Item 4

# San Diego County Regional Airport Authority

# Proposed Amendment to Fiscal Year 2011 Operating Budget

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# Balanced Budget

- The Authority's Budget is adopted by Board action each fiscal year
- The Board delegates authority to Staff to execute the fiscal year plan within the adopted budget constraints
- Bond covenants require a balanced budget to maintain required debt service coverage levels
- Three unanticipated non-budgeted items have arisen in the FY 2011 Budget
- Any amendments to the budget must be Board approved
- Staff does not have authority to exceed budget without resolution from the Board

# Quieter Home Program (QHP)

- In September 2010, the Authority received an additional $10 million grant from FAA for QHP
- In order to be compliant with FAA guidelines for grant expenditures, QHP is requesting a $3 million increase in their Fiscal Year 2011 Operating Budget
- Authority will use its existing balance of Passenger Facility Charges to pay local match portion of less than $600,000

# Build America Bonds

- The Authority sold $215.4 million of 30-year Build America Bonds (BABs), which are taxable bonds that receive a 35% interest rate subsidy from the U.S. Treasury
- The BABs were issued at an interest rate of 6.628%
- The effective yield for the BABs (after the 35% subsidy) was 4.31% while the yield to maturity for the 30-year tax exempt maturity was 4.79%
- This equates to a 0.48% favorable effective yield for BABs vs. tax-exempt bonds, or $16.0 million in net present value savings
- The BABs included a 10-year call provision at par to maintain flexibility for the Authority

# Series A, B and Build America Bonds – Accounting Implications

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- Accounting looks to Finance Accounting Standards Board, FASB 62, for bond eligibility to capitalize interest versus recording the interest as an expense.
- Under FASB 62, interest can be capitalized to designated and existing projects immediately if the debt is tax exempt.
- The BAB bonds tax exempt status does not apply under FASB 62, but does apply to Series A and B. BAB bonds interest is recorded under “old” FASB 34 guidance.
- BAB bond interest cannot be capitalized to the designated project until the money is spent. All unspent borrowings continue to be recorded as interest expense.
- BAB bond 35% federal interest rebate cannot be netted with the interest expense but must be separately recorded as interest income.
- This does not change the actual cash flow of the bonds. This is accounting treatment only.
- Therefore , the interest expense is projected for the fiscal year end to show a negative variance of $7,185,000 and the Federal Government rebate on the Build America Bonds is projected to show a positive variance of $3,691,000. As shown below, the net effect is a negative variance of $4,021,000 with the current budget.

| (In thousands) | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| BAB interest rebate | $ - | $ 3,691 | $ 3,691 |
| Interest expense | (5,359) | (13,071) | (7,712) |
| | $ (5,359) | $ (9,380) | $ (4,021) |

# Commercial Paper Principal Payment

- $22.3 million Alternative Minimum Tax (AMT) Commercial Paper was not refinanced
  - ➢ Original intent was to refinance this CP, however on advice from Financial Advisors and Bond Counsel, it was not refinanced
  - ➢ Would have required stand alone $22.3 million bond issue
  - ➢ Wanted to maintain floating rate component of debt
- Leaving CP outstanding created the need to begin principal amortization in FY 2011
- Amount of principal amortization in FY 2011 is $745,000

# Total Proposed Fiscal Year 2011 Budget Amendment

| Description | Amount | Funding Source |
|---|---|---|
| | | |
| BAB Interest | $ 7,712,000 | BAB subsidy / CAPI |
| QHP Increase | 3,000,000 | Grant / PFC |
| Debt Principal | 745,000 | Cash |
| Total Proposed Increase | $ 11,457,000 | |

# Questions