CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

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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 Bonds[1], 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 Paper[2] 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	4,359
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 rates[5].

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	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 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	20,859,364
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