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# OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

# MEMORANDUM

TO: Honorable Members, Capital Planning Committee

FROM: Anna Van Degna, Controller's Office – *Director, Office of Public Finance* AVD

DATE: October 17, 2019

SUBJECT: San Francisco Airport Commission Capital Plan Bond Authorization Resolution and Supplemental Appropriation Ordinance

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The Office of Public Finance ("OPF") has been briefed by the San Francisco International Airport (the "Airport") staff with respect to their request for Board of Supervisors' ("Board") approval of an additional $3.0 billion in bond issuance authority to finance the Airport's $7.6 billion Capital Improvement Plan ("CIP") and related supplemental appropriation of bond proceeds. Based on the information provided by the Airport regarding the proposed plan of finance for future bond sales, I support the resolution to increase the Airport's bond issuance authority by $3.0 billion and the related supplemental appropriation.

## Background:

The Airport Commission (the "Commission") issues San Francisco International Airport Second Series Revenue Bonds ("Bonds" or "Capital Plan Bonds") from time to time to finance capital projects at the Airport. The Commission approves and updates the CIP on an as-needed basis.

The Commission issues Bonds under its 1991 Master Bond Resolution, as supplemented and amended. Over the years, the Commission has adopted a series of supplemental resolutions increasing the amount of Bonds that can be issued to fund CIP projects. The most recent Board action in March 2017 increased the total authority to $7.8 billion. Since then, the Commission has used $6.3 billion of that Bond issuance authority, which results in $1.6 billion of remaining authority as shown below:

| Bonds Issuance Authority | Total ($ in millions) |
|---|---|
| Total Authority | $7,826.7 |
| Issued to Date | -6,263.5 |
| **Remaining Authority** | **$1,563.2** |

## The Airport Capital Improvement Plan:

The Airport has experienced an extended period of passenger growth. In FY2019, the Airport served 57.6 million passengers, a 58% aggregate increase since FY2009. The growth in passenger demand has strained the Airport's facilities, creating peak period terminal gate capacity constraints 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 $7.6 billion CIP. The approved CIP for the period FY2019/20 through FY2028/29 was adopted by the Commission on March 5, 2019, and includes major capital projects, such as:

- Renovation of Harvey Milk Terminal 1;
- Renovation of the western portion of Terminal 3;
- International Terminal improvements;
- AirTrain extension to the long-term parking garages; and
- Utility system and energy efficiency improvements.

To complete the remaining projects in the current CIP, the Airport will need an additional $3.5 billion in project funding.

## Financing Parameters:

<u>Capital Plan Bonds</u>

In order to finance approximately $3.5 billion in capital project costs and related financing expenses, the Commission is requesting Board approval for approximately $3.0 billion in additional bond issuance authorization. If approved, this action would bring the total unissued authorization amount to approximately $4.6 billion.

| *Existing and Proposed Capital Plan Bond Authorization ($ in Millions)* | |
|---|---|
| Prior Remaining Board Bond Authorization | $1,563 |
| *Proposed bond par increase* | *<u>$3,000</u>* |
| Total Bond Authorization Available* | $4,563 |

**Includes amounts to finance capital project costs, financing costs (debt service reserve deposits, contingency account deposits, capitalized interest, costs of issuance), and CSA audit expenses.*

The $4.6 billion in aggregate bond authorization would provide the authorization necessary to finance the remainder of the Airport's current CIP. Proceeds from the proposed Bonds will be used to:

- Fund approximately $3.5 billion of capital projects following Commission approval and subject to environmental review when required;
- Finance capitalized interest during construction;
- Make deposits to the Contingency Account and Debt Service Reserve Fund ("DSR Fund"[1]); and
- 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, 2026. 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.

The Commission anticipates issuing $4.6 billion in Bonds over the next five years. Based on a conservative assumption regarding interest rates for the Commission's future bond issues (6.1% interest rate on 30-year fixed rate bonds)[2], the Airport estimates that the average annual debt service over the life to be approximately $292 million for the $4.6 billion of new money bonds.

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 CIP unless the necessary environmental review for the project are completed, if required, and the Commission determines to proceed with the project. As such, bond proceeds 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

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[1] 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.

[2] Other key assumptions underlying the debt service estimates include: 1) level debt service structure with par amortizing beginning in 2024 for the anticipated Capital Plan Bonds; 2) Debt Service Reserve Fund (DSR) sized at Maximum Annual Debt Service and funded with bond proceeds; 3) 24 months of Capitalized Interest expense; and 4) Underwriters' discount estimated at $7 per bond.

approval to proceed; and 2) planning and development costs necessary to prepare other projects for environmental review and the necessary approvals.

Supplemental Appropriation

The Airport has approximately $523 million in existing capital project appropriation and approximately $152 million in appropriation for related financing costs. As a companion piece of legislation to the Resolution, the Commission is requesting approval of a Supplemental Appropriation Ordinance to appropriate an additional $3.9 billion in Bond proceeds. This appropriation request is based on the capital project need of $3.5 billion and will enable the Airport to spend the funds necessary to complete projects in the current CIP.

| Summary of Airport Supplemental Appropriations Request | |
|---|---|
| **Sources** | |
| **Proceeds from Sale of Bonds** | **$3,888,069,311** |
| **Uses** | |
| New Capital Projects Appropriation Need | |
| Airfield Improvements | 135,560,282 |
| Airport Support Improvements | 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 |
| Utility Improvements | 269,209,504 |
| *Subtotal* | *3,015,257,811* |
| New Appropriation Need for Related Financing Costs | |
| CSA Audit Costs (0.2%) | 6,030,516 |
| Capitalized Interest Fund | 466,568,317 |
| Contingency Account | 74,984,160 |
| Cost of Issuance | 6,399,219 |
| Debt Service Reserve Fund | 291,612,803 |
| Underwriter's Discount | 27,216,485 |
| *Subtotal* | *872,811,500* |
| **Subtotal - New Appropriation Needs** | **$3,888,069,311** |

The Supplemental Appropriation Request of $3.9 billion is higher than the bond par authorization request of $3.0 billion to allow for a fluctuation in market conditions and/or investor preferences where a premium bond structure could generate proceeds above the bond par.

### 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 | October 21, 2019 |
| Introduction of legislation and supporting materials to the Board | Late October or early November |
| Sales of newly authorized Airport Capital Plan Bonds | Various dates from 2020 through 2026 |