THE BOND BUYER

San Francisco airport will price into market hungry for California paper

By

Keeley Webster

Published

August 08 2019, 10:29am EDT

San Francisco International Airport expects to capitalize on the record-setting demand for California paper when it prices $1.2 billion of revenue bonds Wednesday.

Lead managers Barclays and Bank of America Merrill Lynch will price the revenue bonds in four series: $807.2 million alternative minimum tax Series 2019E, $112.4 million non-AMT Series 2019F, $39.4 million taxable Series G, and the $272.9 million refunding Series 2019H.

The bonds are rated A1 by Moody's Investors Service and A-plus by Fitch Ratings and S&P Global Ratings.

"Given the actions by the Fed, we are anticipating a fairly good response from the market," said Ronda Chu, the airport's capital finance director.

The finance team is hoping for $13 million to $14 million in savings across the entire deal, including refunding and swaps, Chu said, adding that the number can change depending on market conditions.

The proceeds will help fund Terminal 1 and Terminal 3 improvements that are part of a $7.6 billion capital plan that includes 66 projects, according to bond documents. The projects are part of the airport's master plan expected to accommodate the up to 71 million passengers the airport expects to see within the next 20 to 25 years, Chu said.

Total passengers at the airport grew by 7% to 57.7 million in 2018 over the prior year, according to the bond documents.

Though the merger of Alaska and Virgin America caused a slight 0.7% drop off in traffic this year, the airport has experienced 50% growth in passenger traffic since 2010.

The airport has been marketing the bonds heavily in concert with senior managers Barclays and Merrill Lynch with the aim of attaining the lowest possible interest rate, Chu said.

This is second bond sale this year for the airport, which usually heads to market once a year. With the airport nearing the completion of improvements to Terminal 1, the burn rate has been high, Chu said.

The airport has two short-terms swaps it’s terminating. One termination, Chu said, is pre-emptive, because no one knows exactly what will follow Libor, the London Interbank Offered Rate, which is being phased out.

“It is a good time to put them to bed and refinance into fixed rate,” Chu said. “Then we will have the capacity if the market changes to back into hedging through a variable rate."

After the deal, 95% of the airport’s $7.2 billion in debt will be fixed-rate.

The airport is about one-third of the way done with the capital improvement program it calls Ascent. It expects to issue another $4 billion in bonds to complete the $7.6 billion capital program.

The rest of the finance team consists of Public Finance Management and Backstrom McCarley & Co as co-counsel; Squire Patton Boggs and Amira Jackmon, Attorney at Law, as co-bond counsel; and Nixon Peabody as disclosure counsel.

Net inflows into California municipal bonds have set a record year-to-date at $3.8 billion, according to a July report from David Blair, a portfolio manager with Nuveen Asset Management.

Blair wrote that Nuveen is bullish long-term on California’s economy and credit, while being mindful of its cyclical vulnerabilities.

“The state’s credit fundamentals remain strong, as do those of issuers affected by its budget, such as cities, counties and school districts,” Blair wrote. “We believe California municipal bonds, even after a strong performance this year, continue to present a good opportunity for investors who seek to protect capital, earn tax-exempt income and diversity riskier parts of their portfolio.”