



Legislation Text

File #: 2021-0353, **Version:** 1

DATE: November 09, 2021

SUBJECT:

RESOLUTION AUTHORIZING AMENDMENT TO AMENDED AND RESTATED SUBORDINATED, FULLY-NEGOTIABLE PROMISSORY NOTE WITH THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY TO MODIFY THE INTEREST RATE, WITH CONDITIONS

EXECUTIVE SUMMARY:

On June 1, 2004, the District executed and delivered an Amended and Restated Subordinated, Fully-Negotiable Promissory Note (Note) to the San Diego County Regional Airport Authority (Airport Authority) in the original principal amount of \$50,000,000 (Attachment A) in connection with a Settlement Agreement between the District and the Airport Authority (Settlement Agreement, District Clerk No. 47492). Under the Note, from June 1, 2004 to December 31, 2005, the interest rate on the outstanding balance was a variable interest rate equal to 1% over the prevailing daily reported prime rate. The interest rate converted to a fixed interest rate of 5.5% on January 1, 2006 and remains the same until the maturity date on December 31, 2030. The current balance on the Note is approximately \$26.5M.

Similar to other public agencies, the District has been economically impacted by the COVID-19 pandemic. In an effort to reduce costs to the District, and take advantage of historically low interest rates in the market, staff reached out to various lenders to solicit proposals to refinance the Note. However, when staff notified the Airport Authority, staff for the Airport Authority agreed to match the interest rate offered by one of the lenders proposing to refinance the Note.

Under the Amendment to Amended and Restated Subordinated, Fully-Negotiable Promissory Note between the District and the Airport Authority (Amendment) (Attachment B), the annual interest rate for the remaining term of the Note will be reduced from 5.5% to 3.63% and the amortization table attached to the Note will be conformed accordingly. The proposed effective date of the Amendment is November 1, 2021.

Staff recommends that the Board of Port Commissioners (Board) approve the Amendment to reduce costs to the District. The Board of the Airport Authority is scheduled to consider the Amendment on November 4, 2021.

RECOMMENDATION:

Adopt Resolution Authorizing Amendment to Modify the Interest Rate, With Conditions.

FISCAL IMPACT:

Over the remaining approximately 9-year life of the Note, interest savings will be approximately \$2.6M. For the remainder of Fiscal Year 2022, interest savings will be approximately \$318k. For Fiscal Year 2023, interest savings will be approximately \$454k. The District may prepay principal on the Note at any time, in any amount and without penalty.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goal(s).

- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

The Note was executed and delivered to the Airport Authority on June 1, 2004 as a result of the Settlement Agreement for an initial amount of \$50M. After the October Note payment, the refinanced balance will be approximately \$26.5M. As a result of financial impacts resulting from the COVID-19 pandemic, and historically low interest rates in the market, staff had been seeking proposals from lenders to refinance the Note at a lower interest rate. Staff alerted the Airport Authority of the District's intent to refinance the Note with another lender at an annual rate of 3.63% and through further discussion with the Airport Authority, the Airport Authority agreed to match the interest rate offered by the proposing lender.

Under the Amendment, the current fixed annual interest rate will be reduced from 5.5% to 3.63% and the amortization table attached to the Note will be modified accordingly. All other terms of the Note will remain the same. In particular, the District will still be able to prepay principal on the Note at any time, in any amount and without penalty.

Staff recommends that the Board approve the Amendment to reduce costs to the District. The Board of the Airport Authority is scheduled to consider the Amendment on November 4, 2021.

General Counsel's Comments:

The Office of the General Counsel has reviewed this agenda sheet and Attachment B (Amendment) as to presented to it and approves each as to form and legality.

Environmental Review:

The proposed Board action, including without limitation, a resolution modifying the interest rate of an existing promissory note, does not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Sections 15352 and 15378 because no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the proposed Board action that requires the District or the Board's discretionary approval resulting in a physical change to the environment will be analyzed in accordance with CEQA prior to such approval. CEQA

review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a “no project alternative” or adopting a Statement of Overriding Consideration, if required. The proposed Board action in no way limits the exercise of this discretion. Therefore, no further CEQA review is required.

The proposed Board action allows for the District to implement its obligations under Sections 35 and 81 of the Port Act, which authorize the Board to do acts necessary and convenient for the exercise of its power; and the use funds for necessary expenses of conducting the District. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

The proposed Board action does not allow for “development,” as defined in Section 30106 of the California Coastal Act, or “new development,” pursuant to Section 1.a. of the District’s Coastal Development Permit (CDP) Regulations because it will not result in, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a Coastal Development Permit or exclusion is not required. However, development within the District requires processing under the District’s CDP Regulations. Future development, as defined in Section 30106 of the Coastal Act, will remain subject to its own independent review pursuant to the District’s certified CDP Regulations, PMP, and Chapters 3 and 8 of the Coastal Act. The proposed Board action in no way limits the exercise of the District’s discretion under the District’s CDP Regulations. Therefore, issuance of a CDP or exclusion is not required at this time.

Diversity, Equity, and Inclusion Program:

This agenda item has no direct DEI impact.

PREPARED BY:

Robert DeAngelis
CFO/Treasurer

Attachment(s):

Attachment A: Amended and Restated Subordinated, Fully-Negotiable Promissory Note

Attachment B: Amendment to Amended and Restated Subordinated, Fully-Negotiable Promissory Note Between the San Diego Unified Port District and San Diego County Regional Airport Authority