. 10-0307 adopted on
9 October 5, 2010 (as supplemented and amended, collectively, the "Prior CP Resolutions"),
10 authorized the issuance and re-issuance from time to time of up to \$400,000,000 aggregate
11 principal amount of San Francisco International Airport Subordinate Commercial Paper Notes
12 ("Commercial Paper") to provide interim funding for any lawful purpose of the Airport
13 Commission; and

14 WHEREAS, This Board by its prior resolutions, including by Resolutions Nos. 620-97
15 and 113-02 (collectively, the "Prior Board CP Resolutions"), approved the issuance and re-
16 issuance from time to time by the Airport Commission of such Commercial Paper; and

17 WHEREAS, The Airport Commission, by its Resolution No. 16-0275, adopted on
18 November 1, 2016, (the "2016 CP Resolution"), authorized the issuance and re-issuance from
19 time to time of up to an additional \$100,000,000 aggregate principal amount of Commercial
20 Paper, for a new maximum authorized aggregate principal amount of \$500,000,000 of
21 Commercial Paper outstanding at any time; and

22 WHEREAS, Under the 2016 CP Resolution, proceeds of Commercial Paper shall not
23 be used for construction costs of any project unless the required environmental review, if any,
24 for such project has been completed and the Airport Commission has determined to proceed
25 with such project and CEQA findings have been adopted as required by law; provided, that

1 Commercial Paper proceeds may also be used to fund planning and development costs
2 necessary to prepare other projects for environmental review and the necessary approvals;
3 and

4 WHEREAS, The Nineteenth Supplemental Resolution and the 2016 CP Resolution
5 have been submitted to this Board and are on file with the Clerk of the Board of Supervisors in
6 File No. _____, which file is hereby declared to be a part of this resolution as if set forth
7 fully herein; and

8 WHEREAS, This Board desires to ratify and confirm the Prior Board Revenue Bond
9 Resolutions and the Prior Board CP Resolutions, each as modified and amended thereby and
10 hereby; and

11 WHEREAS, This Board also desires to ratify and confirm the 1991 Resolution,
12 including the Prior Capital Plan Bond Resolutions and the Prior CP Resolutions, as adopted
13 by the Airport Commission, each as modified and amended; and

14 WHEREAS, Section 4.115 of the Charter provides that the Airport Commission has the
15 exclusive authority to plan and issue Airport revenue bonds (collectively, including Bonds,
16 Commercial Paper and Airport Special Facility Bonds, "Airport Bonds") for Airport-related
17 purposes, subject to the approval, amendment, or rejection of this Board of each issue; and

18 WHEREAS, The interest on certain of the Airport Bonds may qualify for exclusion from
19 gross income for federal income tax purposes under Section 103(a) of the Internal Revenue
20 Code of 1986, as amended (the "Code") only if such Airport Bonds are approved as set forth
21 in this resolution in accordance with Section 147(f) of the Code; and

22 WHEREAS, This Board is the elected legislative body of the City and County of San
23 Francisco (the "City") and is the applicable elected representative authorized to approve the
24 Airport Bonds for purposes of Section 147(f) of the Code; and

1 WHEREAS, A notice of public hearing with respect to the Airport Bonds to be issued by
2 the Airport Commission in an aggregate principal amount not to exceed \$8.02 billion (the
3 “TEFRA Notice”), was published on November 21, 2016, not less than fourteen (14) days prior
4 to the public hearing, in a newspaper of general circulation available to the residents of the
5 City; and

6 WHEREAS, A public hearing was held on December 5, 2016, pursuant to such notice
7 and an opportunity was provided for interested persons to present arguments for and against
8 the issuance of such Airport Bonds and the nature and location of the projects to be financed
9 and refinanced with the proceeds thereof; and

10 WHEREAS, A summary of such arguments, if any, has been presented to and is on file
11 with the Clerk of the Board; now, therefore, be it

12 RESOLVED, That this Board hereby declares that each of the foregoing recitals is true
13 and correct and is a representation of this Board; and, be it

14 FURTHER RESOLVED, That capitalized terms used but not otherwise defined in this
15 resolution shall have the meanings set forth in the 1991 Resolution; and, be it

16 FURTHER RESOLVED, That (i) the issuance by the Airport Commission of Capital
17 Plan Bonds in an additional aggregate principal amount of up to \$4,358,694,227, and (ii) the
18 issuance and re-issuance from time to time of Commercial Paper in an additional aggregate
19 principal amount of up to \$100,000,000 for a new maximum authorized aggregate principal
20 amount of \$500,000,000 of Commercial Paper outstanding at any time, each are hereby
21 approved in accordance with Section 4.115 of the Charter; and, be it

22 FURTHER RESOLVED, That the Nineteenth Supplemental Resolution and the 2016
23 CP Resolution, as adopted by the Airport Commission, are hereby approved; and, be it

24 FURTHER RESOLVED, That the Airport Commission shall not approve the sale of
25 Capital Plan Bonds or use Commercial Paper proceeds to fund construction of any specific

1 Capital Plan project unless and until (1) the required environmental review, if any, for such
2 project has been completed, (2) the Airport Commission has determined to proceed with such
3 project, and (3) CEQA findings have been adopted as required by law; provided, that Capital
4 Plan Bonds and Commercial Paper may also be used to fund planning and development
5 costs necessary to prepare other projects for environmental review and the necessary
6 approvals; and, be it

7 FURTHER RESOLVED, That the Capital Plan Bonds shall be sold prior to
8 June 30, 2023; and, be it

9 FURTHER RESOLVED, That this Board, as an appropriate applicable elected
10 representative, hereby approves the Airport Bonds described in the TEFRA Notice for
11 purposes of, and in accordance with, Section 147(f) of the Code; and, be it

12 FURTHER RESOLVED, That the Prior Board Revenue Bond Resolutions and the Prior
13 Board CP Resolutions, each as modified and amended, including by this resolution, are
14 hereby ratified and confirmed; and, be it

15 FURTHER RESOLVED, That the 1991 Resolution, including the Prior Capital Plan
16 Bond Resolutions and the Prior CP Resolutions, as adopted by the Airport Commission, each
17 as modified and amended, are hereby ratified and confirmed; and, be it

18 FURTHER RESOLVED, That all actions heretofore taken by the officers, agents and
19 employees of the Airport Commission and the City to carry out the intents and purposes of
20 this resolution, as consistent with this resolution, are hereby ratified, approved and confirmed;
21 and, be it

22 FURTHER RESOLVED, That the Airport Commission and its proper officers, agents
23 and employees and those of the City are hereby authorized to execute and deliver such
24 certificates, documents and agreements as are contemplated by or required under the 1991
25 Resolution, the Prior CP Resolutions, any existing Airport Bond-related agreement or contract,

1 the applicable bond purchase agreement and any other applicable Airport Bond-related
2 agreement or contract authorized hereby (the "Contemplated Documents"), to carry out the
3 intents and purposes of this resolution and the transactions contemplated hereby, and to take
4 such other actions or execute such other certificates, documents and agreements, in
5 consultation with the City Attorney, as may be necessary or desirable to carry out the intents
6 and purposes of this resolution and the transactions contemplated hereby (the "Other
7 Documents"); provided, that any such other actions or execution of any such Other
8 Documents are intended solely to further the purposes of this resolution, and are subject in all
9 respects to the terms of this resolution; and provided further, that no such actions or execution
10 of such Other Documents shall increase the risk to the Airport Commission or the City or
11 require the Airport Commission or the City to expend any resources not otherwise authorized
12 hereby; and, be it

13 FURTHER RESOLVED, That the approvals contained in this resolution shall extend to
14 any amendments to the 1991 Resolution, including the Prior Capital Plan Bond Resolutions,
15 the Prior CP Resolutions, the Nineteenth Supplemental Resolution and the 2016 CP
16 Resolution, and to all resolutions of the Airport Commission supplemental thereto, as well as
17 to such additional resolutions that the Airport Commission may adopt for the purposes of
18 implementing the issuance, sale and delivery of any Airport Bonds, provided, that in each
19 case such amendment or additional resolution is consistent with the parameters set forth
20 herein; and, be it

21 FURTHER RESOLVED, That should the application of any provision of this resolution
22 to any particular facts or circumstances be found by a court of competent jurisdiction to be
23 invalid or unenforceable, then (a) the validity of other provisions of this resolution shall not be
24 affected or impaired thereby, and (b) such provision shall be enforced to the maximum extent
25 possible so as to effect the intents and purposes of this resolution.

Items 1 and 2
Files 17-0200 and 17-0211

Department:
 San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

File 17-0200 is an ordinance appropriating \$4,832,455,418 of Airport Capital Plan bonds, consisting of \$4,358,694,227 in new Airport Capital Plan revenue bond authorization (File 17-0211) and \$473,761,191 in previously authorized Airport Capital Plan bonds. The funds would be placed on Controller’s Reserve pending sale of the bonds or commercial paper.

File 17-0211 is a resolution authorizing (1) the sale of \$4,358,694,227 in Airport Capital plan revenue bonds; and (2) an increase in Airport Commercial Paper by \$100,000,000, from \$400,000,000 to \$500,000,000.

Key Points

- In FY 2015-16, the Airport had a record 51.4 million passengers, leading to congestion in the Airport. The Airport is requesting (a) additional revenue bond authorization to implement capital projects to address airport congestion, and (b) additional commercial paper authorization to increase the Airport’s capacity to issue short term, lower cost debt pending the sale of the bonds.
- Projects to be funded by the \$4.8 billion in Airport Capital Plan bonds are included in the Airports Five-Year Capital Plan and consist of: (a) airfield improvements, including construction of a materials testing lab and a new advanced visual docking guidance system to assist pilots with safety information; (b) airport support improvements in technology and security; (c) groundside improvements to the AirTrain system, parking garages and other improvements; (d) terminal improvements to modernize Terminal 1; and (e) utility improvements.

Fiscal Impact

- The Airport proposes to sell the \$4,832,455,418 Airport Capital Plan bonds through a competitive sale with a 30-year term at an estimated 6.5 percent fixed interest rate. The Airport expects to issue bonds twice per year through FY 2020-21, but the timing and sizing of each issue would be determined based on an assessment of capital plan cash flow requirements and market conditions. The bonds are expected to be fully repaid in 2050 from Airport revenues. The Airport estimates total debt service over 30 years of \$10.8 billion, including \$4.83 billion in principal and approximately \$5.97 billion in interest. Average annual debt service is \$327.3 million.
- Debt service on the Airport’s Capital Plan bonds is paid from Airport revenues. Under the Lease and Use Agreement between the Airport and the airlines, the Airport has the authority to increase the landing and terminal fees charged to the airlines to meet its operating expenses, including annual debt service on outstanding Airport revenue bonds

Recommendation

- Approve the proposed resolution (File 17-0211) and ordinance (File 17-0200).

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

City Charter Section 4.115 states that the Airport Commission has exclusive authority to plan and issue Airport revenue bonds for Airport-related purposes, subject to the approval, amendment, or rejection of the Board of Supervisors.

BACKGROUND**Airport Revenue Bond Authorization**

The San Francisco International Airport (Airport) issues Airport Capital Plan bonds, as authorized by the 1991 Master Bond Resolution. The 1991 Master Bond Resolution has been supplemented and amended nineteen times since its original publication. Since 2008, in preparation for the renovation of Terminal 2, Boarding Area E, Terminal 3 East, the Air Traffic Control Tower, and other capital projects, the Board of Supervisors has authorized \$3.43 billion in Airport Capital Plan bonds. Currently, \$1.14 billion remain unissued, including \$243 million dedicated to the Airport Hotel Project.

The total amount of outstanding bond debt the Airport currently has is \$4.965 billion, which includes the \$2.29 billion of Airport Capital Plan bonds sold since 2008 and airport revenue bonds authorized prior to 2008 under other resolutions.

Commercial Paper Authorization

The Airport currently uses commercial paper as short term financing for capital projects, allowing the Airport to meet construction cash flow requirements prior to issuing longer-term bonds.¹ The Board of Supervisors authorized the Airport Commission in 1997 to issue up to \$400 million in commercial paper as a source of interim financing for capital projects. The Airport currently has no outstanding commercial paper.

DETAILS OF PROPOSED LEGISLATION

File 17-0211: The proposed resolution would: (1) authorize the sale of \$4,358,694,227 aggregate principal amount of San Francisco International Airport Second Series Revenue Bonds; (2) approve the issuance and re-issuance of up to an additional \$100 million aggregate principal amount of Airport Subordinate Commercial Paper Notes; and (3) ratify, approve and confirm certain resolutions of the Board of Supervisors and Airport Commission related to the bonds.

¹ Commercial paper is short term debt for up to 270 days. Interest payments on commercial paper are lower than on longer term bonds.

File 17-0200: The proposed ordinance would appropriate \$4,832,455,418 of General Airport Revenue Bonds for capital improvement projects to the Airport Commission for Fiscal Year 2016-2017. The funds would be placed on Controller's Reserve pending sale of the bonds or commercial paper.

Appropriation of \$4,832,455,418 consists of \$4,358,694,227 in new Airport Capital Plan revenue bond authorization (File 17-0211) and \$473,761,191 in previously authorized Airport Capital Plan bonds.²

Basis of Request for Bond Authorization

In FY 2015-16, the Airport had a record 51.4 million total passengers.³ The Airport's previous projections did not forecast this number of passengers until FY 2020-21, still five years out. According to Mr. Kevin Kone, the Airport's Managing Director of Finance, the passenger growth has led to an increase in congestion at terminal gates, demand for public parking, and ground transportation congestion. Additional passengers also result in increased security needs at the Airport. Therefore, the Airport is requesting (a) additional revenue bond authorization to implement capital projects to address airport congestion, and (b) additional commercial paper authorization to increase the Airport's capacity to issue short term, lower cost debt pending the sale of the bonds.

On December 12, 2016, the City's Capital Planning Committee recommended the authorization of up to \$4,358,694,227 in Airport Capital Plan bonds, as well as an increase in the Airport's commercial paper program by \$100,000,000, from \$400,000,000 to \$500,000,000.

The Airport's Capital Plan

The Airport prepares a Five-Year Capital Improvement Plan on an annual basis to prioritize essential capital projects and requirements. The approved Five-Year Capital Improvement Plan for the period FY 2016-17 through FY 2020-21 was adopted by the Airport Commission on June 1, 2016.

Airport Capital Plan bonds may only be used to fund:

- Construction costs of Capital Plan projects that either do not require environmental review or have already undergone all necessary environmental review, such as California Environmental Quality Act (CEQA) review, and received Commission approval to proceed
- Planning and development costs necessary to prepare other Capital Plan projects for environmental review and the necessary approvals

² \$473,761,191 comes from the approximately \$1,140,000,000 in Airport Capital Plan bonds previously authorized by the Board of Supervisors but not sold. If the Board appropriates the \$473,761,191, the Airport will have approximately \$666,000,000 in authorized but unsold bonds, of which approximately \$243,000,000 is allocated to the Airport Hotel Project and approximately \$423,000,000 is allocated to other Capital Improvement Projects.

³ The number of passengers is based on the number of "enplanements" (departing passengers), "deplanements" (arriving passengers) and "in-transit" passengers (passing through).

Projects included in the Capital Plan that have not yet received environmental clearance can use other funding sources such as Small Capital Outlay or Commercial Paper to fund design and planning costs; however, construction costs cannot be funded until environmental clearance is obtained. Once environmental clearance is obtained, the Airport could seek Board of Supervisors approval to fund these projects with Airport revenue bonds.

Rating Agencies

The Airport engaged three rating agencies (Moody’s, S&P Global and Fitch Ratings) in September 2016 to rate the proposed sale of Airport revenue bonds. All three agencies confirmed and rated the sale of the 2016B, 2016C and 2016D revenue and refunding bonds as strong, as shown in Table 1 below.

Table 1: Bond Rating Agencies Review of Airport Revenue Bonds

Rating Agency	Investment Grade	Description	Risks
Moody's	A1	Strong	- Large debt-funded Capital Improvement Plan - One airline, United Airlines, accounts for 21% of operating revenue and 45% of enplanements - Current airline agreement expire in 2021 just as airline costs will peak due to added debt for the CIP
S&P	A+	Strong	- Increased leverage and capital needs financed by bond proceeds - High cost structure - High concentration of one primary carrier - United Airlines
Fitch	A+	Strong	- Large debt-funded Capital Improvement Plan

The rating agencies identified some risks including: (1) a large debt-funded Capital Improvement Plan and (2) one primary airline carrier (United Airlines) which accounts for 21 percent of the Airport’s operating revenue.

FISCAL IMPACT

Appropriation of Airport Capital Plan Revenue Bonds (File 17-0200)

The \$4,832,455,418 in Airport Capital Plan revenue bond proceeds includes the requested appropriation of \$4,358,694,227 in new bond authorization (File 17-0211) and \$473,761,191 in prior Airport Capital Plan bonds authorized by the Board of Supervisors but not issued. The sources and uses of \$4,832,455,418 are shown in Table 2 below.

Table 2: Sources and Uses of Funds

Sources	Amount
Proceeds from Proposed Sale of Airport Capital Plan Bonds	\$4,358,694,227
Prior Authorized, Not Currently Appropriated of Airport Capital Plan Bonds	473,761,191
Total Sources	\$4,832,455,418
Uses	
Airfield Improvements	\$8,293,664
Airport Support Improvements	489,265,228
Groundside Improvements	382,773,947
Terminal Improvements	2,829,105,383
Utility Improvements	102,707,228
Subtotal Capital Project	3,812,145,450
CSA Auditor Allocation (0.2% of Capital Project)	7,624,291
Cost of Issuance ⁴	14,892,437
Debt Service Reserve ⁵	411,608,451
Capitalized Interest ⁶	452,540,040
Contingency Account ⁷	112,785,385
Underwriter Discount ⁸	20,859,364
Subtotal Financing and Other	1,020,309,968
Total Uses	\$4,832,455,418

Capital Improvement Projects

The proposed Airport Capital Plan projects to be funded by the subject Airport Capital Plan revenue bond proceeds are focused on meeting current and projected air traffic demand. The Capital Improvement Program Working Group evaluates and ranks new and existing capital projects using an established criteria matrix. The Capital Project Review Committee then reviews and approves the selection of projects, and submits its recommendations to the Airport Director. If the Airport Director approves the Capital Plan, it is submitted to the Airport

⁴ Costs of Issuance consist of expenses associated with the sale of a bond, including fees for financial advisors, counsel, the trustee and rating agency fees and other expenses.

⁵ Debt Service Reserve is a fund in which an issuer sets aside money in case its regular debt service fund is insufficient to make a future debt service payment as required by the Airport Commission's master bond indenture.

⁶ Capitalized Interest is the portion of the proceeds of a bond issue that is set aside to pay interest on the bonds for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-producing project, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues.

⁷ The Contingency Account holds Airport funds that may be used for operating or capital purposes, but are also used each year to help the Airport meet its bond covenant requirement to have the sum of annual net operating revenues plus the balance in the Contingency Account equal at least 125% of annual debt service, as required by the Airport Commission's master bond indenture.

⁸ The Underwriters Discount is the difference between the price paid by the underwriter to the issuer for the new bond issue and the prices at which the securities are initially offered to the investing public. This difference provides the underwriter with compensation for the transaction, as well as reimbursement for expenses.

Commission and then to the Board of Supervisors through the City's Capital Plan approval process. Additionally, all capital projects above \$704,000 must be approved by the airlines, per the Airport's Lease and Use Agreement.

According to Ms. Kaitlyn Connors, Airport Budget Director, capital improvement project budgets are developed by project managers within the Airport divisions proposing the projects. Airport Finance staff reviews the projects and evaluates available funding sources. The project manager is responsible for developing an individual project's schedule.

The major projects to be funded by the subject bond proceeds are described below. Appendix I provides budget details.

Airfield Improvements: \$8,293,664

The two major projects for the Airfield are (1) the Advanced Visual Docking Guidance System, project and (2) the construction of a new materials testing lab. The Airport plans on installing an Advanced Visual Docking Guidance System that will provide pilots with increased safety information, such as equipment and foreign object debris location or stopping distance to the gate. The project is currently underway and is expected to be completed in FY 2018-19. The New Materials Testing Lab will replace and relocate the existing materials testing lab trailer. Existing trailer units have been in service for over 15 years and test equipment is aged, worn, and deficient. A new lab will help address the anticipated work load increase expected in the upcoming years. The project is anticipated to be completed in FY 2018-19.

Airport Support Improvements: \$489,265,228

The Airport is currently implementing a wide range of security and technology, including improvements to Airport security data and video systems including the expansion and upgrading of closed circuit television (CCTV) cameras and infrastructure to increase monitoring capability and the conversion of existing CCTV cameras to digital internet protocol (IP). Other security measures include replacement of rolling gates at the Coast Guard facility, and infrastructure improvements for the Airport Communications Center. Also included in this category is a new project to install a Perimeter Intrusion Detection System (PIDS) along the entire water perimeter and fence line of the Airfield Operations Area. This project is estimated to be completed in FY 2019-20.

Groundside Improvements : \$382,773,947

Groundside improvements include improvements to the AirTrain system, including upgrading its existing control system, extending the current system and adding a new station at the long term parking garages, and completion of the construction of a second multi-level long-term parking structure for approximately 3,000 spaces. These projects are expected to be completed in FY2019-20 and FY 2018-19, respectively.

Terminals Improvements: \$2,829,105,383

The Terminal 1 Redevelopment Program will modernize Terminal 1 and Boarding Areas B and C. The program is currently being implemented in phases and is estimated to be completed by FY 2022-23, and contains the following program elements:

- Demolition of the existing Boarding Area B, replacing it with a new boarding area configured to accommodate modern aircraft requirements, larger hold rooms, and improved concessions. The new Boarding Area B will be expanded to include 24 gates. The program will renovate Terminal 1, including a complete replacement of the architectural building envelope, upgrades of all mechanical systems and special systems replacements, interior architectural renovations, facility upgrades such as a new consolidated passenger screening checkpoint, new airline ticket counters, and new concessions program, all consistent with the Terminal 2 standard.
- A new consolidated baggage handling system (BHS) and checked baggage inspection screening (CBIS) system.
- Renovation of Boarding Area C to current Airport standards.
- Various Airport, airline and governmental agency relocations and improvements.

The Terminal 3 West Improvement project will begin in FY 2017-18, with an estimated completion date of FY 2022-23. The project will reconfigure the western side of the Terminal 3 to extend the building's useful life with upgrades to infrastructure, improvements in building and technology systems, compliance with the latest building fire and life safety code requirements, reconfiguration of security checkpoints, and added concessions space. The redesigned layout will improve passenger flow and improve customer service. The Terminal 3 West project includes improvements to the Boarding Area F plaza.

Utility Improvements: \$102,707,228

The major utility upgrades are currently underway and include (a) power and lighting improvements and (b) waste water system improvements. Power and lighting improvements will ensure a reliable power supply for Airport facilities and increase the capacity to meet current and future projected demand. Specific projects include upgrades to Substation TV and Station BP, replacement of the 400 hertz system in Boarding Area A in the International Terminal, and infrastructure to support electric vehicle charging stations within parking garages and other Airport facilities. The power and lighting improvements are expected to be completed in FY 2019-20. The Airport will also upgrade and replace the Airport sewage and industrial waste systems. The Airport will continue construction on the new Industrial Waste Treatment Plant, undertake a major water conservation effort to design and construct infrastructure to expand the use of reclaimed water, construct a new sewer outfall to South San Francisco, and upgrade and replace aging pipelines. The wastewater system improvements are expected to be completed in FY 2020-21.

Airport Revenue Bonds Debt Service (File 17-0211)

The Airport proposes to sell the \$4,832,455,418 Airport Capital Plan bonds, including \$4,358,694,227 in new revenue bond authorization and \$473,761,191 in prior revenue bond authorization, through several competitive sales with a 30-year term at an estimated 6.5 percent fixed interest rate. The actual interest rate will not be known until the time of bond sale. According to Ms. Connors, the Airport expects to issue bonds twice per year through FY 2020-21, but the timing and sizing of each issue would be determined based on an assessment of capital plan cash flow requirements and market conditions. The bonds are expected to be fully repaid in 2050 from Airport revenues.

The Airport estimates total debt service over 30 years of \$10.8 billion, including \$4.83 billion in principal and approximately \$5.97 billion in interest. Average annual debt service is \$327.3 million.

Debt service on the Airport's Capital Plan bonds is paid from Airport revenues. Under the Lease and Use Agreement between the Airport and the airlines, the Airport has the authority to increase the landing and terminal fees charged to the airlines to meet its operating expenses, including annual debt service on outstanding Airport revenue bonds. According to Ms. Connors, each year, the Airport updates the terminal and landing fees. To do so, the Airport forecasts the total annual expenses and the total non-airline revenues. The difference between the annual expenses and non-airline revenues must be paid from airline landing and terminal fees, which are adjusted by the Airport to fill the gap.

The additional debt service costs have been factored in the Airport's financial plans, including the Airport's FY 2016-17 and FY 2017-18 operating budgets, approved by the Board of Supervisors in July 2016, the Airport's 5-Year Capital Improvement Plan (June 2016), the Airport's Bond Series 2016BCD financial forecast for the Airport (September 2016), and the Airport's FY 2016-17 rates and charges (May 2016).

Increase in Commercial Paper Authorization

Under most market conditions, commercial paper interest rates, which are short-term rates, are significantly lower than the interest rates on long-term bonds. As of today, the short-term rate on commercial paper notes is about one percent, compared to a long-term bond rate of four percent. According to Ms. Connors, the Airport's financial advisors estimated that the additional \$100 million increase in commercial paper authorization could reduce the Airport's debt service expenses by up to \$20 million over the next five years due to lower borrowing costs as compared to traditional fixed rate bonds. Ms. Connors estimates that the next commercial paper issuance is slated for April 2017.

RECOMMENDATION

Approve the proposed resolution (File 17-0211) and ordinance (File 17-0200).

Projects Funded by Appropriation

Airport Program	Project Name	Supplemental Project Total
Miscellaneous Airfield Improvements	10507 Advanced Visual Docking Guidance System (A-VDGS)	\$3,993,664
Miscellaneous Airfield Improvements	11117 Materials Testing Lab	2,600,000
Capital Equipment	11234 Airfield Buses	1,200,000
Capital Equipment	11221 Airfield Striper Equipment	500,000
Airfield Total		8,293,664
Security Improvements	10511 Security Infrastructure Program	184,252,358
Air Traffic Control Tower Program	9034 Design Build for Demo of T2 ATCT and Terminal Improvements	43,702,000
Superbay Renovation Program	11160 Superbay Hangar Renovation Project	29,850,000
Support Facility Improvements	11174 Renovation of Cargo Buildings 606 and 730	25,000,000
Wayfinding Program	11001 Wayfinding Program	22,706,250
Cargo and Hangar Improvements	9322 Renovation of Cargo Buildings 900 and 944	12,701,000
Technology Improvement Projects	11139 Dense Wavelength Division Multiplexing Transport	11,600,000
Airport Support Miscellaneous Improvements	11047 Airport Solid Waste Management Program	11,000,000
Shuttle Bus Replacement	9281 CNG Shuttle Bus Vehicle Replacement Phase 2	9,000,000
South Field Redevelopment Program	10051 South Field Tenant Relocations	8,966,911
Airport Support Miscellaneous Improvements	11150 Computer Aided Dispatch (CAD) Replacement	8,000,000
Airport Support Miscellaneous Improvements	11104 Virtual Design & Construction Implementation Program	7,400,000
Support Facility Improvements	10574 Police Training Support Facility	7,200,000
Technology Improvement Projects	11155 Mobile Application Development and Delivery	5,100,000
Technology Improvement Projects	10674 Information Technology Enterprise Information Architecture Initiative (IT-EIAI)	5,050,000
Technology Improvement Projects	11130 Multi-Use Flight Information Display Upgrade	5,000,000
Superbay Renovation Program	8877B Superbay Hangar Door Retrofit Phase B	4,770,000
Technology Improvement Projects	9120 Metro Ethernet (Metro-E)	4,700,000
Airport Support Miscellaneous Improvements	8717 Modify and Refurbish ITC Check In Counters and Gate Podiums	4,650,000
Superbay Renovation Program	11189 Superbay 6th Floor Asbestos Abatement	4,330,000
Noise Insulation Program	8846D Noise Insulation Improvements	4,160,000
Support Facility Improvements	9238 ITB Conference Center	3,800,000
Technology Improvement Projects	11149 Access Layer Refresh 10 Gbps	3,700,000
Support Facility Improvements	9321 Emergency Response Facilities Improvements	3,600,000
Security Improvements	11159 Replacement of Badging Identity Management System	3,500,000
Support Facility Improvements	10610 ITT and Accounting Work Area Renovations	3,421,600
Technology Improvement Projects	9170 Network Improvements	3,150,000

Airport Program	Project Name	Supplemental Project Total
Energy and Efficiency Improvements	9188 Airport Wide Lighting Retrofit	3,000,000
Technology Improvement Projects	11156 Comprehensive Support Plan	2,850,000
Airport Support Miscellaneous Improvements	11161 Building Information Technology Upgrade	2,780,000
Support Facility Improvements	10578 Building 710 Chiller and Cooling Tower Replacement	2,480,000
Airport Support Miscellaneous Improvements	11073 Ramp Lighting Glare Reduction	2,400,000
South Field Redevelopment Program	10052 South Field Abatement, Demolition, and Hazmat	2,379,222
Technology Improvement Projects	10678 Avaya Communication Manager Upgrade 7.0	2,250,000
Consolidated Administration Campus	8872 CAC Planning & Program Management	1,750,000
Fire Equipment Program	9302 Replace ARFF Rescue 88	1,750,000
Airport Support Miscellaneous Improvements	10630 Airport Facilities Fall Protection System (formerly 8206B)	1,570,000
Airport Support Computer System Improvements	10535 Capital Planning System (CPS) Phase III	1,555,200
Airport Support Miscellaneous Improvements	11136 Ground Transportation Management System (GTMS) Phase II	1,500,000
Technology Improvement Projects	11157 Single Sign On Implementation	1,500,000
Technology Improvement Projects	11154 ITIL/ISO Certification	1,450,000
Security Improvements	11151 Water Perimeter Intrusions Detection System	1,300,000
Airport Support Computer System Improvements	11216 ISO27001 Information Security Management System	1,300,000
Technology Improvement Projects	11158 Data Analytics Compute Processing	1,293,000
Security Improvements	10538 Physical Security Information Management (PSIM)	1,000,000
Security Improvements	10541 License Plate Recognition (LPR) System	1,000,000
Support Facility Improvements	9329 IT Museum Aviation Annex	870,000
Technology Improvement Projects	11132 Digital Signage Software System Enhancement	800,000
Capital Equipment	10565 Portable Generators	753,000
Capital Equipment	9293 Grinder	750,000
Airport Support Computer System Improvements	8399A Property Management & Billing System (PMBS) Phase 2	708,884
Technology Improvement Projects	11153 Internet Hardware Upgrade	700,000
Airport Support Computer System Improvements	9044 Document Management System (DMS)	670,000
Superbay Renovation Program	11172 Superbay Hangar Infrared Heating System Replacement	660,000
Technology Improvement Projects	8411A SharePoint ERP Phase 1, Integrated Time and Labor Accounting (ITA) Program	640,000
Capital Equipment	11097 Boom and Scissor Lifts II	600,000
Fire Equipment Program	10545 Haz Mat Emergency Response Trailer	600,000
Airport Support Computer System Improvements	10501 Contract Management Compliance System (CMCS) (previously 9225)	540,000
South Field Redevelopment Program	11044 BICE Office Relocation	517,000
Security Improvements	11095 Video Wall Refresh Program	500,000

Airport Program	Project Name	Supplemental Project Total
Technology Improvement Projects	11217 Managed Security Upgrade	500,000
Technology Improvement Projects	9134A IT Security Mitigation	450,000
Airport Support Computer System Improvements	9051 Operating Budget System (OBS)	450,000
Capital Equipment	9164 Semi Truck	440,000
Consolidated Administration Campus	8872A Phase 1 - Administration Building 1 (D&C, Museum, ITT & Planning)	438,372
Capital Equipment	9163 Grandall Excavator	425,000
Noise Insulation Program	8846C Noise Insulation Improvements	420,000
Technology Improvement Projects	11222 SFO Data Storage System	420,000
Capital Equipment	11110 CNG High Speed Sweeper	420,000
Technology Improvement Projects	9171 Network Monitoring & Management	400,000
Capital Equipment	11094 Mower	360,000
Capital Equipment	9145B Mower	325,000
Capital Equipment	9162 CNG Emulsion Truck	260,000
Security Improvements	11099 CTX Remote Start-Stop System	250,000
Capital Equipment	11162 Motorized Aircraft Passenger Air Stairs	195,000
Support Facility Improvements	9330 IT Museum Public Video Screening	150,000
Technology Improvement Projects	8868 Business Continuity of Operations	110,000
Capital Equipment	9153 Asphalt Drum Roller	85,000
Technology Improvement Projects	8968 Network Security	67,000
Capital Equipment	11092 Flatbed (2)	(5,000)
Capital Equipment	9155 CNG High Speed Air Sweeper	(20,000)
Capital Equipment	11098 Gradall Material Handler	(110,000)
South Field Redevelopment Program	10050 Fire House No. 3 (FH3) and South Field Checkpoint Relocation	(1,491,569)
Airport Support Total		489,265,228
Airtrain Extension	10504 AirTrain Extension	172,075,000
Additional Long Term Parking Garage	9273 Second Long Term Parking Garage	101,613,947
Roadway Improvements	10670 Intersection Improvements	26,800,000
Parking & Garage Improvements	10561 Central Garage Elevators, Escalators, and Moving Walks	19,000,000
AirTrain Improvements	10509 AirTrain Control Systems Upgrade	8,000,000
Roadway Improvements	9049 Variable Message Signs Replacement	7,900,000
Viaduct Improvements	4106 Terminal Upper Level Viaduct Improvements, Phase II	6,350,000
Viaduct Improvements	4105 Terminal Upper Level Viaduct Improvements, Phase I	6,120,000
Parking & Garage Improvements	10576 New Emergency Generator for Central Garage	4,000,000
Roadway Improvements	10566 North Link Road Traffic Signal Improvements	3,800,000

Airport Program	Project Name	Supplemental Project Total
Parking & Garage Improvements	8602 Domestic Garage Improvements	3,100,000
Parking & Garage Improvements	11145 Central Garage 5th Level ADA Doors	2,900,000
Parking & Garage Improvements	10648 Long Term Parking Guidance and Security System	2,750,000
Parking & Garage Improvements	10643 Tear Drop Lot Redevelopment in South McDonnell Road	2,740,000
Roadway Improvements	11137 Roadway Lighting Upgrades (TBDP002)	2,650,000
Parking & Garage Improvements	10516 West Field Garage Top Level Repairs and Coating	2,300,000
Parking & Garage Improvements	10513 Building 710 Parking Improvements	2,300,000
Security Improvements	9054 Coast Guard Rolling Gates 105 and 106 Replacement	2,200,000
Parking & Garage Improvements	8879B Central Garage CO Monitoring System Replacement	1,825,000
Parking & Garage Improvements	11144 Central Garage Tunnel Doors	1,650,000
Parking & Garage Improvements	10512 Lot D Improvements and PARCS Automation	1,100,000
Support Facility Improvements	8852 RAC First Floor Remodel	850,000
Parking & Garage Improvements	11207 Restripe of Lots C, D and DD	750,000
Groundside Total		382,773,947
Terminal 3 Redevelopment Program	10071 Terminal 3 West Improvements	752,000,000
Terminal 1 Program	10011 T1 - Central Area	638,478,848
Terminal 1 Program	10010 T1 - Boarding Area B Redevelopment	617,734,743
Terminal 1 Program	10012 T1 - Baggage Handling System	156,726,204
Net Zero Energy Program	11168 Net Zero Energy Program Support	100,000,000
International Terminal Refresh Program	11118 ITB Arrivals Level System Improvements	92,775,157
International Terminal Baggage Handling System	11002 ITB CBIS and BHS Modernization	91,950,000
Gate Capacity Enhancements	9302 Replace ARFF Rescue 88	91,217,500
CIP Program Support	10401 CIP Programmatic Support	47,300,000
Revenue Enhancement and Customer Hospitality (REACH) Program	9350 REACH Phase I	42,619,616
Terminal 3 Redevelopment Program	10076 Terminal 3 B/A F Passenger Boarding Bridges & Capacity Improvements	35,340,000
Revenue Enhancement and Customer Hospitality (REACH) Program	11123 Concession Improvements (REACH)	27,838,600
Terminal 1 Program	10005 T1 - Taxilanes H&M Relocation	24,286,707
Technology Improvement Projects	11211 Terminal Management System Upgrade	17,800,000
Technology Improvement Projects	9304 Public WiFi - Terminals	9,490,000
Terminal 1 Program	10003 T1 - Interim Boarding Area B & SSCP	8,389,276
International Terminal Improvements	10553 IT Fire Alarm System Upgrade	6,200,000
Miscellaneous Terminal Improvements	11071 Airport Terminals Public Address System Upgrades	5,920,000

Airport Program	Project Name	Supplemental Project Total
Terminal 1 Program	9185 T1 - Program Management Support	5,701,131
Miscellaneous Terminal Improvements	11054 New Boarding Area C Restrooms	5,600,000
International Terminal Improvements	10577 Upgrade ITB PC Air System	5,000,000
International Terminal Improvements	8519B B/A G A380 Improvements, Phase B	4,880,000
Revenue Enhancement and Customer Hospitality (REACH) Program	11124 Service Animal Relief Areas (REACH)	4,520,000
Miscellaneous Terminal Improvements	11200 All-Terminals Meet & Greet Improvements	4,520,000
International Terminal Improvements	10667 IT Boarding Areas A & G Holdroom Furniture	4,500,000
Revenue Enhancement and Customer Hospitality (REACH) Program	9301 International Terminal Mini Parks (REACH)	4,050,000
Security Improvements	10568 Airport Domestic Terminals Fire Alarm System Upgrade	3,900,000
Miscellaneous Terminal Improvements	10666 Terminal 3 Boarding Area F Holdroom Furniture	3,300,000
Revenue Enhancement and Customer Hospitality (REACH) Program	10671 Boarding Area A Corridor Improvements	3,220,000
Miscellaneous Terminal Improvements	11009 Garage Lobby Tunnel Renovation Phase III (8579A)	3,200,000
Security Improvements	10559 Communication Center Infrastructure Improvements	3,100,000
Miscellaneous Terminal Improvements	11148 Installation of Airport Magnetic Stanchions	1,500,000
Miscellaneous Terminal Improvements	11107 HVAC Automation/Optimization Study	1,500,000
Technology Improvement Projects	10563 Common Use Self Service (CUSS) Ticketing Kiosks	1,380,000
International Terminal Improvements	10546 Automated Passenger Wait Time Technology	1,200,000
Technology Improvement Projects	11128 Common Use Self Service (CUSS) Check-in Kiosk Expansion	1,100,000
International Terminal Improvements	11165 IT Media Room	460,000
International Terminal Improvements	11170 B/A "A" Security Checkpoint Expansion	250,000
International Terminal Improvements	11208 Global Entry Office Expansion	151,601
Technology Improvement Projects	10622 Operational WiFi Improvements	31,000
International Terminal Improvements	11173 ITB Passenger Boarding Bridge Carpet Replacement (9159 addl scope)	(25,000)
Terminals Total		2,829,105,383
Net Zero Energy Program	11068 Energy Management & Control System (EMCS) Program	67,980,000
Power & Lighting Improvements	11214 Boarding Area 'A' 400 Hertz System Upgrade	8,000,000
Power & Lighting Improvements	11215 Utility Infrastructure Improvement Program	5,900,000
Power & Lighting Improvements	11198 Airport wide UPS Replacement and Upgrade	3,720,000
Central Plant Improvements	10523 Central Plant Renovation	3,344,228
Energy and Efficiency Improvements	11101 Airport Wide Power Distribution System Study	3,000,000
Energy and Efficiency Improvements	9165 Electric Vehicle Chargers Infrastructure at Cell Phone Lot	3,000,000

Airport Program	Project Name	Supplemental Project Total
Energy and Efficiency Improvements	11163 Energy Bench Marking and Building Integration Program	2,170,000
Storm Drain Improvements	8587B Storm Drain Pump Stations 1B and 1C Imp	2,143,000
West of Bayshore Improvements	8620 West of Bayshore Drainage Improvements	1,600,000
Water System Improvements	8704 West of Bayshore Water Mains Imp	1,250,000
Power & Lighting Improvements	11127 Solar Power Generation Feasibility Study	600,000
Utilities Total		102,707,228
Grand Total		\$3,812,145,450

Note: Negative project budgets for five projects are based on the difference between the original and revised budgets to ensure the appropriation amount tied back to the previously approved Capital Improvement Plan.



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

FROM: Nadia Sesay, Public Finance Director

SUBJECT: San Francisco Airport Commission Revenue Bonds, Commercial Paper Authorization and Supplemental Appropriation Ordinance

DATE: December 9, 2016

On behalf of the San Francisco Airport Commission, I respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors the resolutions authorizing the issuance of up to \$4.36 billion in additional Airport Revenue Bonds and authorizing additional \$100 million in the Airport's Commercial Paper Program; and supplemental appropriation of bond proceeds to finance various airport capital projects and associated financing costs.

Background:

The San Francisco Airport Commission (the "Commission") issues Revenue Bonds, including Capital Plan Bonds, under its 1991 Master Bond Resolution, as supplemented and amended. Following completion of the Airport's \$2.5 billion Near-Term Master Plan capital program in 2000, the Commission issued only refunding bonds from 2001 to 2009, and financed its capital projects with proceeds from prior bond sales, grant funds and operating revenues. Then, in preparation for the renovation of Terminal 2, Boarding Area E, Terminal 3 East, the Air Traffic Control Tower and other capital projects, the Commission and the Board adopted Resolutions in 2008, 2012, 2014 and 2015, amending and supplementing the 1991 Master Resolution to authorize the issuance of Capital Plan Bonds to fund those projects. Since 2008, the Board has authorized approximately \$3.43 billion in Capital Plan Bonds¹, of which approximately \$1.14 billion remain unissued, including \$243 million specifically authorized for the design and

From 2008 - 2015, the Commission has authorized the issuance of approximately \$5.02 billion in Revenue Bonds in aggregate, whereas the Board has authorized approximately \$3.43 billion. The difference occurred in 2014, when the Commission approved an increase in Revenue Bond authorization of approximately \$3.55 billion, but the Board approved a smaller increase in the Revenue Bond authorization of approximately \$1.97 billion, with the expectation that the Commission would return to the Board for additional bond authorization at a later date.

construction of an on-Airport hotel. While the amount of available authorization appears large, it is smaller than the total amount of the Commission's next two planned bond sales in 2017, which have a combined projected principal amount of \$1.83 billion.

Since 1997, the Commission has utilized up to \$400 million in Commercial Paper² as a source of interim financing for capital projects, allowing the Commission to meet construction cash flow requirements between bond sales. The Commission anticipates continuing its practice of issuing Commercial Paper Notes as a source of low-cost interim financing to fund initial project expenditures, and then retiring these short-term obligations by periodically issuing long-term Capital Plan Bonds. Given the magnitude of the Commission's capital financing needs during the next five years, and given the lower borrowing cost of Commercial Paper relative to Capital Plan Bonds, the Commission has indicated that increasing the maximum amount of Commercial Paper that it may issue at any one time for interim financing purposes by \$100 million could produce significant debt service savings over the next five years.

FY2016-17 Five-Year Capital Plan:

The Airport has experienced seven consecutive years of passenger growth. In FY 2016, the Airport served a record 51.4 million passengers, a 56% aggregate increase over its passenger level in FY 2007. The growth in passenger demand has caused strains on the Airport's facilities, such as peak period terminal gate capacity constraints, increased demand for public parking capacity, and increased ground transportation congestion within the Airport campus. These factors, combined with the need to continually improve airport security, and to meet State of Good Repair requirements, are driving the Airport's largest Capital Plan since the late 1990's. The approved Five-Year Capital Plan for the period FY2016-17 through FY2020-21 was adopted by the Commission on June 1, 2016, and includes major capital projects, such as:

- Renovation of Terminal 1;
- Renovation of Terminal 3 West;
- A new long-term parking garage;
- AirTrain Extension from the Rental Car Center to the Long-term parking garage;
- Consolidated Administrative Campus; and
- On-Airport hotel.

Approximately \$4.5 billion in Five-Year Capital Plan projects have completed environmental review, but have not yet been financed. These projects would be financed from a combination of existing and proposed Capital Plan Bond authorization. As more projects complete their environmental reviews, the Commission intends to return to the Board at a later date for authorization to finance up to an additional \$808 million in capital projects, plus related financing costs.

² This represents the maximum principal amount of Commercial Paper Notes that may be outstanding at any time.

Financing Parameters:

Capital Plan Bonds

In order to finance approximately \$4.5 billion in capital projects that have received environmental review, as well as related financing costs, the Commission is requesting Board approval for approximately \$4.36 billion in additional Capital Plan Bond authorization. If approved, when combined with prior Capital Plan Bond authorization amounts, this action would bring the total amount authorized by the Board, but unissued, to approximately \$5.5 billion.

Existing and Proposed Capital Plan Bond Authorization (in Millions)	
	Estimated Amount
Prior Remaining Bond Authorized	\$1,144
Proposed Capital Plan Bond increase	<u>4,359</u>
Total Remaining Authorized and Proposed ^[1]	\$5,503

^[1] Includes amounts to finance capital project costs that have received environmental review, financing costs (debt service reserve deposits, contingency account deposits, capitalized interest, costs of issuance), and CSA audit expenses.

The \$5.5 billion in aggregate Capital Plan Bond authorization would provide the authorization necessary to finance a significant portion of the Airport's Five-Year Capital Plan. Proceeds from the proposed Capital Plan Bonds, along with the proceeds of previously authorized Capital Plan Bonds, will be used to:

- Fund approximately \$4.5 billion of capital projects approved by the Commission, which have completed environmental review;
- Refund any outstanding Commercial Paper Notes issued to provide interim financing for capital projects;
- Finance capitalized interest during construction;
- Make deposits to the Contingency Account and Debt Service Reserve Fund ("DSR Fund"³); and

³ Funds in the DSR Fund can only be used to pay debt service on bonds secured by the DSR Fund. In contrast, funds in the Airport's Contingency Account can be used to pay Airport operating costs, capital project costs, or principal of and interest on bonds. The Contingency Account balance is also used in calculating compliance with an Airport covenant to maintain Net Revenues (i.e., operating revenues after operating and maintenance expenses) that, together with other available funds, including some or all of the Contingency Account balance at fiscal year-end, is at least 1.25 times the level of annual bond debt service. Consequently, the Contingency Account balance needs to be increased in connection with proposed increase in Capital Plan Bonds, so that the Contingency Account remains in proportion to annual debt service, as the Airport's debt service costs increase over time.

- Pay costs of issuance and CSA audit expenses.

The Commission's Capital Plan Bonds may be issued as fixed rate, variable rate or index rate bonds in accordance with the terms of the 1991 Master Resolution, and must be sold by June 30, 2023. The type of Capital Plan Bonds to be issued and the timing of the bond issues will be determined based on several factors, including capital project cash flow requirements and financial market conditions.

Of the \$5.5 billion in total approved and proposed Capital Bond amount, \$243 million was previously approved by the Capital Planning Committee to finance the on-Airport Hotel. The Commission anticipates issuing up to \$5.26 billion in Capital Plan Bonds over a five-year period. Based on a conservative assumption regarding interest rates for the Commission's future bond issues (6.5% interest rate on 30-year fixed rate bonds)⁴, the Commission estimates that the average annual debt service over the life is approximately \$356.1 million.

The approvals in this Resolution are intended to establish a financing mechanism for capital projects approved by the Commission from time to time, and do not constitute approval of any particular project, which are approved by separate action of the Commission and/or Board. The Commission will not authorize the sale of Capital Plan Bonds to fund construction of a specific project in the Capital Plan unless the necessary environmental review for the project has been completed, if required, and the Commission determines to proceed with the project. As such, proceeds of Capital Plan Bonds may only be used to fund: 1) construction costs of projects that either do not require environmental review or have already undergone all necessary environmental review and received Commission approval to proceed; and 2) planning and development costs necessary to prepare other projects for environmental review and the necessary approvals.

Commercial Paper

The proposed Resolution also authorizes the issuance of an additional \$100 million principal amount of Commercial Paper Notes, which would bring the total authorization level to \$500 million in principal outstanding at any one time, in order to provide additional interim financing capacity for projects in the Airport's Five-Year Capital Plan. By doing so, the Airport estimates that it could reduce its debt service expenses by up to \$20 million in aggregate over the next

⁴ Other key assumptions underlying the debt service estimates include: 1) level debt service structure with par amortizing beginning in 2021; 2) Debt Service Reserve Fund sized at Maximum Annual Debt Service and funded with bond proceeds; 3) 16 months of Capitalized Interest expense; 4) Underwriters' discount estimated at \$4 per bond; and 5) debt service expenses associated with Capital Plan Bonds issued for the on-Airport hotel will be paid from hotel net revenues, and those expenses are not included in these estimates.

five years (after accounting for increased Commercial Paper interest costs, letter of credit fees and other related expenses), by taking advantage of lower short-term interest rates⁵.

Supplemental Appropriation

As a companion piece of legislation to the Resolution, the Commission is requesting approval of a Supplemental Appropriation Ordinance to finance project costs and associating financing costs. Of the estimated aggregate issuance amount of \$5.26 billion, the Commission is requesting a Supplemental Appropriation of \$4.83 billion which includes \$4.36 billion in proposed Capital Plan Bonds and \$474 million in prior approved Capital Plan Bonds yet to be appropriated. The remaining \$427 million was previously appropriated. If approved, the Commission’s Supplemental Appropriation request would bring the total Capital Plan Bond appropriation amount equal to the total amount of Capital Plan Bond authorization. The Appropriation Request is summarized below:

**Summary of Airport Supplemental Appropriations Request
(excludes existing appropriation)**

Sources	Amount
Proceeds from Proposed Sale of Capital Plan Bonds	\$4,358,694,227
Prior Authorized, Not Currently Appropriated	<u>473,761,191</u>
Total Sources	\$4,832,455,418
Uses	
Airfield Improvements	8,293,664
Airport Support Improvements	489,265,228
Groundside Improvements	382,773,947
Terminal Improvements	2,829,105,383
Utility Improvements	<u>102,707,228</u>
Subtotal Uses: Capital Project	\$3,812,145,450
CSA Auditor Allocation (0.2%)	7,624,291
Cost of Issuance	14,892,437
Debt Service Reserve	411,608,451
Capitalized Interest	452,540,040
Contingency Account	112,785,385
Underwriter Discount	<u>20,859,364</u>
Other Costs Subtotal	\$1,020,309,968
Total Uses	\$4,832,455,418

⁵ Bond debt service savings are estimated to be up to \$30 million over the five year period, while the additional costs associated with Commercial Paper interest expenses and fees are estimated to be up to \$10 million over the same period.

Debt Limit Impact:

Because the Commission issues General Airport Revenue Bonds, rather than General Obligation Bonds, there is no impact on the City's Debt Limit.

Property Tax Impact:

Because the Commission issues General Airport Revenue Bonds, which are supported solely by Airport revenues, there is no impact on the City's Property Taxes.

Financing Timeline:

Milestones:	Date
Consideration by the Capital Planning Committee	December 12, 2016
Introduction of legislation and supporting materials to the Board	TBD
Sale of authorized Airport Capital Plan Bonds	Various dates from 2017 through 2023

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

2017 FEB 28 PM 4:33

TO: Angela Calvillo, Clerk of the Board of Supervisors *mc*
FROM: *for* Mayor Edwin M. Lee *[Signature]*
RE: Airport Commission Capital Plan Bonds - \$4,358,694,227 - Airport
Commission Commercial Paper Notes - \$100,000,000
DATE: February 28, 2017

Attached for introduction to the Board of Supervisors is a resolution approving the issuance of up to an additional \$4,358,694,227 aggregate principal amount of San Francisco International Airport Second Series Revenue Bonds to finance and refinance Airport Capital Plan projects; approving the issuance and re-issuance from time to time of up to an additional \$100 million aggregate principal amount of San Francisco International Airport Subordinate Commercial Paper Notes for any lawful Airport purpose; and ratifying, approving and confirming certain resolutions of the Board and the Airport Commission related to the foregoing.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.

