PORT OF SAN FRANCISCO

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Katharine Petrucione,
Deputy Director of Finance and Administration
Lawrence Brown,
Financial Analyst

DATE: November 15, 2019

SUBJECT: **Resolution authorizing the sale of up to $27,000,000 aggregate principal amount of 2020 Port Refunding Revenue Bonds for the purpose of refunding all of the currently outstanding 2010 Port revenue bonds.**

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption a resolution authorizing the Port of San Francisco to issue up to $27,000,000 in 2020 Port Commission refunding revenue bonds. Proceeds from the sale will be used to refinance the remaining outstanding balance on the Port Commission's 2010 revenue bonds.

In conjunction with this request, legislation approving the sale of these bonds, as well as a supplemental appropriation to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, November 19, 2019. We request that these items be heard at the scheduled January 8, 2020 meeting of the Budget and Finance Committee.

Background
In February, 2010 the Port issued $36.7 million of Port revenue bonds to finance the design, construction, repair and improvements to various Port facilities including, among others, the James R. Herman Cruise Terminal at Pier 27. The 2010 revenue bonds were structured to allow the Port Commission, at its sole discretion, to redeem any or all of the remaining outstanding bonds at any time on or after March 1, 2020.

Port staff, in consultation with the Port's financial advisors, has recently determined that the Port can realize significant debt service savings by refinancing the Port's 2010 revenue bonds on March 1, 2020, when they first become eligible for refunding. The Port's financial advisors have estimated that under current market conditions a refunding would generate total savings of approximately $13.0 million in debt service over the remaining life of the 2010 Revenue Bond issue, or $7.9 million on a net present value basis, assuming that the Port maintains its current credit rating. This equates to 26.5% of the principal amount of the bonds to be refunded, and is substantially above the threshold established by the Port's Municipal Debt Policy for the issuance of refunding bonds.

Based on the significant debt service cost savings that can be achieved through a refinancing of the Port's 2010 revenue bonds, the Port Commission at its October 22, 2019 adopted Resolution 19-42 authorizing the issuance of up to $27.0 million in new 2020 Port revenue bonds for the sole purpose of refinancing the remaining outstanding balance of the Port's 2010 revenue bonds.

General Fund Impact
The new 2020 Port refunding revenue bonds are special, limited obligation of the Port Commission secured and payable solely from Port net revenues.

The sale of these bonds will have no impact of the City's general fund.

Financing Parameters
The proposed legislation will authorize the sale by the Port of 2020 Port Commission refunding revenue bonds for the sole purpose of refinancing the Port Commission's currently outstanding 2010 revenue bonds. The legislation will also authorize: (i) the appropriation of $30.0 million from a combination of bond proceeds from the 2020 sale and monies from the 2010 bond's debt service reserve fund that are currently on deposit with the bond trustee; (ii) the de-appropriation of $1.9 million representing the March 1, 2020 debt service payment on the 2010 Port revenue bonds; and (iii) the re-appropriation of $31.9 million of 2020 Port refunding revenue bond for fiscal year 2019-2020.

The table below outlines the estimated sources and uses of funds for the proposed Port revenue bond refinancing; based, in large part, on estimates provided by PFM Financial Advisors LLC, a municipal advisory firm registered with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB).

Estimated Sources and Uses of Funds for the 2010 Port Revenue Bond Financing

	2020A	2020B	Total
Estimated Sources:			
2020 Refunding Revenue Bond Proceeds	$14,007,656	$13,124,281	$27,131,937
2010 Revenue Bond Debt Service Reserve Fund	728,775	2,118,152	2,846,927
Subtotal	$14,736,431	$15,242,433	$29,978,864
2010 Revenue Bond Debt Service Payment	$364,388	$1,555,636	$1,920,024
Total Estimated Sources:	**$15,100,819**	**$16,798,069**	**$31,898,888**
Estimated Uses:			
Refunding Escrow Deposits	$14,608,680	$16,240,989	$30,849,669
Cost of Issuance	142,141	163,900	306,041
Underwriter's Discount	53,811	63,899	117,710
Total Delivery Expense	$195,952	$227,799	$423,751
Reserve for Market Uncertainty	$296,187	$329,281	$625,468
Total Estimated Sources:	**$15,100,819**	**$16,798,069**	**$31,898,888**

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Additional Information
The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, November 19, 2019. The forms of the following related financing documents will also be submitted.

i. Third Supplement to the Indenture of Trust
ii. Bond Purchase Agreement
iii. Preliminary Official Statement
iv. Continuing Disclosure Certificate
v. Escrow Agreements (one for each series of 2010 Bonds)

The financing documents listed above are described in more detail below:

i. Third Supplement to Indenture of Trust — This document is a short supplement to the existing Indenture of Trust (the Master Indenture, as previously supplemented; see description below), which provides for the specific terms of the proposed 2020 Refunding Bonds issuance. Those terms include the bonds' maturity and payment terms and schedules.

2010 Indenture of Trust (Master Indenture) This is the principal security document for the proposed issuance of 2020 Refunding Bonds. It is entered into between the Port and a Bond Trustee, U.S. Bank National Association, on behalf of the bondholders, and is the contract between the bondholders and the Port. The Master Indenture contains covenants regarding the operation of the Port that are designed to enhance the security of the Bonds and describes the terms under which investors will be repaid. Individual issuances of Port Revenue Bonds are offered for sale under a Supplement to Indenture which describes the terms specific to that particular issuance.

ii. Preliminary Official Statement (POS) — The Preliminary Official Statement is the document that is distributed to potential investors to solicit their interest in purchasing any 2020 Refunding Bonds. It provides information concerning the bond issue and operational and financial information on the Port. As required by the Securities and Exchange Commission (SEC), the document must be accurate in all material respects, and may not have any misleading misstatements or omissions. To assure accuracy of this document, the Commission should carefully review it prior to authorizing its distribution to potential investors. Subsequent to sale of the 2020 Refunding Bonds in the bond market, the bond interest rates, and sales price information will be inserted. After the pricing information is inserted, the preliminary designation will be deleted from the document caption, and the document will be identified as the Official Statement which will be distributed to all purchasers of the 2020 Refunding Bonds upon closing of the transaction.

iii. Bond Purchase Agreement — This document contains the terms and conditions for a sale of 2020 Refunding Bonds to the underwriters in a negotiated sale including the fees paid.

iv. Continuing Disclosure Certificate — The continuing disclosure certificate is an agreement between the Port and the Underwriters under which the Port agrees to provide certain financial and operating data, including the Port's financial statements, on an annual basis and

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to provide notices of certain specified events to the marketplace for the life of the 2020 Refunding Bonds issuance.

v. <u>Escrow Agreements</u> — The escrow agreements describe the duties and obligations of the Escrow Agent (the same bank as the Bond Trustee under the Indenture) for the 2010 Bonds, and establishes an escrow fund for the deposit of monies from the following sources in an amount sufficient to fully redeem the 2010 Bonds; (i) the proceeds of the 2020 Refunding Bonds, (ii) the 2010 Bonds debt service reserve fund, and (iii) the 2010 Bonds debt service payment otherwise due March 1, 2020. Pursuant to each Agreement, the escrow agent will use the deposited funds plus a small amount of interest earnings generated while the funds are held by the Escrow Agent, to fully repay the outstanding 2010 Bonds on March 1, 2020, without premium.

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