

San Francisco International Airport

MEMORANDUM

September 22, 2015

15-0182

SEP 22 2015

TO: AIRPORT COMMISSION
 Hon. Larry Mazzola, President
 Hon. Linda S. Crayton, Vice President
 Hon. Eleanor Johns
 Hon. Richard J. Guggenlime
 Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Approval of Eighteenth Supplemental Bond Resolution Designating a Proposed On-Airport Hotel as a "Special Facility" and Authorizing up to \$243 Million Principal Amount of Airport Capital Plan Bonds and \$225 Million Principal Amount of Hotel Special Facility Bonds to Finance or Refinance the On-Airport Hotel; Approving the Form of Trust Agreement; and Related Matters

DIRECTOR'S RECOMMENDATION: APPROVE EIGHTEENTH SUPPLEMENTAL BOND RESOLUTION DESIGNATING THE PROPOSED ON-AIRPORT HOTEL AS A "SPECIAL FACILITY" AND AUTHORIZING THE ISSUANCE OF UP TO \$243 MILLION PRINCIPAL AMOUNT OF AIRPORT CAPITAL PLAN BONDS AND \$225 MILLION PRINCIPAL AMOUNT OF HOTEL SPECIAL FACILITY BONDS TO PAY CONSTRUCTION COSTS AND OTHER EXPENSES ASSOCIATED WITH THE PROPOSED ON-AIRPORT HOTEL; APPROVE THE FORM OF TRUST AGREEMENT; AND APPROVE CERTAIN OTHER RELATED MATTERS.

Executive Summary

The attached Bond Resolution (the "Eighteenth Supplemental Resolution") authorizes the designation of the proposed on-Airport hotel (the "Hotel") as a "special facility" and the issuance of up to \$243 million principal amount of Airport Capital Plan Bonds and \$225 million principal amount of Hotel Special Facility Bonds, to finance the construction and development of the proposed Hotel. As previously presented to the Commission, the special facility financing structure will allow the Hotel's cash flow to be kept separate from the Airport's regular funds, while still providing the Airport control of the Hotel. This will enable the Airport to implement the necessary hotel industry practice for these types of transactions of using a lockbox depository to collect daily receipts and pay the Hotel expenses. It is anticipated that the Hotel Special Facility Bonds would not be sold to the public, but would be purchased by the Airport with the proceeds of the Airport Capital Plan Bonds. The Airport's Finance Advisory Committee and the Hotel Advisory Panel have reviewed and approved this course of action.

THIS PRINT COVERS CALENDAR ITEM NO. 2

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE
MAYORLARRY MAZZOLA
PRESIDENTLINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

JOHN L. MARTIN
AIRPORT DIRECTOR

Background

As previously presented to the Commission, to make the proposed Hotel project successful and to attract a global hotel operator, it will be necessary for the Hotel's cash-flow to be kept separate from the Airport's regular funds. This will allow the Hotel operator to pay Hotel expenses directly from Hotel revenues as is necessary in commercial hotel transactions.

The separate treatment of Hotel revenues would be achieved by the Commission designating the Hotel as a "special facility" under Section 2.16 of the 1991 Master Bond Resolution No. 91-0210, as supplemented and amended (the "1991 Resolution"), which will allow revenues from the Hotel to be segregated from the Airport's general revenues and used to pay debt service and other expenses associated with that facility. The Airport has previously utilized these provisions in connection with the Commission's outstanding SFO FUEL Special Facility Revenue Bonds.

To finance the Hotel at the lowest available cost while maintaining its special facility status, the Commission would issue two types of bonds:

- Tax-exempt Airport Capital Plan Bonds, which would be sold to investors. Since these bonds would be secured and payable from general Airport revenues and the Airport has strong credit ratings, they would bear interest at the lowest available rates; and
- Tax-exempt Hotel Special Facility Bonds, which would not be sold to the public, but would be purchased by the Airport with the proceeds of the Airport Capital Plan Bonds. This will ensure the separate treatment of the Hotel revenues. While the Hotel Special Facility Bonds could be sold to the public, they would bear a higher interest rate to compensate investors for taking the additional risk related to the construction and operation of the Hotel and the more limited source of repayment (that is, Hotel revenues only).

By issuing both types of bonds and purchasing the Hotel Special Facility Bonds with the proceeds of the Airport Capital Plan Bonds, the Airport will be able to combine the desirable features of both the lowest cost of financing from the Airport Capital Plan Bonds and the segregated revenue treatment from the "special facility" status of the Hotel. The proposed Eighteenth Supplemental Resolution authorizes both types of bonds necessary to finance the Hotel – up to \$243 million of Airport Capital Plan Bonds and \$225 million of Hotel Special Facility Bonds – to finance and refinance the following estimated costs:

<u>Costs Payable from Airport Capital Plan Bonds</u>		<u>Estimated Amount</u>
Hotel AirTrain station construction costs		\$ 15,000,000
Costs of issuance		3,000,000
Purchase of Hotel Special Facility Bonds		225,000,000
<u>Project Costs Payable from Hotel Special Facility Bonds</u>		
Hotel construction costs (including repayment of commercial paper to finance hotel design)	\$210,000,000	
Commercial paper interest	3,600,000	
Capitalized interest on Special Facility Bonds	13,000,000	
Contingency	3,400,000	
Less: contribution from Hotel operator	<u>(5,000,000)</u>	
Total Hotel Special Facility Bonds:	\$225,000,000	
Total Airport Capital Plan Bonds:		\$243,000,000

The Airport Capital Plan Bonds and the Hotel Special Facility Bonds would be issued in accordance with the 1991 Resolution, certain ordinances of the Board of Supervisors and other applicable laws, and with respect to the Hotel Special Facility Bonds, a Trust Agreement between the Commission and a bond trustee. The appointment of a bond trustee for the Hotel Special Facility Bonds will be presented separately for Commission approval at a later meeting.

Proposed Eighteenth Supplemental Resolution

The proposed Eighteenth Supplemental Resolution would:

- Designate the Hotel as a “Special Facility,” as provided in the 1991 Resolution, the revenues from which would constitute “Special Facility Revenues” that are not included as regular Airport “Revenues” under the 1991 Resolution:
 - Generally, the “Special Facility” would include: Plot 2 (as reconfigured following the realignment of South McDonnell Road), the Hotel structure, the connector between the Hotel and the Hotel AirTrain station, and the other improvements to Plot 2, but would exclude the AirTrain station.
 - The “Special Facility Revenues” would include all revenues generated by the Hotel including revenues from rooms, meeting facilities, food and beverage, retail, parking on Plot 2, and spa.
- Authorize the issuance of up to \$243 million of Airport Capital Plan Bonds to finance and refinance the AirTrain station, costs of issuance, and purchase of the Hotel Special Facility Bonds. The Airport Capital Plan Bonds will be subject to the maximum maturity of 40 years, and interest rate limitations set forth in Resolution No. 50-11 of the Board of Supervisors, will be sold prior to June 30, 2020, and may be issued as Variable Rate Bonds.
- Authorize the issuance of up to \$225 million of Hotel Special Facility Bonds, to finance and refinance the Hotel and related costs, and fund a capitalized interest account. The Hotel Special Facility Bonds will have a maturity of 40 years and bear interest at fixed rate to be determined at the time of their issuance.
- Authorize the execution and delivery of a Trust Agreement and/or Supplemental Trust Agreements with a bond trustee (to be appointed by separate action of the Commission at a later meeting) in connection with the issuance of such Hotel Special Facility Bonds, in substantially the form presented and on file with the Secretary of the Commission, with such changes thereto as Airport staff may approve, upon consultation with the City Attorney, the Airport’s financial advisors and bond counsel, such approval to be conclusively evidenced by the execution and delivery thereof.
- Direct the Commission Secretary to seek the Board of Supervisors’ approval for the issuance of the Airport Capital Plan Bonds and the Hotel Special Facility Bonds, the execution and delivery of the Trust Agreement, and any necessary appropriations related thereto.

Request to the Board of Supervisors

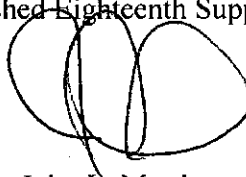
If the Eighteenth Supplemental Resolution is adopted by the Commission, the Commission Secretary will request that the Board of Supervisors approve the Airport Capital Plan Bonds, the Hotel Special Facility Bonds, and the Trust Agreement authorized therein. The Airport will also request any necessary appropriations. Once final approval is obtained from the Board of Supervisors, I will return to the Commission for approval of one or more sale resolutions prior to selling and issuing the Airport Capital Plan Bonds and the Hotel Special Facility Bonds.

Environmental Review

The Airport Commission, by Resolution No. 92-0284, adopted on November 3, 1992, approved the San Francisco International Airport Master Plan ("Master Plan"), adopted findings pursuant to the California Environmental Quality Act (Public Resources Code Section 21000 et seq.; "CEQA") and adopted a Mitigation Monitoring and Reporting Program. The Master Plan was the subject of a Program Environmental Impact Report ("EIR") certified by the San Francisco Planning Commission on May 28, 1992. The San Francisco Planning Department, Environmental Planning Division, issued an Addendum to the EIR on February 5, 2014, to address the Hotel and AirTrain station (collectively referred to therein as the "Hotel Project"), and determined that no additional environmental review is required under CEQA. On May 19, 2014, by Resolution No. 14-0095, the Commission determined to proceed with the Hotel Project and adopted findings under CEQA related to the Hotel Project.

Recommendation

I recommend that this Commission adopt the attached Eighteenth Supplemental Resolution.



John L. Martin
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachment

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 15-0182

APPROVAL OF EIGHTEENTH SUPPLEMENTAL RESOLUTION DESIGNATING A PROPOSED ON-AIRPORT HOTEL AS A "SPECIAL FACILITY" AND AUTHORIZING UP TO \$243 MILLION PRINCIPAL AMOUNT OF AIRPORT CAPITAL PLAN BONDS AND \$225 MILLION PRINCIPAL AMOUNT OF HOTEL SPECIAL FACILITY BONDS TO FINANCE OR REFINANCE THE ON-AIRPORT HOTEL; APPROVING THE FORM OF TRUST AGREEMENT; AND RELATED MATTERS

WHEREAS, the Airport Commission (the "Commission") of the City and County of San Francisco (the "City"), on December 3, 1991, duly adopted its Resolution No. 91-0210, providing for the issuance of San Francisco International Airport Second Series Revenue Bonds, which Resolution, as previously supplemented and amended, including as amended and supplemented by Resolution No. 03-0220 adopted on October 21, 2003 (the "Eleventh Supplemental Resolution"), Resolution No. 08-0035, adopted on February 19, 2008 (the "Thirteenth Supplemental Resolution"), Resolution No. 10-0316, adopted on October 26, 2010 (the "Fifteenth Supplemental Resolution," which amended and restated the Eleventh Supplemental Resolution), Resolution No. 12-0050, adopted on March 20, 2012 (the "Sixteenth Supplemental Resolution"), and Resolution No. 14-0024, adopted on February 18, 2014 (the "Seventeenth Supplemental Resolution") is herein called the "1991 Resolution;" and

WHEREAS, the 1991 Resolution provides for the issuance by the Commission from time to time of revenue bonds (the "1991 Resolution Bonds"); and

WHEREAS, as part of implementation of the Airport Master Plan approved by the Commission in 1992, the Commission is undertaking the development of an on-Airport hotel with approximately 350 rooms (the "Hotel") on a portion of Plot 2 at the former Hilton Hotel site, along with a new AirTrain station to connect the Hotel with the AirTrain system (the "AirTrain Station" and collectively with the Hotel, the "Hotel Project"); and

WHEREAS, the Commission, pursuant to the 1991 Resolution and the Thirteenth, Sixteenth and Seventeenth Supplemental Resolutions, has previously authorized the issuance of up to \$4,773,725,000 aggregate principal amount of San Francisco International Airport Second Series Revenue Bonds for the purpose of financing and refinancing the construction, acquisition, equipping and development of capital projects (not including the Hotel Project) undertaken by the Airport which are approved by the Commission (the "Capital Plan Bonds"); and

WHEREAS, the Commission has determined that it is necessary and desirable and in the best interests of the San Francisco International Airport (the "Airport") to: (a) authorize the issuance of an additional not to exceed \$243 million principal amount of Capital Plan Bonds (the "Airport Capital Plan Bonds"); (b) designate the proposed Hotel as a

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“Special Facility,” as defined in the 1991 Resolution, and (c) authorize the issuance of special facility bonds in accordance with the terms of the 1991 Resolution in the principal amount of up to \$225 million (the “Hotel Special Facility Bonds”) to finance and refinance costs associated with the Hotel to be owned by the Commission; and

WHEREAS, to maintain the special facility status of the Hotel and finance it at the lowest available interest rates, the Commission anticipates combining the desirable features of the Airport Capital Plan Bonds (which are secured and payable from Airport net revenues and can therefore be sold to investors at the lowest available interest rates) and the Hotel Special Facility Bonds by selling the Airport Capital Plan Bonds to investors and purchasing the Hotel Special Facility Bonds with the proceeds of the Airport Capital Plan Bonds; and

WHEREAS, the Airport Capital Plan Bonds and the Hotel Special Facility Bonds will be issued in accordance with the 1991 Resolution, applicable provisions of the Charter of the City, ordinances and resolutions of the Board of Supervisors, and the statutes of the State of California, and in with respect to the Hotel Special Facility Bonds, a Trust Agreement in substantially the form on file with the Secretary of the Commission; and

WHEREAS, the Airport Master Plan was the subject of a Program Environmental Impact Report (“EIR”) certified by the San Francisco Planning Commission on May 28, 1992, by Motion No. 13356; and

WHEREAS, the Environmental Planning Division of the San Francisco Planning Department reviewed the Hotel Project and issued an addendum to the EIR (“Addendum”) on February 5, 2014, determining that the Hotel Project is within the scope of the EIR and no additional environmental review is required under the California Environmental Quality Act (Public Resources Code Section 21000 et seq., “CEQA”); and

WHEREAS, on May 19, 2014, the Commission, by Resolution No. 14-0095, adopted findings under CEQA related to the Hotel Project, determined to proceed with the Hotel Project, and authorized the Airport Director to proceed with implementation of the Hotel Project; and

WHEREAS, the project files, including the EIR, Addendum and Commission Resolution No. 14-0095, have been made available for review by the Commission and the public, and those files are part of the record before the Commission; and

WHEREAS, pursuant to Section 9.01(f) of the 1991 Resolution, the Commission, by Supplemental Resolution, may make any change or addition to the 1991 Resolution to provide for the issuance of, and to set the terms and conditions of, additional Series of Bonds under the 1991 Resolution; now, therefore, be it,

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RESOLVED, that this Commission has reviewed and considered the information in the EIR and Addendum, and hereby incorporates the CEQA findings contained in Resolution No. 14-0095, including findings of the Statement of Overriding Considerations, by this reference as though fully set forth in this Resolution; and be it further

RESOLVED, that this Commission finds that since the EIR and Addendum were finalized, there have been no substantial project changes and no substantial changes in project circumstances that would require major revisions to the EIR due to the involvement of new significant environmental effects or an increase in the severity of previously identified significant impacts, and there is no new information of substantial importance that would change the conclusions set forth in the EIR and Addendum; and be it further

RESOLVED, as follows:

Section 1. Commission Findings. The Commission hereby finds and determines that the foregoing recitals are true and correct.

Section 2. Defined Terms. Capitalized terms used but not otherwise defined in this Resolution shall have the meanings set forth in the 1991 Resolution.

Section 3. Special Facility Designation. In accordance with Section 2.16 of the 1991 Resolution, the Commission hereby designates the planned Hotel as a "Special Facility," as defined in the 1991 Resolution. Specifically, the Hotel Special Facility shall include the following: Plot 2 (as reconfigured following the realignment of South McDonnell Road), the Hotel structure, the connector between the Hotel and the AirTrain station serving the Hotel, and the other improvements to Plot 2.

The Hotel Special Facility shall exclude the following: the AirTrain station serving the Hotel, and all AirTrain guidetrails, support structures and facilities.

Section 4. Designation of Special Facility Revenues. In accordance with Section 2.16 of the 1991 Resolution, the Commission hereby determines that revenues from the Hotel shall constitute "Special Facility Revenues," as defined in the 1991 Resolution (the "Hotel Revenues") and shall not be included as "Revenues" under the 1991 Resolution. Specifically, the Hotel Revenues shall include the following: all revenues generated by the Hotel (including revenues from rooms, meeting facilities, food and beverage, retail, parking on Plot 2, and spa).

Section 5. Airport Capital Plan Bonds.

(a) Increased Authorization of Capital Plan Bonds. In accordance with Section 9.01(f) of the 1991 Resolution, in order to authorize the issuance of an additional aggregate principal amount of not to exceed \$243 million of Capital Plan Bonds (also referred to in this Resolution as the "Airport Capital Plan Bonds") for the purposes of

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financing and refinancing the construction, acquisition, equipping and development of the Hotel Project, funding debt service reserves, and paying costs of issuance, in connection therewith, including through the purchase of the Hotel Special Facility Bonds, the 1991 Resolution (as previously amended and supplemented, including by the Thirteenth, Sixteenth and Seventeenth Supplemental Resolutions) is hereby further amended and supplemented as follows:

Each of the references in the 1991 Resolution, including the caption and whereas clauses and in Sections 34-82.01 and 34-83.01(a) thereof, to “Four Billion Seven Hundred Seventy-Three Million Seven Hundred Twenty-Five Thousand Dollars” and “\$4,773,725,000,” of Capital Plan Bonds is hereby amended to read “Five Billion Sixteen Million Seven Hundred Twenty-Five Thousand Dollars” and “\$5,016,725,000,” respectively.

(b) Parameters of the Capital Plan Bonds. The Capital Plan Bonds shall be subject to the maximum maturity and interest rate limitations set forth in Resolution No. 50-11 of the Board of Supervisors. The Capital Plan Bonds shall be sold prior to June 30, 2020, and may be issued as Variable Rate Bonds.

Section 6. Hotel Special Facility Bonds.

(a) Authorization. The Commission hereby authorizes the issuance of \$225 million in aggregate principal amount of Hotel Special Facility Bonds to finance and refinance the Hotel Project and costs in connection therewith. The Hotel Special Facility Bonds shall be secured solely by, and payable solely from, the Hotel Revenues.

(b) Trust Agreement. The Airport Director, for and on behalf of and in the name of the Commission, is authorized to execute and deliver a Trust Agreement and/or Supplements thereto with a bond trustee selected by the Airport Director in connection with the issuance of any such Hotel Special Facility Bonds in substantially the form presented and on file with the Secretary of the Commission, with such changes thereto as have been approved by the Airport Director, upon consultation with the Office of the City Attorney, the Airport’s financial advisors and bond counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. Delegation by Airport Director. The Airport Director is authorized to delegate the authority granted to him pursuant to this Resolution in writing to a member of Airport management upon consultation with the Office of the City Attorney.

Section 8. Approval of Board of Supervisors. The Commission Secretary, for and on behalf of and in the name of the Commission, is authorized and directed to seek any approvals the Airport Director deems necessary or desirable from the Board

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of Supervisors of the City in order to carry out the intents and purposes of this Resolution, including approval of the Airport Capital Plan Bonds, the Hotel Special Facility Bonds, the form of Trust Agreement approved by this Resolution, and any necessary appropriations.

Section 9. Ratification of Prior Acts. The actions of the officers, agents and employees of the Commission to carry out its intents and purposes taken prior to the adoption of this Resolution are ratified, approved and confirmed.

Section 10. General Authorization. The Airport Director and the other officers, agents and employees of the Commission are authorized and directed to execute and deliver such documents, agreements and certificates and to take such other actions, upon consultation with the Office of the City Attorney, as may be necessary or desirable and in the best interests of the Airport to carry out the purposes and intents of this Resolution, and the other transactions contemplated hereby and thereby.

Section 11. Effectiveness. This Resolution shall become effective on and as of the date of adoption hereof.

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ADOPTED by the Airport Commission of the City and County of San Francisco this 22nd day of September, 2015, by the following vote:

Ayes: 5

Noes: 0

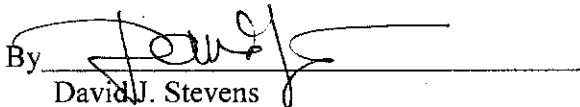
Absent: 0

[SEAL]

Approved as to Form:

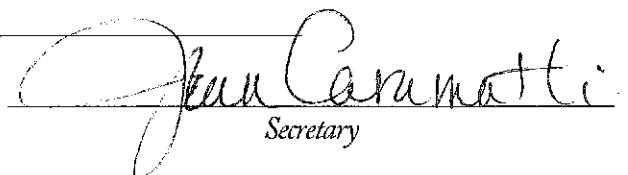
DENNIS J. HERRERA
City Attorney

By


David J. Stevens
Deputy City Attorney

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I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of SEP 22 2015


Secretary