



Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE

FROM: Scott P. Johnson

SUBJECT: REVIEW OF THE AIRPORT FINANCING PLAN FOR THE PHASE I AIRPORT MASTER PLAN PROJECTS

DATE: May 3, 2007

Approved

Ray Woner

Date

5/3/07

COUNCIL DISTRICT: City-Wide

DISCUSSION

On January 9, 2007, the City Council adopted a resolution authorizing an aggregate maximum amount of Series A, Series B, and Series C commercial paper notes that can be issued for the Norman Y. Mineta San José International Airport at \$450 million. At the time of City Council approval, staff informed the City Council that a plan of finance for the ultimate funding of the Airport Master Plan would first be presented to the Public Safety, Finance & Strategic Support Committee prior to City Council approval of the bond financing documents.

City staff, through a competitive process, has selected a financing team to assist the City in the development of a plan of finance and the issuance of the proposed Airport Revenue Bonds. Legal services for bond and disclosure work are being provided Orrick, Herrington & Sutcliffe LLP. The remaining participants of the financing team consist of:

- Financial Advisors
 - Fullerton & Friar, Inc.
 - Public Resource Advisory Group
- Underwriter
 - Lehman Brothers
- Bond Insurer
 - TBD
- Airport Consultant
 - Ricondo & Associates, Inc.
- Trustee
 - Bank of New York Trust Company, NA

The objective of the Airport plan of finance (the "Plan") is to provide funding for the Phase I Airport Master Plan projects. The Plan under development consists of the issuance of fixed-rate airport revenue bonds ("Bonds") that take advantage of current low long-term interest rates.

May 17, 2007

Subject: Review of Airport Financing Plan for the Phase I Master Plan Projects

Page 2

The bond issuance will fund design and construction costs and will redeem outstanding tax-exempt and AMT¹ commercial paper and is anticipated to be in the range of \$600 - 900 million. In addition to the Bonds, the Plan calls for use of the commercial paper program to fund the improvements at the Airport that are not eligible for tax-exempt or AMT debt, such as the design and construction of the rental car garage. The City will issue taxable commercial paper to fund these types of activities, thus maintaining the highest degree of flexibility for the Airport during the construction of the improvements. A plan of "take-out" financing (issuance of long-term debt to repay outstanding commercial paper notes) will be developed as the City approaches the end of the construction of the financed improvements in 2010.

A presentation will be made by Finance and Airport staff at the May 17th, Public Safety, Finance and Strategic Support Committee meeting which will provide a more detailed summary of the plan of finance. The presentation will focus on the following topics:

- Plan of Finance for Airport Master Plan – Phase I
- Financing team
- Summary of proposed bonds
- Source of repayment of debt
- Financing Schedule

The key dates in the balance of the financing schedule are as follows:

- | | |
|---|-----------------|
| • Select Bond Insurer | Early June 2007 |
| • City Council Approval of Bond Financing Documents | June 19, 2007 |
| • Sale of Bonds (expected no later than) | July 11, 2007 |
| • Bond Closing (expected no later than) | July 19, 2007 |

A presentation packet will be distributed at the Committee meeting.


SCOTT P. JOHNSON
Director, Finance Department

¹ Alternative Minimum Tax or "AMT" is a federal income tax based on a separate and alternative method of calculating taxable income and a separate and alternative schedule of rates. With respect to municipal bonds, for governmental purposes (e.g. parks, libraries, fire stations), the interest is tax exempt. However, the interest on certain types of municipal bonds, referred to as "qualified private activity bonds", is included in calculating income for purposes of the individual and corporate alternative minimum tax. Many projects financed by airports, such as terminal area improvements are funded with qualified private activity bonds that are subject to AMT, given the benefit they provide to private parties, i.e. the airlines and airport concessions.