

File No. 191123

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date January 15, 2020

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
| <input type="checkbox"/> | <input type="checkbox"/> | Application |
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Completed by: Linda Wong Date January 10, 2020
 Completed by: Linda Wong Date _____

1 [Appropriation - Revenue Bonds Proceeds - Capital Improvement Projects - Airport
2 Commission - \$3,888,069,311 - FY2019-2020]

3 **Ordinance appropriating \$3,888,069,311 of proceeds from the sale of revenue bonds**
4 **or commercial paper for capital improvement projects to the Airport Commission for**
5 **FY2019-2020; and placing \$3,888,069,311 on Controller’s Reserve pending receipt of**
6 **proceeds of indebtedness.**

7 Note: **Unchanged Code text and uncodified text** are in plain Arial font.
8 **Additions to Codes** are in *single-underline italics Times New Roman font.*
9 **Deletions to Codes** are in *strikethrough italics Times New Roman font.*
10 **Board amendment additions** are in double-underlined Arial font.
11 **Board amendment deletions** are in ~~strikethrough Arial font.~~
12 **Asterisks (* * *)** indicate the omission of unchanged Code
13 subsections or parts of tables.

14 Be it ordained by the People of the City and County of San Francisco:

15 Section 1. The sources of funding outlined below are herein appropriated to reflect the
16 funding available in Fiscal Year 2019-2020.

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1 **Sources Appropriation**

2	Fund /	Project & Activity /	Account	Description	Amount
3	Department ID	Authority			
4	18951 / 228994	10005762 – 0001 /	480111	Proceeds from Sale	\$3,888,069,311
5	AIR CAP 2020	10741	Proceeds from Sale	of Bonds	
6	APPN Capital Proj /	SFIA Capital	of Bonds		
7	AIR General	Projects / AIR			
8		Capital Project			
9		Revenue			
10	Total Sources				\$3,888,069,311

11
 12 Section 2. The uses of funding outlined below are herein appropriated and reflect the
 13 projected uses of funding to support capital improvement projects for the Airport Commission
 14 for Fiscal Year 2019-2020.

15
 16 **Uses Appropriation**

17	Fund /	Project & Activity /	Account	Description	Amount
18	Department ID	Authority			
19	18951 / 109722	10003760 – 0001 /	567000	Airfield	\$135,560,282
20	AIR CAP 2020	10337	Bldgs,Struct&Imprv	Improvements	
21	APPN Capital Proj /	AC Airfield	Proj-Budget		
22	AIR Capital	Improvements /			
23	Projects	Airfield			
24		Improvements			

	Fund /	Project & Activity /	Account	Description	Amount
	Department ID	Authority			
1	18951 / 109722	10004055 – 0001 /	567000	Airport Support	\$769,979,707
2	AIR CAP 2020	10340	Bldgs,Struct&Imprv	Improvements	
3	APPN Capital Proj /	AC Air Support /	Proj-Budget		
4	AIR Capital	Airport Support			
5	Projects	Improvement			
6					
7	18951 / 109722	10004134 – 0001 /	567000	Groundside	\$103,759,546
8	AIR CAP 2020	10343	Bldgs,Struct&Imprv	Improvements	
9	APPN Capital Proj /	AC Groundside /	Proj-Budget		
10	AIR Capital	Groundside			
11	Projects	Improvements			
12					
13	18951 / 109722	10004334 – 0001 /	567000	Terminal	\$337,022,830
14	AIR CAP 2020	10345	Bldgs,Struct&Imprv	Improvements	
15	APPN Capital Proj /	AC Terminals /	Proj-Budget		
16	AIR Capital	Terminal			
17	Projects	Improvements			
18					
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	Fund /	Project & Activity /	Account	Description	Amount
	Department ID	Authority			
1					
2					
3	18951 / 109722	10030890 – 0002 /	567000	Terminal 1 Program	\$688,691,677
4	AIR CAP 2020	19697	Bldgs,Struct&Imprv		
5	APPN Capital Proj /	AC Terminal 1	Proj-Budget		
6	AIR Capital	Program / AC			
7	Projects	Terminal 1 Program			
8		CAC077			
9					
10	18951 / 109722	10030891 – 0002 /	567000	Terminal 3 Program	\$711,034,265
11	AIR CAP 2020	19698	Bldgs,Struct&Imprv		
12	APPN Capital Proj /	AC Terminal 3	Proj-Budget		
13	AIR Capital	Program / Terminal			
14	Projects	3 Program CAC087			
15					
16	18951 / 109722	10004436 – 0001 /	567000	Utilities	\$269,209,504
17	AIR CAP 2020	10347	Bldgs,Struct&Imprv	Improvements	
18	APPN Capital Proj /	AC Utilities / Utility	Proj-Budget		
19	AIR Capital	Improvements			
20	Projects				
21					
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1	Fund /	Project & Activity /	Account	Description	Amount
2	Department ID	Authority			
3	18951 / 109722	10005762 – 0002 /	581130	CSA 0.2%	\$6,030,516
4	AIR CAP 2020	10741	GF-CON-Internal	Controller's Audit	
5	APPN Capital Proj /	SFIA Capital	Audits	Fund	
6	AIR Capital	Projects / AIR			
7	Projects	Capital Project			
8		Revenue			
9					
10	18951 / 109722	10005762 – 0003 /	573110	Contingency	\$74,984,160
11	AIR CAP 2020	10741	Bond Issuance	Account	
12	APPN Capital Proj /	SFIA Capital	Cost - Unamortized		
13	AIR Capital	Projects / AIR			
14	Projects	Capital Project			
15		Revenue			
16					
17	18951 / 109722	10005762 – 0003 /	573110	Debt Service	\$291,612,803
18	AIR CAP 2020	10741	Bond Issuance	Reserve Fund	
19	APPN Capital Proj /	SFIA Capital	Cost - Unamortized		
20	AIR Capital	Projects / AIR			
21	Projects	Capital Project			
22		Revenue			
23					
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1	Fund /	Project & Activity /	Account	Description	Amount
2	Department ID	Authority			
3	18951 / 109722	10005762 – 0003 /	573110	Capitalized Interest	\$466,568,317
4	AIR CAP 2020	10741	Bond Issuance	Fund	
5	APPN Capital Proj /	SFIA Capital	Cost - Unamortized		
6	AIR Capital	Projects / AIR			
7	Projects	Capital Project			
8		Revenue			
9					
10	18951 / 109722	10005762 – 0003 /	573110	Cost of Issuance	\$6,399,219
11	AIR CAP 2020	10741	Bond Issuance		
12	APPN Capital Proj /	SFIA Capital	Cost - Unamortized		
13	AIR Capital	Projects / AIR			
14	Projects	Capital Project			
15		Revenue			
16					
17	18951 / 109722	10005762 – 0003 /	573110	Underwriter's	\$27,216,485
18	AIR CAP 2020	10741	Bond Issuance	Discount	
19	APPN Capital Proj /	SFIA Capital	Cost - Unamortized		
20	AIR Capital	Projects / AIR			
21	Projects	Capital Project			
22		Revenue			
23	Total Uses				\$3,888,069,311
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1 Section 3. The uses of funding outlined above for \$3,888,069,311 are herein placed on
2 Controller's Reserve pending receipt of proceeds of indebtedness.
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Section 4. The Controller is authorized to record transfers between funds and adjust the accounting treatment of sources and uses appropriated in this Ordinance as necessary to conform with Generally Accepted Accounting Principles and other laws.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

FUNDS AVAILABLE:
BEN ROSENFELD, Controller

By: 
JANA CLARK
Deputy City Attorney

By: 
BEN ROSENFELD
Controller

<p>Items 1 and 2 Files 19-1123 and 19-1124</p>	<p>Department: San Francisco International Airport (Airport)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • File 19-1123 is an ordinance appropriating \$3,888,069,311 of Airport Revenue Bonds proceeds to the Airport Commission for FY2019-20. The funds would be placed on Controller’s Reserve pending the sale of the bonds or commercial paper. • File 19-1124 is a resolution (1) authorizing the sale of \$3,000,000,000 in new Airport Revenue Bonds; and (2) ratifying, approving and confirming certain resolutions of the Board of Supervisors and Airport Commission related to the bonds. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The number of airplane passengers at San Francisco International Airport has grown by 58 percent from FY 2008-09 to FY 2017-18, twice as fast as the national average. The Airport is requesting additional revenue bond authorization to implement capital projects to address airport congestion and appropriation to spend bond proceeds. • The proposed \$3bn bond authorization, combined with existing unissued authorization of \$1.56 billion, would provide the remaining funding needed for the Airport’s \$7.6 billion FY 2019-20 Five-Year Capital Plan, including major projects such as Terminals 1, 3 and International Terminal renovations and an extension to the AirTrain. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The Airport proposes to sell the \$3 billion Airport Revenue bonds through negotiated sales with 30-year terms at an estimated 6.1 percent fixed interest rate. Based on Airport forecasts, the total debt service over 30 years is estimated to be \$6.7 billion, including \$3.0 billion in principal and \$3.7 billion in interest payments. The average annual debt service is estimated to be \$223.4 million. • Debt service on the Airport’s bonds is paid from Airport revenues, which primarily consist of charges to airlines. Based on Airport forecasts, annual debt service payments are projected to increase by 76% from \$463.5 million in FY2018-19 to a peak of \$816.1 million in FY 2024-25. Increased debt service payments are expected to be covered by increases to the fees charged to airlines. 	
<p style="text-align: center;">Policy Consideration</p>	
<ul style="list-style-type: none"> • Credit Rating Agency reports highlight several potential risks with the Airport’s bonds but rate the Airport’s credit as “strong.” An economic recession or other domestic or international events could reduce passenger enplanements and airline revenues, impacting airlines’ ability to make payments to the Airport to cover debt service. 	
<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed resolution (File 19-1124) to request the Airport Director submit the preliminary Official Statement for each bond issuance covered by the proposed resolution to the Clerk of the Board prior to issuance and include the documents in the legislative file. • Approve the proposed ordinance (File 19-1123). 	

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

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.

BACKGROUND**Airport Revenue Bond Authorization**

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 twenty two times since its original publication. Since 2008, the Board of Supervisors has authorized \$7.8 billion in Airport Revenue bonds. The Board last authorized an increase of \$4.4 billion in the Airport's bond issuance authority in 2017. This covered major projects in the FY 2016-17 Capital Improvement Plan including the Harvey Milk Terminal 1 modernization, airfield improvements, improvements to the AirTrain system, and construction of a new long term parking garage. Currently, \$1.56 billion in bond authority remain unissued (as of October 21, 2019).

As of July 1, 2019, the total amount of outstanding bond debt held by the Airport was \$7.301 billion.¹

DETAILS OF PROPOSED LEGISLATION

File 19-1123: The proposed ordinance would appropriate \$3,888,069,311 of proceeds from Airport Revenue Bonds and commercial paper² to the Airport Commission for FY19-20. The funds would be placed on Controller's Reserve pending the sale of the bonds or commercial paper.

The appropriation sources include \$3,000,000,000 from new Airport Revenue Bonds (File 19-1124) and \$888,069,311 in previously authorized but not issued Airport Revenue Bonds. The appropriation uses consist of \$3,015,257,811 for Airport Capital projects and \$872,811,500 in financing and contingency costs.

File 19-1124: The proposed resolution would authorize the sale of \$3,000,000,000 in new Airport Revenue Bonds; and ratify, approve and confirm certain resolutions of the Board of

¹ The \$7.3 billion in outstanding bond debt includes debt in addition to Airport Revenue bonds (i.e. Airport Commercial Paper and debt from bond issuances before 2008).

² Commercial paper is short term, low interest debt. The Airport is authorized to issue up to \$500 million in commercial paper notes, of which \$3.2 million has been issued and \$496.8 million is unissued. Under the proposed appropriation ordinance, the Airport may issue commercial paper prior to the issuance of the bonds, which will be repaid by bond proceeds.

Supervisors and Airport Commission related to the bonds. The bonds must be sold by June 30, 2026 and are subject to the terms and conditions set forth in the original 1991 Resolution which details the requirements on the Airport Commission in issuing Revenue Bonds, including the Rate Covenant and debt service coverage levels. The proposed resolution also requires that California Environmental Quality Act (CEQA) reviews be completed before bonds are issued to fund construction but allows for bond monies to be used to fund planning and development costs.

These Airport Revenue Bonds may be issued as fixed rate, variable rate or index rate bonds in accordance with the terms of the 1991 Bond Resolution. The type of 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. Based on information provided by the Airport, these bonds would be issued in four installments between 2020 and 2023.

According to the Office of Public Finance, the appropriation request of \$3.888 billion is greater than the bond authorization request of \$3 billion to allow for potential fluctuations in market conditions or investor preferences which could generate bond proceeds above the bond par amount.³

Basis of Request for Bond Authorization

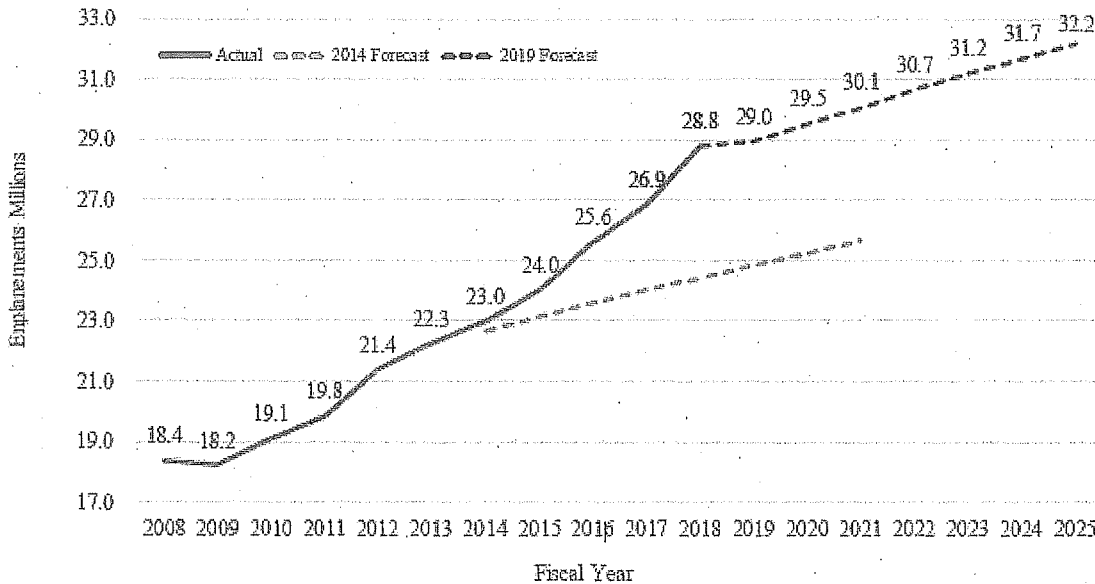
The projects to be funded by the requested Airport Revenue bond authorization are largely to accommodate the increase in air passenger traffic at San Francisco International Airport. As show in Exhibit 1, the number of airplane passengers at San Francisco International Airport has grown by 58 percent from FY 2008-09 to FY 2017-18 and exceeded forecasts for the past four years. According to the Federal Aviation Administration (FAA), San Francisco International Airport was the 7th busiest airport in the United States in calendar year 2018 based on passenger traffic, with 27.8 million total enplanements⁴. From FY 2013-14 to FY 2018-19 the number of enplanements increased at a compound annual growth rate of 4.5 percent. Over the past decade, the Airport's air traffic grew at almost twice the national average (4.6 percent vs 2.8 percent, respectively). Additionally, a recent report by the Airport's Consultant forecasted increased passenger growth of 12 percent by FY 2025-26 to 32.2 million enplanements⁵.

³ The Airport Capital Plan bonds may be structured as "premium bonds", in which investors are willing to pay more than face value of the bonds in exchange for receiving higher interest payments.

⁴ Federal Aviation Administration Commercial Service Enplanements Report for Calendar Year 2018 (Preliminary) (https://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/media/preliminary-cy18-commercial-service-enplanements.pdf)

⁵ Based on Report of the Airport Consultant for the Series 2019EFG Bond Official Statement

Exhibit 1: Actual and Forecast Airplane Passenger Growth, FY 2007-08 to FY 2024-25



Source: San Francisco International Airport FY2019/20 Capital Improvement Plan. Actuals from Airport Commission; Forecasts by LeighFisher.

Passenger enplanements declined by 0.7 percent in FY 2018-19 compared to the same period in FY 2017-18 due to certain airlines reconfiguring routes following a merger and aircraft gate constraints during peak periods⁶. Additionally, according to the Ms. Kaitlyn Connors, Airport Budget Director, the Airport is currently at 92 percent of its operating capacity in terms of aircraft arrivals and departures.

The Airport Commission approved Capital Improvement Plans in FY 2016-17 and FY 2019-20 aimed at addressing passenger traffic growth, including increasing the number of terminal gates to accommodate increased passenger traffic, and improving security, ground transportation, parking and other infrastructure. Completion of the Capital Improvement Plan is expected to increase gate capacity, help decrease peak period constraints, and expand other infrastructure to accommodate the increased passenger traffic.

Rating Agencies

As noted above, the Airport’s outstanding bond debt as of July 1, 2019 was \$7.3 billion. The Airport issued an additional \$922.2 million in Series 2019EFG Airport Revenue bonds in August 2019. As part of this bond sale, the Airport engaged the three main credit rating agencies (Moody’s, S&P and Fitch) to rate the proposed sale. Exhibit 2 shows the three agencies ratings’ for these bonds as A1, A+, and A+, the third highest rating possible, indicating the Airport has a “strong capacity” to meet its financial commitment. However, they did identify some risks including: (1) a large debt-funded Capital Improvement Plan and (2) one primary airline carrier (United Airlines) which accounts for 21 percent of the Airport’s operating revenue.

⁶ Based on Report of the Airport Consultant for the Series 2019EFG Bond Official Statement

Exhibit 2: Bond Rating Agencies' Assessment of 2019EFG Series Airport Revenue Bonds

Rating Agency	Investment Grade	Description	Risks
Moody's	A1	Strong	<ul style="list-style-type: none"> - Large debt-funded Capital Improvement Plan - One airline, United Airlines, accounts for 21% of operating revenue and 45% of enplanements - Current airline agreement expire in 2021 just as airline costs will peak due to added debt for the CIP
S&P	A+	Strong	<ul style="list-style-type: none"> - Increased leverage and capital needs financed by bond proceeds - High cost structure - High concentration of one primary carrier - United Airlines
Fitch	A+	Strong	<ul style="list-style-type: none"> - Large debt-funded Capital Improvement Plan

Source: Series 2019EFG Official Statement

Airport Capital Improvement Plan

The Airport prepared a Capital Improvement Plan for FY 2016-17 through FY 2020-21; the Airport Commission approved the FY 2019-20 update to the Capital Improvement Plan in March 2019. The FY 2019-20 update provides for \$7.6 billion in projects through FY 2023-24, of which \$3.0 billion in funding was previously appropriated and \$4.6 billion is new funding shown in Exhibit 3 below.

Exhibit 3: FY 2019-20 Capital Improvement Plan Projects and Funding

Projects	Prior Funding	New FY 2019-20 to FY 2023-24 Funding	Total
Airfield Improvements ^a	\$97,893,262	\$191,005,782	\$288,899,044
Airport Support ^b	380,085,961	893,879,563	1,273,965,524
Groundside			
Parking & Garage	158,230,348	24,794,934	183,025,282
Air Train	112,706,604	131,649,133	244,355,737
On-Airport Hotel	152,339,000	87,661,000	240,000,000
Other Groundside ^c	93,336,810	67,229,391	160,566,201
Subtotal Groundside	516,612,762	311,334,458	827,947,220
Terminals			
Terminal 1 Projects	1,364,222,167	1,041,632,586	2,405,854,753
Terminal 3 Projects	299,461,158	1,181,629,896	1,481,091,054
International Terminal	36,736,710	382,705,833	419,442,543
Other Terminals ^d	228,441,108	203,613,994	432,055,102
Subtotal Terminals	1,928,861,143	2,809,582,309	4,738,443,452
Utilities ^e	96,463,165	394,698,730	491,161,895
Total	\$3,019,916,293	\$4,600,500,842	\$7,620,417,135

Source: FY 2019-20 Capital Improvement Plan Update

^a Airfield improvements include runway and taxiway, power and lighting, South McDonnell Road realignment, and other projects.

^b Airport support includes shoreline projection, computer systems, consolidated administration campus, elevators, escalators and walkways, fire equipment, security, noise insulation, cargo and hangar and Superbay projects, South Field redevelopment, technology improvement, and other projects. This budget category also includes \$439.8 million in reserves for Airport projects, equal to 9.5 percent of \$4.6 billion in project funding from FY 2019-20 through FY 2023-24.

^c Other groundside projects include roadway, support facility, Plot 700 redevelopment, and other projects.

^d Other terminal improvements include Air Traffic Control Tower, revenue enhancement, gate enhancement, and other projects. This budget category also includes \$37.8 million in capital improvement program support from FY 2019-20 through FY 2023-24.

^e Utilities include energy efficiency (including Net Zero), power and lighting, water and waste water, storm drainage, and other projects.

FISCAL IMPACT**Appropriation Ordinance (File 19-1123)**

The proposed ordinance appropriates \$3,888,069,311 in Airport Revenue bonds, which includes appropriation of \$3,000,000,000 in new bond authority and \$888,069,311 in previously authorized bonds, as shown in Exhibit 4 below. The Attachment provides further project details.

Exhibit 4: Sources and Uses of Airport Revenue Bond Proceeds

Sources	
Proceeds from Revenue Bond Sales	3,888,069,311
Uses	
<i>Projects</i>	
Airfield Improvements	135,560,282
Airport Support	769,979,707
Groundside Improvements	103,759,546
Terminal Improvements	337,022,830
Terminal 1 Program	688,691,677
Terminal 3 Program	711,034,265
Utilities	269,209,504
Subtotal Projects	3,015,257,811
Financing and Other Costs	
City Services Auditor (0.2%)	6,030,516
Contingency Account (2.5%) ^a	74,984,160
Debt Service Reserve ^b	291,612,803
Capitalized Interest ^c	466,568,317
Cost of Issuance ^d	6,399,219
Underwriter's Discount ^e	27,216,485
Subtotal Financing and Other Costs	872,811,500
Total	3,888,069,311

Source: Appropriation Ordinance

^a The Contingency Account holds Airport funds that may be used for operating or capital purposes, but are also used each year to help the Airport meet its bond covenant requirement to have the sum of annual net operating revenues plus the balance in the Contingency Account equal to at least 125% of annual debt service, as required by the Airport Commission's 1991 Master Bond Resolution.

^b Debt Service Reserve is a fund in which an issuer sets aside money in case its regular debt service fund is insufficient to make a future debt service payment as required by the Airport Commission's master bond indenture.

^c Capitalized Interest is the portion of the proceeds of a bond issue that is set aside to pay interest on the bonds for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-producing project, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues.

^d Costs of Issuance consist of expenses associated with the sale of a bond, including fees for financial advisors, counsel, the trustee and rating agency fees and other expenses.

^eThe Underwriters Discount is the difference between the price paid by the underwriter to the issuer for the new bond issue and the prices at which the securities are initially offered to the investing public. This difference provides the underwriter with compensation for the transaction, as well as reimbursement for expenses.

On October 21, 2019, the City's Capital Planning Committee recommended the authorization of up to \$3 billion in Airport Revenue bonds and approval of the related \$3.888 billion increase in appropriation.

Total Capital Improvement Plan Project Costs

The FY 2019-20 Capital Improvement Plan provides for \$4.6 billion in capital program expenditures from FY 2019-20 through FY 2023-24 (see Exhibit 3 above). Funding for the \$4.6 billion capital program comes from \$3.0 billion in new Airport Revenue bond authorization (subject of File 19-1124) and approximately \$1.6 billion in previously authorized and unissued bonds, as noted above and shown in Exhibit 5 below.

Exhibit 5: Previous and New Airport Capital Plan Bond Authorization (\$million)

Total Authority	\$7,827
Issued to Date	(6,263)
Authorized and Unissued	1,564
New Requested Authority	3,000
Total	\$4,564

Source: Staff memorandum to October 15, 2019 Airport Commission meeting

Of the previously authorized and unissued amount of \$1.564 billion, \$888,069,311 is appropriated to the capital program as shown in Exhibit 4 above.⁷

Issuance of Bonds (File 19-1124)

The Airport proposes to sell the \$3,000,000,000 in Airport Revenue bonds, through several negotiated sales with a 30-year term at an estimated 6.1 percent fixed interest rate. The Airport Commission's Debt Policy allows the Airport to use negotiated or competitive sales, or direct placements of bonds to minimize debt service cost and to determine the structure, timing and terms of bond issuances within the terms of the 1991 Master Resolution.

The actual interest rate will not be known until the time of bond sale. According to a report prepared by the Airport's Consultant for the latest bond sale, the Airport expects to issue bonds once a year from 2020 to 2023, but the timing and sizing of each issue would be determined based on an assessment of capital plan cash flow requirements and market conditions⁸. The bonds are expected to be fully repaid in by 2053 from Airport revenues.

⁷ According to Ms. Connors, the remaining authorized but unissued bond authority (\$676 million) has already been appropriated in the Airport's previous bond appropriation ordinances. Some of the difference between the bond appropriation amount (\$3.888 billion) and the bond authority resolution amount (\$3 billion) is due to the potential greater proceeds that may be realized through a "premium bond" (see Footnote 3).

⁸ Official Statement of the Airport Commission of the City and County of San Francisco International Airport for Second Series Revenue Bonds Series 2019E/F/G and Refunding Bonds Series 2019H, Appendix A: Report of the Airport Consultant (<https://www.flysfo.com/about-sfo/investor-relations>)

Based on information provided by the Airport, the total debt service over 30 years on the new requested bond authority of \$3.0 billion is estimated to be \$6.7 billion, including \$3.0 billion in principal repayment and \$3.7 billion in interest payments. The average annual debt service is estimated to be \$223.4 million. This assumes that all unissued debt is sold to finance capital improvement projects within the next five fiscal years.

According to the Airport Consultant's forecasts, debt service for all current and proposed bonds would increase from \$463.5 million in FY2018-19 to a peak of \$816.1 million in FY 2024-25, before declining slightly to \$797.4 million in FY 2025-25. This would represent an increase of between 72 percent and 76 percent over this period. Exhibit 6 below shows the Airport's forecast annual debt service between fiscal year 2018-29 and 2047-48. The forecast assumes a conservative 6 to 7 percent interest rate, level debt service and no refunding of outstanding bonds for debt service savings. The Airport has typically achieved interest rates below these estimates over the past few years and refinanced existing bonds for debt service savings when opportunities arise.

Exhibit 6: San Francisco Airport Annual Debt Service Forecast, FY2018-19 to FY2047-48



Source: San Francisco International Airport's FY2019-20 Capital Improvement Plan

Debt service on the Airport's Revenue bonds is paid from Airport revenues, which primarily consist of charges to airlines. Under the 2011 Lease and Use Agreement between the Airport and the airlines, the Airport has the authority to increase the landing and terminal fees charged to the airlines to meet its operating expenses, including annual debt service on outstanding Airport revenue bonds. According to Ms. Connors, each year, the Airport updates the terminal and landing fees. To do so, the Airport forecasts the total annual expenses and the total non-airline revenues. The difference between the annual expenses and non-airline revenues must be paid from airline landing and terminal fees, which are adjusted by the Airport to fill the gap.

According to the Master Resolution Bond Resolution of 1991, which governs bond issuances by the Airport, the Airport Commission must ensure that the following two conditions are met with regards to debt service repayment (i.e. the “rate covenant”):

- 1) Net revenues in each fiscal year must be at least sufficient (a) to make all required payments and deposits to cover Revenue Bond debt service, and (b) to make the Annual Service Payment to the City; and,
- 2) Net revenues, together with any transfers, in each fiscal year must be at least equal to 125% of aggregate annual debt service with respect to bonds outstanding for that fiscal year.

In order to issue additional bonds for new projects, the Airport Commission must also receive a certificate from an independent consultant or auditor stating that the Airport will be able to meet the Rate Covenant for the period covered by the bonds. The Airport received this certification as part of its latest bond issuance in 2019 (\$922.2 million in 2019EFG Series Bonds) which also covered expected future bonds under the FY 2019-20 Capital Improvement Plan.

According to the Airport Consultant’s forecasts, the debt service coverage rate is expected to stay above the 125 percent threshold from FY 2019-20 to FY 2025-26. The debt service coverage rate calculation assumes annual transfers from the Airport’s Contingency Fund to cover increasing debt service. If this transfer is excluded, the debt coverage rate would decrease from 117 percent in FY 2018-19 to 111 percent in FY 2025-26. The Airport Commission has discretion to fund the Contingency Fund and use this to pay debt service.

Exhibit 7: Airport Consultant’s Forecast of Debt Service Coverage from Bond Issuances for FY2018-19 to FY2025-26 (\$ in thousands)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Net Revenues ⁽¹⁾	\$540,379	\$584,290	\$653,925	\$747,242	843,659	\$891,602	\$898,659	\$881,732
Transfer from the Contingency Account*	115,877	124,357	138,639	164,945	184,431	198,987	204,012	199,356
TOTAL AVAILABLE FOR DEBT SERVICE	656,255	708,646	792,564	912,186	1,028,091	1,090,589	1,102,671	1,081,088
Debt Service Requirement ⁽²⁾	\$463,506	\$497,426	\$554,556	\$659,778	\$737,725	\$795,948	\$816,050	\$797,425
Forecast Debt Service Coverage per the Resolution	142%	142%	143%	138%	139%	137%	135%	136%
Forecast Debt Service Coverage Excluding Transfer	117%	117%	118%	113%	114%	112%	110%	111%

⁽¹⁾ Includes certain PFC revenues forecast to be designated as Revenues by the Commission, as described in the Report of the Airport Consultant. As discussed in the Report of the Airport Consultant, forecast revenues and expenses for the On-Airport Hotel were prepared by JLL. The Airport Consultant makes no representation regarding the reasonableness of the forecast financial results provided by JLL for the proposed On-Airport Hotel.

⁽²⁾ Cash basis. Includes projected debt service on outstanding Bonds, Series 2019E Bonds, Series 2019F Bonds, Series 2019G Bonds and future Bonds as described in the Report of the Airport Consultant.

* Transfer reflects lesser of Contingency Account balance or 25% of Debt Service.
Source LeighFisher, Report of the Airport Consultant.

Source: Official Statement of the Airport Commission of the City and County of San Francisco International Airport for Second Series Revenue Bonds Series 2019E/F/G and Refunding Bonds Series 2019H, Appendix A: Report of the Airport Consultant (<https://www.flysfo.com/about-sfo/investor-relations>)

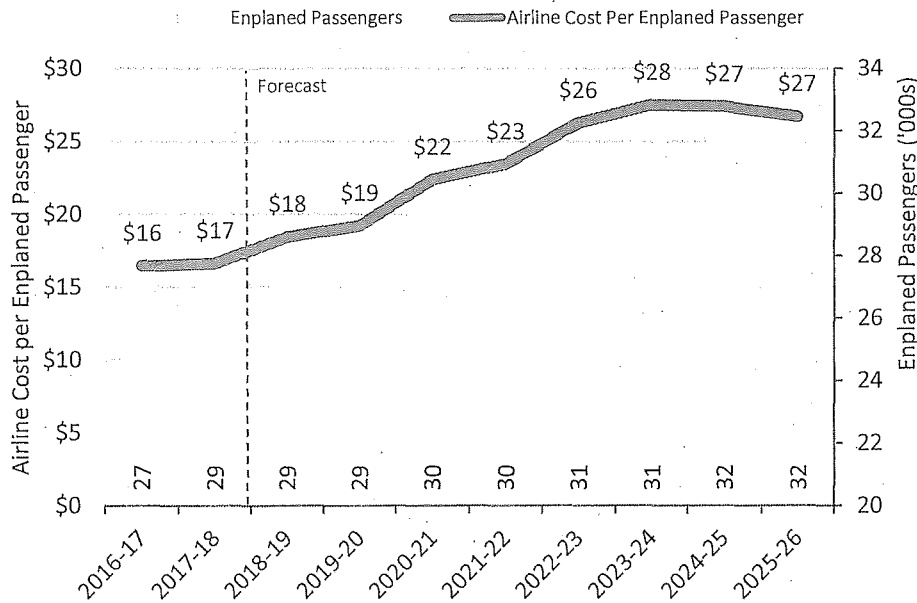
According to Ms. Connors, the additional debt service costs will be included in the Airport’s proposed FY 2020-21 and FY 2021-22 budget, to be submitted to the Board of Supervisors in May 2020.

POLICY CONSIDERATION

The Official Statement for the Series 2019 EFGH Airport Capital Plan bonds identified several risk factors pertaining to the issuance of bonds. These risk factors include potential slowdown of the Bay Area economy and potential reduction in demand for air travel. Other potential risks specific to the San Francisco International Airport include expiration of the Lease and Use Agreement between the Airport and the airlines in 2021, which could change the terms and conditions under which the airlines operate at the Airport; and the impact of additional debt, increasing the costs to the airlines through increased terminal rents and landing fees.

Exhibit 8 shows that, based on forecasts by the Airport’s Consultant, the Airline Cost per enplaned passenger is expected to increase by 65%, from \$16.63 in FY2017/18 to a peak of \$27.53 in FY2023-24. As costs increase, this could reduce the competitiveness of the Airport relative to other regional airports and incentivize airline carriers to relocate to reduce costs.

Exhibit 8: Forecast Airline Cost per Enplaned Passenger and Enplaned Passenger at San Francisco International Airport, FY2016-17 to FY2025-26



Source: Official Statement of the Airport Commission of the City and County of San Francisco International Airport for Second Series Revenue Bonds Series 2019E/F/G and Refunding Bonds Series 2019H, Appendix A: Report of the Airport Consultant (<https://www.flysfo.com/about-sfo/investor-relations>)

An economic recession or other domestic or international geopolitical events could reduce passenger enplanements and airline revenues, leading to an increase in the costs passed on by

the Airport to the airlines under the Lease and Use Agreement. If the airlines are unable to pass on these higher costs to passengers, this could reduce their profitability and/or lead to service reductions. If revenues and enplanements are reduced for an extended period, this could adversely impact their ability to make payments to the Airport to cover operating expenditures, including debt service.

Therefore, to keep members of the Board of Supervisors informed of the Airport's financial condition related to the proposed debt, the Budget & Legislative Analyst recommends amending the proposed resolution (File 19-1124) to request the Airport Director submit the preliminary Official Statement for each bond issuance covered by the proposed resolution to the Clerk of the Board prior to issuance and to include those documents are part of the official legislative file.

RECOMMENDATIONS

1. Amend the proposed resolution (File 19-1124) to request the Airport Director submit the preliminary Official Statement for each bond issuance covered by the proposed resolution to the Clerk of the Board prior to issuance and to include those documents are part of the official legislative file.
2. Approve the proposed ordinance (File 19-1123).

OFFICE OF THE MAYOR
SAN FRANCISCO



LONDON N. BREED
MAYOR

SC

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Sophia Kittler
RE: Appropriation – Capital Improvement Projects of \$3,888,069,311 for the
Airport Commission – FY 2019-2020
DATE: Tuesday, November 5, 2019

Ordinance appropriating \$3,888,069,311 of proceeds from the sale of revenue bonds or commercial paper for capital improvement projects to the Airport Commission for Fiscal Year 2019-2020; and placing \$3,888,069,311 on Controller's Reserve pending receipt of proceeds of indebtedness.

Should you have any questions, please contact Sophia Kittler at 415-554-6153.

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