



MEMORANDUM

January 19, 2021

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Eleanor Johns, Vice President
Hon. Richard J. Guggenlime
Hon. Everett A. Hewlett, Jr.
Hon. Malcolm Yeung

21-0003
JAN 19 2021

FROM: Airport Director

SUBJECT: Resolution Authorizing the Issuance and Re-Issuance of up to an Additional \$100,000,000 Aggregate Principal Amount of San Francisco International Airport Subordinate Commercial Paper Notes, Increasing the Authorized Maximum from \$500,000,000 to \$600,000,000 Aggregate Principal Amount of Commercial Paper Notes Outstanding at Any Time

DIRECTOR'S RECOMMENDATION: ADOPT THE RESOLUTION AUTHORIZING THE ISSUANCE AND RE-ISSUANCE OF UP TO AN ADDITIONAL \$100,000,000 AGGREGATE PRINCIPAL AMOUNT OF SAN FRANCISCO INTERNATIONAL AIRPORT SUBORDINATE COMMERCIAL PAPER NOTES OUTSTANDING AT ANY TIME, UP TO AN AGGREGATE PRINCIPAL AMOUNT OUTSTANDING AT ANY TIME OF NOT TO EXCEED \$600,000,000.

Executive Summary

Staff recommends adopting the attached Resolution authorizing an additional \$100,000,000 of San Francisco International Airport Subordinate Commercial Paper (CP) notes, increasing the aggregate principal amount of CP notes that can be outstanding at any time to \$600,000,000 from the current \$500,000,000 maximum amount. The additional CP Program capacity will provide the Commission the capability to finance the remainder of the current Capital Improvement Plan (CIP) at lower interest rates in the near-term while also increasing the Commission's overall liquidity especially while it recovers from the COVID-19 pandemic.

The Airport's Financial Advisory Committee reviewed and concurs with the proposed action.

Background

The Airport has used the CP Program since 1997. CP notes are typically used as a low-cost source of short-term financing for CIP projects, then CP notes are refinanced by long-term Second Series Revenue Bonds (Bonds). CP notes could also be used to pay Airport operating expenses or to purchase, refinance, or restructure the Commission's outstanding bonds, or for other lawful Airport purposes. The Commission currently has \$62,140,000 of outstanding CP notes, which financed portions of CIP projects.

THIS PRINT COVERS CALENDAR ITEM NO. 4

CP notes typically bear a low interest rate (currently at approximately 0.2%) and have maturities ranging between one day and 270 days, while Bonds have a higher long-term term interest rate (approximately 4%) with maturities often as long as 30 years. CP notes can be “rolled” at maturity by selling new CP notes to refinance outstanding CP notes at a later maturity date. Interest on CP notes is generally paid down with operating funds for each roll.

The Commission’s Subordinate Master Resolution requires that CP notes be supported by letters of credit sufficient to pay the principal and interest on maturing CP notes. The supporting bank letters of credit assure investors that CP notes will be repaid in full and on time. The bank pays the principal and interest due to investors, then the Commission reimburses the bank. The CP Program is currently supported by an aggregate \$500,000,000 of bank letters of credit.

A history of prior Commission and Board of Supervisors (Board) actions regarding the CP Program is set forth in Appendix A.

Rationale – Financial Flexibility

Because of the relatively low interest rates on CP notes and the ability to issue only when funds are needed, the Airport could reduce debt service expenses by financing CIP funding needs by issuing CP notes and delaying the issuance of long-term Bonds. According to estimates provided by the Airport’s municipal advisors, delaying the issuance of long-term Bonds from April 2021 until August 2021 would reduce debt service costs by approximately \$1,210,242 for Fiscal Years 2020/21 and 2021/22, and provide total debt expense savings of approximately \$2,291,040 over a 30-year term for the Bonds, which equals approximately \$1,874,463 in today’s dollars. These savings estimates are based upon recent market conditions and include letter of credit fees.

Additionally, the substantial impacts of the COVID-19 pandemic have caused municipal market participants such as investors, letter of credit banks, and credit rating agencies to view available liquidity as a critical metric in making credit risk assessments for airports and other entities impacted by the pandemic. Increasing the Commission’s CP Program capacity by an additional \$100,000,000 principal amount will increase the Airport’s overall liquidity and financial flexibility. Maintaining a strong credit profile with market participants contributes to investor demand and supports more affordable borrowing costs for the Commission’s debt issuances.

Request to the Board of Supervisors and Related Actions

If the attached Resolution is adopted by the Commission, the Airport Director will request Board approval for the issuance and re-issuance by the Commission of up to an additional \$100,000,000 aggregate principal amount of CP outstanding at any time, for a new aggregate principal amount of CP notes outstanding at any time of not to exceed \$600,000,000 and seek any necessary appropriation to spend the proceeds of the additional authorized CP notes.

If approval is received from the Board, Staff will pursue several required related actions including, but not limited to, seeking additional credit support. Staff will return to the Commission to request the award, extension, or modification of an existing letter of credit or to enter into a similar agreement in an effort to reach the approved maximum of \$600,000,000 aggregate principal of CP notes, and seek any necessary appropriation to spend the proceeds of the additional authorized CP notes.

Recommendation

I recommend the Commission adopt the attached Resolution authorizing the issuance and re-issuance of up to an additional \$100,000,000 aggregate principal amount of San Francisco International Airport Subordinate Commercial Paper Notes, increasing the authorized maximum from \$500,000,000 to \$600,000,000 aggregate principal amount of Commercial Paper Notes outstanding at any time.



Ivar C. Satero
Airport Director

Prepared by: Kevin Kone
Acting Chief Financial Officer

Attachments

APPENDIX A
HISTORY OF PRIOR AIRPORT COMMISSION AND BOARD OF SUPERVISORS ACTIONS

- On May 20, 1997, by Resolution No. 97-0146, the Airport Commission (Commission) authorized the issuance of Commercial Paper (CP) notes.
- On May 20, 1997, by Resolution No. 97-0147, the Commission authorized the First Supplemental Resolution providing for the issuance of CP notes under the Subordinate Master Resolution.
- On June 23, 1997, by Resolution No. 620-97, the Board of Supervisors (Board) approved the issuance and re-issuance of up to \$400,000,000 of aggregate principal amount of CP notes outstanding at any time.
- On September 21, 1999, by Resolution No. 99-0299, the Commission amended and restated Resolution No. 97-0147.
- On February 19, 2002, by Resolution No. 113-02, the Board approved a form of Letter of Credit and Reimbursement Agreement relating to the CP notes.
- On May 5, 2009, by Resolution No. 09-0088, the Commission amended and restated Resolution Nos. 97-0147 and 99-0299.
- On October 5, 2010, by Resolution No. 10-0307, the Commission consolidated its prior resolutions regarding the Airport's bonds and CP notes, and authorized certain other debt-related matters.
- On February 1, 2011, by Resolution No. 50-11, the Board consolidated its prior resolutions regarding the Airport's bonds and CP notes, and authorized certain other debt-related matters.
- On November 1, 2016, by Resolution No. 16-0275, the Commission authorized issuance of up to an additional \$100,000,000 aggregate principal amount of CP notes, increasing the authorized maximum from \$400,000,000 to \$500,000,000 aggregate principal amount of CP notes outstanding at any time.
- On May 2, 2017, by Resolution No. 156-17, the Board approved the issuance and re-issuance of up to \$100,000,000 of additional CP notes, increasing the authorized maximum from \$400,000,000 to \$500,000,000 aggregate principal amount of CP notes outstanding at any time.