CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 12, 2023

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: June 14, 2023 Rescheduled Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- **File 23-0204** is a resolution that would approve the 2023 Lease and Use agreement between the City and 29 airlines to conduct flight operations at the Airport for a 10-year term from July 1, 2023 through June 30, 2033.
- **File 23-0342** is a resolution that would approve the 2023 Lease and Use agreement between the City and an additional 11 airlines to conduct flight operations at the Airport for a 10-year term from July 1, 2023 through June 30, 2033.

Key Points

- According to Airport staff, there are currently 60 airlines operating at the Airport. Of the 60 airlines, 40 signatory airlines are under the Airport's 2011 Lease and Use Agreement and 20 are "non-signatory airlines" operating under month-to-month Airline Operating Permits and Terminal Space and Use Permits. Non-signatory airlines pay a 25 percent premium on landing fees and a higher security deposit compared to signatory airlines.
- The original term of the 2011 Lease was July 1, 2011 through June 30, 2021, later extended to June 30, 2023 due to COVID.
- Rental rates, landing fees, and related fees are adjusted annually according to the Airport's "residual rate setting methodology (breakeven policy)" such that the total amount of airline revenues received by the Airport together with non-airline revenues received by the Airport, including concession and parking revenues, is equal to total Airport costs, including debt service and operating costs.
- The proposed lease creates a new Operating Revenue and Capital Improvement Fund (ORCIF) totaling $800 million over the 10-year term and increases annually to account for inflation, among other changes. According to the proposed lease, ORCIF funds "may be used for any lawful purpose for which Airport Revenues may be used."

Fiscal Impact

- The proposed new lease and use agreement with the 40 signatory airlines are estimated by Airport staff to provide approximately $6.1 billion in revenues to the Airport, over the 10-year lease term, including $3.4 billion in airline rents and $2.6 billion in landing fees.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

Section 2A.173 of the City's Administrative Code authorizes the Airport to negotiate and execute leases of Airport lands and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

2011 Airport Lease & Use Agreement

According to Airport staff, there are currently 60 airlines operating at the Airport. Of the 60 airlines, 40 signatory airlines are under the Airport's 2011 Lease and Use Agreement and 20 are "non-signatory airlines" operating under month-to-month Airline Operating Permits and Terminal Space and Use Permits. The airline lease and use agreement set the rate making methodology, legal and business terms for the operation of airlines at the airport, and gate allocation and operating procedures. Non-signatory airlines pay a 25 percent premium on landing fees and a higher security deposit compared to signatory airlines.

The original term of the 2011 Lease was July 1, 2011 through June 30, 2021. According to a February 7, 2023 memorandum from the Airport Director to the Airport Commission on the award of the 2023 Lease and Use Agreement (2023 Airport Lease Award Memo), airport staff and signatory airlines suspended negotiations of a new lease due to the impact of the COVID-19 pandemic on airport operations, and the Airport Commission approved a two-year extension of the term for the 2011 Lease for a new expiration date of June 30, 2023, which was approved by the Board of Supervisors in May 2021 (File 21-0335). The Airport and signatory airlines later resumed negotiations of a new lease and have agreed to the terms of the 2023 proposed lease.

Residual Rate Setting Methodology

The rent and landing fees, which are charged by the Airport to the airlines, are determined by the Airport's "residual rate setting methodology (breakeven policy)" set forth in the 2011 Lease. Under such methodology, the rental rates, landing fees, and related fees are adjusted annually such that the total amount of airline revenues received by the Airport together with non-airline revenues received by the Airport, including concession and parking revenues, is equal to total Airport costs, including debt service and operating costs.

According to Exhibit O of the 2023 proposed lease, each airline's terminal area rentals are calculated by multiplying the terminal area rental rate by the airline's leased terminal space (in square feet). Terminal area rental rates are based on net terminal area expenses and gross terminal space and vary according to five categories of terminal space (i.e., the rental rates for check-in counters are different than the rental rates for baggage claim lobbies). Landing fees are calculated by multiplying net airfield area expenses by the airline's projected share of total landed weight (in thousands of pounds). In addition, each airline pays a surcharge (which is applied to both terminal area rentals and landing fees) to cover the expenses of public space in the terminal. The Pro Forma for FY 2023-24 from Exhibit O of the 2023 proposed lease showing the calculation of terminal area rentals, rental rate structure, and calculation of landing fees is provided in Attachment 1.

Airport Economic Recovery

According to traffic and non-airline revenue performance data presented to the Airport Commission on January 17, 2023, the number of enplaned passengers for both domestic and international air travel was 82 percent of 2019 levels in November 2022, and non-airline revenues were 104 percent of 2019 levels due to strong parking, ground transportation, and car rental revenues according to the meeting minutes. Although air traffic has not fully recovered, Airport staff report that airline revenues continue to be sufficient together with non-airline revenues to cover the Airport's costs due to the breakeven policy.

DETAILS OF PROPOSED LEGISLATION

File 23-0204 is a resolution that would approve the 2023 Lease and Use agreement between the City and 29 airlines to conduct flight operations at the Airport for a 10-year term from July 1, 2023 through June 30, 2033.

File 23-0342 is a resolution that would approve the 2023 Lease and Use agreement between the City and an additional 11 airlines to conduct flight operations at the Airport for a 10-year term from July 1, 2023 through June 30, 2033.

The proposed resolutions would also affirm the Planning Department's determination under the California Environmental Quality Act and authorize the Airport Director to enter into immaterial modifications to the lease.

Signatory Airlines

All signatory airlines execute the same form of the lease with slight differences reflecting the specific airline's allocation of space. To date, the Airport Commission has awarded the proposed 2023 lease to 40 airlines. The Airport Commission awarded the proposed 2023 lease to the following 29 signatory airlines on February 7, 2023:

1. ABX Air, Inc.
2. Aerovias de Mexico S.A. de C.V. dba Aeromexico
3. Air China Limited
4. Air India Limited
5. Air New Zealand Limited
6. Air Transport International, Inc.
7. Alaska Airlines, Inc.
8. All Nippon Airways Co, Limited
9. Asiana Airlines Inc.
10. China Eastern Airlines Co. Ltd
11. Condor Flugdienst GMBH
12. Delta Air Lines, Inc.
13. Deutsche Lufthansa AG dba Lufthansa German Airlines
14. Emirates
15. EVA Airways Corporation
16. Federal Express Corporation
17. Japan Airlines Co., Ltd.
18. Kalitta Air LLC
19. Koninklijke Luchtvaart Maatschappij N. V. dba KLM Royal Dutch Airlines
20. Korean Air Lines Co., Ltd
21. Nippon Cargo Airlines, Inc.
22. Scandinavian Airlines of North America Inc dba Scandinavian Airlines SAS
23. Singapore Airlines Limited
24. Societe Air France dba Air France
25. Southwest Airlines Co.
26. Sun Country, Inc.
27. Turk Hava Yollaria A.O. dba Turkish Airlines
28. United Airlines, Inc.
29. Virgin Atlantic Airways Limited

In addition, the Airport Commission awarded the proposed 2023 lease to the following 11 airlines on March 21, 2023:

30. Air Canada
31. American Airlines, Inc.
32. British Airways, PLC
33. Cathay Pacific Airways, Ltd.
34. China Airlines, Ltd.
35. China Southern Airlines Company Limited
36. Frontier Airlines, Inc.
37. Philippine Airlines, Inc.
38. Swiss International Air Lines, Ltd.
39. TACA International Airlines, S.A. (TACA dba Avianca)
40. WestJet

File 23-0204 would approve leases between the City and airlines one through 29 above, and File 23-0342 would approve leases between the City and airlines 30 through 40. According to the 2023 Airport Lease Award Memo, the proposed 2023 lease has been offered to all airlines operating at the Airport and will continue to be offered to all other airlines, including new entrants, through the remainder of its term.[1]

Key Lease Terms

Key lease terms are summarized in Exhibit 1 below, based on the 2023 Airport Lease Award Memo.

[1] According to Airport staff, there were fewer signatory airlines initially under the proposed lease (29) compared to the existing lease (40) because some airlines could not get the necessary corporate approval within the timeframe or may elect not to sign the 2023 lease.

Exhibit 1: Proposed 2023 Airport Lease and Use Agreement Terms

Term	July 1, 2023 through June 30, 2033 (10 years)
Rate-Making Methodology	Existing residual rate setting methodology (described above) is maintained. Signatory airlines pay terminal area rentals, landing fees, and other usage fees, which are adjusted annually by the Commission to ensure that total airline and non-airline revenues are equal to total airport costs, including debt service.
Annual Service Payment	Existing Airport Annual Service Payment to the City's General Fund is maintained at the greater of $5 million or 15% of Airport concession revenues.
Operating Reserve and Capital Improvement Fund	Establishes an operating reserve and capital improvement fund totaling $800 million over the 10-year term and adjusted annually for inflation.
Shared Use Equipment	Expands rights of the Airport Commission to install shared use equipment throughout the Airport, including in exclusive use spaces of airlines, to enhance operational efficiency.
Preferential Use Gate Allocation	Expands review period of airline seat capacity to allocate preferential use gates to encourage consistent use of preferential use gates throughout the year.
Gate Accommodations	Enhances rights of the City to accommodate flights at preferential use gates of signatory airlines to maximize the use of a gate and capacity and efficiency of the Airport.
Sustainable Aviation Fuel Working Group	Establishes a Sustainable Aviation Fuel Working Group of Airport staff and signatory airlines that would determine how the parties can cooperate to increase the uptake of sustainable aviation fuel at the Airport. The working group will be chaired by the Airport Director.
Ground Service Equipment Electrification	Establishes a mutual goal to achieve 100% electric-powered ground service equipment at the Airport.
Airline Relocation Costs	Clarifies financial liability for airline relocations. If an airline initiates its relocation within the Airport, that airline is financially responsible for the move and for any required secondary relocations of other airlines. If the Airport initiates relocation of an airline, the Airport is financially responsible, subject to rate recovery under the lease.
Digital Information Working Group	Establishes a Digital Information Working Group chaired by the Airport Director and consisting of Airport staff and signatory airlines that will identify data on airport infrastructure and airline operations that could be exchanged to enhance Airport operations and improve the experience of Airport guests.
Commercialization of Digital Assets	Acknowledgement that the Airport has the sole and exclusive right to control, manage, and utilize all Airport Proprietary Content.

Source: 2023 Airport Lease Award Memo

Operating Revenue and Capital Improvement Fund

As shown in Exhibit 1 above, the proposed lease creates a new Operating Revenue and Capital Improvement Fund (ORCIF) totaling $800 million over the 10-year term and increases annually to account for inflation. According to the proposed lease, ORCIF funds “may be used for any lawful purpose for which Airport Revenues may be used.” Expenditures on capital improvements from the fund are subject to the lease’s review process for capital improvements. The proposed lease establishes a minimum and a maximum annual ORCIF deposit for each year and states that no deposit shall be made to the fund in any year when the unencumbered and unallocated balance of the fund exceeds $650 million. Deposits to the fund will be funded by airline revenues.

FISCAL IMPACT

As shown in Exhibit 2 below, the proposed new lease and use agreement with the 40 signatory airlines are estimated by the Airport to provide approximately $6.1 billion in revenues to the Airport, over the 10-year lease term.[2] In FY 2023-24, total airline rents are budgeted at $371.5 million, of which $283.1 million is provided by the Lease and Use Agreement for the 40 airlines, with the remaining $88.4 million in rental revenues coming from non-signatory airlines. Total landing fees are budgeted at $300.4 million in FY 2023-24, of which $217.4 million is provided by the Lease and Use Agreement, with the remaining $83.0 million in landing fees coming from non-signatory airlines.

Exhibit 2: Estimated Total Annual Lease Revenues

Fiscal Year	Terminal Area Rental Revenue	Landing Fees	Total Lease Revenue	Annual Percent Change
FY 2023-24	$283,070,971	$217,443,856	$500,514,827	
FY 2024-25	297,856,096	230,664,442	528,520,538	6%
FY 2025-26	312,526,623	242,336,064	554,862,687	5%
FY 2026-27	327,807,755	252,126,441	579,934,196	5%
FY 2027-28	339,703,578	262,312,349	602,015,927	4%
FY 2028-29	349,946,602	270,234,181	620,180,784	3%
FY 2029-30	360,455,258	278,395,254	638,850,513	3%
FY 2030-31	371,279,173	286,802,790	658,081,963	3%
FY 2031-32	382,427,805	295,464,235	677,892,040	3%
FY 2032-33	393,910,897	304,387,256	698,298,154	3%
Total	**$3,418,984,758**	**$2,640,166,870**	**$6,059,151,628**	

Source: Airport

[2] File 23-0204 would generate an estimated $5.1 billion in revenues over the 10-year term from 29 signatory airlines, and File 23-0342 would generate an estimated $1.0 billion in revenues over the 10-year term from 11 additional signatory airlines.

The estimated revenue is based on: (a) projected terminal use and landed weight of the 40 airlines through FY 2027-28; (b) proforma terminal area rental rates from the proposed lease, increased annually by three percent per year; and (c) proforma landing fee rates from the proposed lease, increased annually by two percent per year.

As discussed above, the revenues generated by the proposed leases are calculated by the Airport's residual rate setting methodology (breakeven policy), such that the proposed new leases would continue to result in the Airport's budget being fully balanced by the revenues paid by the airlines to the Airport after considering the Airport's budgeted expenditures and all non-airline revenues. Changes to Airport expenses, including debt service, and non-airline revenues will result in changes in airline revenues.

RECOMMENDATION

Approve the proposed resolutions.

Attachment 1: FY 2023-24 Pro Forma for Terminal Rentals and Landing Fees from Exhibit O of Proposed ABX Air, Inc. Lease

Attachment 3

CALCULATION OF TERMINAL AREA RENTALS AND RENTAL SURCHARGE
(BASIC RENTAL ADJUSTMENT)
SAN FRANCISCO INTERNATIONAL AIRPORT
Fiscal Year 2023/24
(dollars in thousands, except for rates)

		Pro Forma 2024
Terminal Area Expenses		
Operation and Maintenance Expenses		$ 390,267
Debt Service		453,436
Small Capital Outlays		2,699
Equipment		1,185
Annual Service Payment		45,773
Annual ORCIF Deposit		196,844
Deferred Aviation Revenue		(196,844)
		$ 893,360
÷ 'Gross Terminal Space (square feet)		5,916
= Basic Rate		$151.02
x Airline Leased Space (square feet)		1,742
= Basic Rentals	[A]	$ 263,048
Rental Surcharge (Basic Rental Adjustment)		
Basic Rate		$151.02
x Public Space		4,174
= Cost of Public Space		$630,312
- Non-airline revenues		(175,077)
- PFCs Classified as Revenues		(150,000)
+ Net Expense - GT and Parking Area		-
Rental Surcharge		$ 305,236
Allocation of Rental Surcharge (Basic Rental Adjustment)		
Terminal Area Rental Surcharge	[B]	$ 152,618
Landing Fee Surcharge		152,618
		305,236
Terminal Area Rentals		
Basic Rentals	[A]	$ 263,048
Terminal Area Rental Surcharge	[B]	152,618
		$ 415,666
Effective Average Rental Rate		
Basic Rate		$151.02
Rental Surcharge Rate		87.62
		$238.63

Note: Amounts may not add due to rounding.

2023-2033 Lease and Use Agreement
ABX Air, Inc.
Exhibit O, Page 12

Attachment 4

DERIVATION OF REQUIRED AIRLINE RENTAL RATE STRUCTURE

SAN FRANCISCO INTERNATIONAL AIRPORT

Fiscal Year 2023/24

(dollars in thousands, except for rates)

		Pro Forma 2024
Airline Leased Space (square feet)		
Category I		321
Category II		552
Category III		195
Category IV		633
Category V		40
		1,742
Equivalent Category I (square feet)	Relative value	
Category I	1.00	321
Category II	0.75	414
Category III	0.50	98
Category IV	0.25	158
Category V	0.10	4
		995
Required Category I		
Terminal Area Rentals		$ 415,666
Divided by Equivalent Category I space (square feet)		995
Required Category I Rate (per square foot)		$417.58

Terminal Rental Rates	Relative value	
Category I	1.00	$417.58
Category II	0.75	313.19
Category III	0.50	208.79
Category IV	0.25	104.40
Category V	0.10	41.76

Note: Amounts may not add due to rounding.

2023-2033 Lease and Use Agreement
ABX Air, Inc.

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Attachment 5

CALCULATION OF LANDING FEES AND LANDING FEE RATE

SAN FRANCISCO INTERNATIONAL AIRPORT

Fiscal Year 2023/24

(dollars in thousands, except for rates)

	Pro Forma 2024
BASIC LANDING FEES	
Operation and Maintenance Expenses	$105,388
Debt Service	43,403
Small Capital Outlays	460
Equipment	671
Annual ORCIF Deposit	53,156
	$203,077
Non-airline revenues	(4,616)
PFCs Classified as Revenues	(1,000)
Deferred Aviation Revenue deficit (surplus)	(53,156)
Net expense (revenue) - Other Leased Areas	3,115
Net expense (revenue) - West of Bayshore Area	2,471
Airfield Area Net Expense	$149,891
÷ Composite landed weight forecast (in 1,000 lbs units)	36,050
= Basic Rate (per 1,000 lbs.)	$4.16
LANDING FEE SURCHARGE	
Landing Fee Surcharge	$ 152,618
Net revenue - GT and Parking Area	(52,048)
	$ 100,570
÷ Composite landed weight forecast (in 1,000 lbs units)	36,050
= Landing Fee Surcharge Rate (per 1,000 lbs.)	$2.79

Landing Fees	
Basic Landing Fees	$ 149,891
Landing Fee Surcharge	100,570
	$ 250,461
Landing Fee Rate	
Basic Rate	$4.16
Surcharge Rate	2.79
	$6.95

Note: Amounts may not add due to rounding.

2023-2033 Lease and Use Agreement
ABX Air, Inc.

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Item 3 **File 23-0473** *(Continued from 5/17/23 meeting)*	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) approve the issuance of up to $6,060,195,000 aggregate principal amount of San Francisco International Airport (Airport) Second Series Refunding Revenue Bonds to refinance bonds and subordinate bonds; (2) approve the issuance of up to $60,525,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance fuel storage and delivery facilities; (3) approve the issuance of up to $262,530,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance the Airport Hotel; (4) approve revolving lines of credit and term loans in an available principal amount, together with the aggregate outstanding principal amount of subordinate bonds issued as commercial paper notes, up to $600,000,000; (5) approve the purchase of bonds or subordinate bonds by the Airport; (6) approve maximum interest rates, maturity dates, and number of issues; and (7) approve certain resolutions of the Airport Commission and other related matters.

Key Points

- The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds. In addition to the $1.1 billion in Refunding Bonds that have been authorized but unissued, the Airport would have capacity to issue approximately $7.2 billion in Refunding Bonds. This is intended to provide the authority for the Airport to issue Refunding Bonds for debt eligible for refunding through 2028.
- The Airport does not anticipate that refunding Special Facility bonds would produce debt service savings.
- The proposed resolution would continue to authorize the Airport to enter into letters of credit and commercial paper notes and, for the first time, authorize revolving lines of credit and term loans, together up to $600 million.

Fiscal Impact

- The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds, $60.5 million in SFO Fuel Bonds to refinance the fuel distribution system, and $262.5 million in SFO Hotel Bonds to refinance the Airport Hotel.
- The Airport pays approximately $3 million per year for letters of credit to support its commercial paper notes. The costs between a letter of credit and revolving line of credit are similar, and the Airport does not expect a significant difference between the cost of revolving lines of credit compared to letter of credit support.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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.

City Charter Section 9.107 states that the Airport may issue revenue bonds without voter approval, subject to Board of Supervisors' approval.

Administrative Code Section 2.62 states that such revenue bonds shall bear a rate of interest not to exceed that which may be fixed and prescribed by the Airport Commission, subject to the approval or rejection of the Board of Supervisors.

BACKGROUND

Airport Revenue and Refunding Bonds

The San Francisco International Airport (Airport) issues Airport revenue bonds, as authorized by the 1991 Master Bond Resolution. The 1991 Master Bond Resolution has been supplemented and amended 23 times since its original publication. Since 2008, the Board of Supervisors has authorized the issuance of $10.8 billion in Airport revenue bonds to finance capital projects (Capital Plan Bonds). The Board of Supervisors last authorized an increase of $3 billion in bonds in January 2020 (File 19-1124). The Airport has issued approximately $6.6 billion in Capital Plan Bonds, leaving approximately $4.2 billion in Capital Plan Bonds that remain authorized by unissued.[1]

The Board of Supervisors has authorized the issuance of $11 billion in Airport bonds to refinance outstanding debt (Refunding Bonds). The Airport has issued approximately $9.9 billion in Refunding Bonds, which have resulted in net present value debt service savings of approximately $672.9 million to date, leaving approximately $1.1 billion in Refunding Bonds that remain authorized but unissued. In April 2023, the Airport Commission approved an Omnibus Resolution which authorized the issuance of an additional $6.1 billion in Refunding Bonds, as well as other actions described below.

Special Facilities Bonds

SFO Fuel Bonds

In 1997, a consortium of airlines operating at the Airport created SFO Fuel Company LLC for the purpose of leasing, constructing, and operating the fuel systems at the Airport. In 1997 and 2000, the Airport Commission issued Special Facilities Lease Revenue Bonds to finance the costs of acquisition, construction, modification, expansion, and installation of jet fuel storage and distribution systems. In 2010, the Board of Supervisors approved the issuance of $125 million of Special Facilities Revenue Bonds (SFO Fuel Bonds) to potentially refund the previously authorized bonds (File 10-1579). In 2019, the Airport issued $125 million in principal amount of SFO Fuel

[1] According to Senior Administrative Analyst Tran, the bond authorization limit is cumulative, so repayment or refinancing of bonds does not increase the Airport's bond issuance capacity.

Bonds to refinance all outstanding fuel bonds and finance two new fuel storage tanks. Debt service on SFO Fuel Bonds is paid by rents that SFO Fuel Company pays to the Airport under its lease agreement, which in turn is recovered by payments charged by SFO Fuel Company to the airlines for its services. According to Tyler Tran, Airport Senior Administrative Analyst, the outstanding principal amount of SFO Fuel Bonds is approximately $98.3 million.

SFO Hotel Bonds

In 2015, the Board of Supervisors approved the sale of $243 million of General Airport Revenue Bonds and $225 million of Hotel Special Facility Revenue Bonds (SFO Hotel Bonds) to finance the construction of a 351-room hotel at the Airport (File 15-0987). Due to an increase in construction costs, in 2017, the Board of Supervisors approved an additional sale of $35 million of General Airport Revenue Bonds and $35 million of SFO Hotel Bonds to complete the project (File 17-0696).

The Airport used the proceeds from the General Airport Revenues Bonds to purchase the SFO Hotel Bonds. The Airport has a trust agreement with Bank of New York Mellon Trust Company to hold the SFO Hotel Bonds and transfer debt service payments, which are paid by hotel revenues, to the Airport. In February 2021, the Board of Supervisors approved an Amended Hotel Trust Agreement that reduced the hotel's interest rate due to declining revenues under the COVID-19 pandemic (File 21-0007). Under the Amended Hotel Trust Agreement, debt service payments were suspended from October 1, 2020 through April 1, 2023, and interest rates were reduced from three percent to 0.086 percent through October 1, 2023 and would gradually increase back to three percent by April 1, 2029. According to Senior Administrative Analyst Tran, the outstanding principal amount of SFO Hotel Bonds is approximately $260 million.

Commercial Paper

The Airport 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.[2] The Board of Supervisors has authorized the Airport to issue $600 million in commercial paper (File 21-0070). According to Senior Administrative Analyst Tran, the Airport's outstanding commercial paper principal amount is approximately $286 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

(1) approve the issuance of up to $6,060,195,000 aggregate principal amount of Airport Second Series Refunding Revenue Bonds to refinance bonds and subordinate bonds;

(2) approve the issuance of up to $60,525,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance fuel storage and delivery facilities;

[2] Commercial paper is a short-term debt instrument with maturities limited to 270 days. Commercial paper typically has a much lower interest rate than long-term debt. According to Senior Administrative Analyst Tran, the Airport's commercial paper notes are typically repaid or rolled over approximately three to four months after issuance.

(3) approve the issuance of up to $262,530,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance the Airport Hotel;

(4) approve revolving lines of credit, term loans, commercial paper notes, and subordinate bonds with a collective amount not to exceed $600,000,000;

(5) approve the purchase of bonds or subordinate bonds by the Airport;

(6) set maximum interest rates, maturity dates, and number of issues of such capital plan bonds, refunding bonds, subordinate bonds, and special facilities bonds; and

(7) approve certain resolutions of the Airport Commission and other related matters.

Refunding Bonds

The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds. In addition to the $1.1 billion in Refunding Bonds that have been authorized but unissued, the Airport would have capacity to issue approximately $7.2 billion in Refunding Bonds. According to Senior Administrative Analyst Tran, this resolution is intended to provide the authority for the Airport to issue Refunding Bonds over the next five years.

According to Senior Administrative Analyst Tran, potential uses of Refunding Bonds may include:

- $293.4 million in Fixed Rate Bonds eligible for refunding in May 2023;
- $473.6 million in Fixed Rate Bonds eligible for refunding in May 2024;
- $802.9 million in Fixed Rate Bonds eligible for refunding in May 2026;
- $571.6 million in Fixed Rate Bonds eligible for refunding in May 2027;
- $839.1 million in Fixed Rate Bonds eligible for refunding in May 2028;
- $654 million in Commercial Paper;[3]
- $3.1 billion in advanced refunding of bonds;[4] and
- $276.3 million in refunding Variable Rate Bonds.

Special Facilities Bonds

The proposed resolution would approve the issuance of approximately $60.5 million in SFO Fuel Bonds and $262.5 million in SFO Hotel Bonds to refinance outstanding bonds issued to finance the fuel storage and delivery facilities and the Airport Hotel. At this time, the Airport does not anticipate that refunding would produce debt service savings for the Airport. However, the Airport has requested this authority to provide financial flexibility and allow for refinancing if interest rates decline.

As the Airport owns the SFO Hotel Bonds, the Airport may either refinance the bonds using the same structure or sell the refunding SFO Hotel Bonds to other investors and use the proceeds to

[3] This amount includes the $600 million maximum commercial paper principal amount and up to $54 million in interest.

[4] Advanced refunding is when the proceeds of a refunding issue are held longer than 90 days before being used to pay debt service on the refunding issue and are therefore subject to higher taxes.

refund general Airport revenue bonds that were used to purchase the SFO Hotel Bonds. The Airport has not decided on which approach it would take were it to refund SFO Hotel Bonds.

Credit & Commercial Paper

The proposed resolution would continue to authorize the Airport to enter into revolving lines of credit, term loans, and subordinate bonds issued as commercial paper notes, up to $600 million. According to Senior Administrative Analyst Tran, this is intended to provide the Airport with an alternative to commercial paper, in the event that the market incentivizes lines of credit over commercial paper for short-term borrowing.

The Airport maintains letters of credit with the following banks:

- State Street Bank and Trust Company ($100 million, expires May 2, 2024),
- Sumitomo Mitsui Banking Corporation, ($100 million, expires April 7, 2027),
- Barclays Bank PLC ($100 million, expires May 24, 2024),
- U.S. Bank National Association ($100 million, expires November 15, 2023),
- Barclays Bank PLC ($125 million, expires April 23, 2027), and
- Bank of America, N.A. ($75 million, expires May 4, 2026)

The Airport intends to replace the U.S. Bank National Association letter of credit that expires in November 2023 with another letter of credit provided by Sumitomo Mitsui Banking Corporation.

Other Terms

The proposed resolution would set the following maximum interest rates for Airport bonds: (1) 12 percent for tax-exempt fixed-rate bonds; (2) 16 percent for taxable fixed-rate bonds; and (3) 18 percent for variable rate bonds. The proposed resolution also limits all Airport bond terms to 40 years. Bond sales may be competitive or through direct placement. These parameters are consistent with past resolutions authorizing Airport revenue bonds (Files 10-1579, 19-1124).

Debt Policy

According to the Airport's debt policy, refunding bonds may only be issued if the net present value of the debt service savings is (a) equal to at least three percent of the remaining principal of the refunded bonds, or (b) equal to at least one percent of the principal remaining principal of the refunded bonds and it is unlikely, in the judgment of the municipal advisors, that a future refunding would realize greater savings.

The debt policy also states that credit facility providers must have long-term credit ratings of at least A2/A/A and short-term credit ratings of P-1/A-1/F1, from at least two rating agencies.

Board of Supervisors Approval

Under City Charter Sections 4.115 and 9.107, the Board of Supervisors approves the Airport Commission's authority to issue Airport revenue bonds, but not each sale (as is the case with general obligation bonds).

FISCAL IMPACT

Refunding Bonds

The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds. In addition to the $1.1 billion in Refunding Bonds that have been authorized but unissued, the Airport would have capacity to issue approximately $7.2 billion in Refunding Bonds.

According to a good faith estimate prepared by PFM Financial Advisors, the true interest cost for the $7.2 billion in Refunding Bonds is estimated to be 4.53 percent. With an average 20-year Refunding Bond term length, the total payment amount with interest is estimated to be approximately $12.7 billion, including an estimated issuance cost of $23.2 million. This represents debt service savings of approximately $80.8 million compared to the original terms of the Capital Plan Bonds, or net present value savings of 1.27 percent, consistent with the Airport's debt policy. Airport bonds are paid by Airport operating revenues.

SFO Fuel Bonds

The proposed resolution would approve the issuance of approximately $60.5 million in SFO Fuel Bonds to refinance the Airport's fuel distribution system.

According to PFM's good faith estimate, the true interest cost for the $60.5 million in SFO Fuel Bonds is estimated to be 4.54 percent. After paying a cost of issuance of approximately $0.4 million, the net bond proceeds would be $60.1 million. With an average 16-year SFO Fuel Bond term length, the total payment amount with interest is estimated to be approximately $103.7 million. This was included in the Omnibus Resolution to provide financial flexibility in case the Airport needs to restructure the bonds, but it is not expected to provide any debt service savings.

SFO Hotel Bonds

The proposed resolution would approve the issuance of approximately $262.5 million in SFO Hotel Bonds to refinance the Airport Hotel.

According to PFM's good faith estimate, the true interest cost for the $262.5 million in SFO Hotel Bonds is estimated to be 4.53 percent. After paying a cost of issuance of approximately $1.8 million, the net bond proceeds would be $260.7 million. With an average 22-year SFO Hotel Bond term length, the total payment amount with interest is estimated to be approximately $525.5 million. This was included in the Omnibus Resolution to provide financial flexibility in case the Airport needs to restructure the bonds, but it is not expected to provide any debt service savings.

Commercial Paper/ Credit

The proposed resolution would continue to authorize the Airport to enter into letters of credit and commercial paper notes and, for the first time, authorize revolving lines of credit and term loans, together up to $600 million. According to Senior Administrative Analyst Tran, the Airport pays approximately $3 million per year for letters of credit to support its commercial paper notes. The costs between a letter of credit and revolving line of credit are similar, and the Airport does not expect a significant difference between the cost of revolving lines of credit compared to letter of credit support. Borrowing is repaid by rolling over debt or repayment with longer-term debt. Ongoing costs to maintain credit facilities are paid by Airport operating funds.

RECOMMENDATION

Approve the proposed resolution.