



San Francisco International Airport

**MEMORANDUM**

April 24, 2018

TO: AIRPORT COMMISSION  
 Hon. Larry Mazzola, President  
 Hon. Linda S. Crayton, Vice President  
 Hon. Eleanor Johns  
 Hon. Richard J. Guggenhime  
 Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Authorization and Approval of the Execution and Delivery of Continuing Covenant Agreements with Respect to Bonds of the San Francisco International Airport, and Certain Related Actions

DIRECTOR'S RECOMMENDATION: ADOPT RESOLUTION AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF CONTINUING COVENANT AGREEMENTS WITH RESPECT TO AIRPORT BONDS, AND CERTAIN RELATED ACTIONS.

**Executive Summary**

The attached Resolution approves a form of Continuing Covenant Agreement (the "Agreement"). The Airport Commission (the "Commission") would enter into this Agreement with a commercial bank or other similar investor in connection with the private placement (also known as the "direct purchase") of bonds. Under certain circumstances, private placements could save time and expenses compared to traditional, publicly-offered bond sales providing an additional tool that could be beneficial to the Commission in financing its capital program. The San Francisco Board of Supervisors' approval of the Agreement is also required.

The Airport's Financial Advisory Committee has reviewed and concurs with this proposed financing tool.

**Background**

Prior to 1986, it was common to privately place tax-exempt bonds with banks. The Tax Reform Act of 1986 made it less attractive for commercial banks to hold tax-exempt bonds and private placements became less common. However, this trend has reversed in recent years due to reduced opportunities in traditional lending and changes in the regulatory environment.

**Continuing Covenant Agreement**

The Agreement provides another mechanism for the financing of Airport capital projects, which would supplement the Commission's current ability to sell bonds, through a public offering on a negotiated or competitive basis. Privately-placed bonds sold through the Agreement, with terms ranging from one to

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AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

MARK FARRELL MAYOR	LARRY MAZZOLA PRESIDENT	LINDA S. CRAYTON VICE PRESIDENT	ELEANOR JOHNS	RICHARD J. GUGGENHIME	PETER A. STERN	IVAR C. SATERO AIRPORT DIRECTOR
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twenty years, may be structured at a fixed or variable interest rate, and regularly-scheduled principal and interest payments would be secured on the same priority level as other senior bonds. Under certain circumstances, the Commission may structure the privately-placed bonds with a mandatory redemption prior to the bonds maturity, and the redemption payments will be made entirely or partly on a basis subordinate to the repayment of other senior bonds.

Below is a summary of the advantages of a private placement when compared to traditional, publicly-offered bond sales:

- No requirement for Notice of Sale or Bond Purchase Agreement
- No requirement for underwriter
- No requirement for Preliminary Official Statement or Final Official Statement
- No requirement for bond rating
- Flexible requirement on debt service reserve

In addition to the lower costs of issuance, these advantages would allow the Commission to react more quickly to changes in market conditions. A traditional bond issue takes up to four months to complete. A direct purchase transaction could be completed in as little as two months. This could also help mitigate market risk in today's rising interest rate environment.

By Resolution No. 17-0002, adopted on January 17, 2017, the Commission established a two-year pool of pre-qualified banks interested in making a direct purchase of the Commission's bonds (the "Pool"). In the event that the Commission would like to consider a direct purchase for a specific bond sale, a mini request for proposals process would be used to select a specific institution from the Pool (or any successor pre-qualified pool). Within the framework of the proposed form of Agreement, certain terms are subject to negotiation between the selected institution and the Commission. In evaluating whether to utilize a direct purchase or a publicly-offered bond sale, staff and the Airport's financial advisors would compare economic terms, legal covenants, and financial structure before proceeding. This Agreement would only be executed in connection with a bond sale that has been authorized by the Commission as a direct purchase transaction.

### Recommendation

I recommend that this Commission adopt the attached Resolution authorizing and approving the execution and delivery of Continuing Covenant Agreements and certain related actions. I further recommend that this Commission authorize the Secretary of the Commission to seek approval from the San Francisco Board of Supervisors to authorize and approve the execution and delivery of Continuing Covenant Agreements and certain related actions.



Ivar C. Satero  
Airport Director

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Chief Business & Finance Officer