

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. **20-0221**

APPROVAL OF AMENDED AND RESTATED TRUST AGREEMENT, RELATING TO \$260,000,000 AGGREGATE PRINCIPAL AMOUNT OF SPECIAL FACILITY REVENUE BONDS (SAN FRANCISCO INTERNATIONAL AIRPORT HOTEL), SERIES 2018, AND RELATED MATTERS

- WHEREAS, on December 3, 1991, by Resolution No. 91-0210 (as previously supplemented and amended, the 1991 Resolution), the Commission provided for the issuance of San Francisco International Airport Second Series Revenue Bonds; and
- WHEREAS, the 1991 Resolution provides for the issuance by the Commission from time to time of its San Francisco International Airport Second Series Revenue Bonds (1991 Resolution Bonds) for any lawful purpose of the Commission; and
- WHEREAS, as part of the implementation of the Airport Master Plan approved by the Commission in 1992, the Commission undertook the development of an On-Airport Hotel owned by the Commission (the Hotel) along with a new AirTrain station to connect the Hotel with the AirTrain system; and
- WHEREAS, on September 22, 2015, by Resolution No. 15-0182, the Commission designated the planned Hotel as a “Special Facility” as defined in the 1991 Resolution and determined that revenues from the Hotel would constitute “Special Facility Revenues” as defined in the 1991 Resolution and would not be included as “Revenues” under the 1991 Resolution, and authorized the issuance of bonds issued by the Commission and secured solely by Hotel revenues (Hotel Special Facility Bonds), and on March 7, 2017, by Resolution No. 17-0045, the Commission increased the maximum aggregate principal amount of the authorized Hotel Special Facility Bonds to \$260,000,000; and
- WHEREAS, on April 3, 2018, by Resolution No. 18-0089, in order to finance the Hotel at the lowest available interest rates, among other reasons, the Commission authorized the sale of 1991 Resolution Bonds to investors and the use of a portion of the proceeds of such 1991 Resolution Bonds to purchase the Hotel Special Facility Bonds, thereby combining the desirable features of 1991 Resolution Bonds and Hotel Special Facility Bonds; and
- WHEREAS, the Board of Supervisors, by Resolution Nos. 433-15 and 269-17, adopted on December 1, 2015 and June 27, 2017, respectively, approved the issuance of the Hotel Special Facility Bonds and the purchase of the Hotel Special Facility Bonds by the Commission using proceeds of 1991 Resolution Bonds; approved the appointment of U.S. Bank National Association, as trustee for the Hotel Special Facility Bonds (the Hotel Bonds Trustee); and authorized the execution and delivery of a Trust Agreement with the Hotel Bonds Trustee (the Hotel Trust Agreement), as well as other certificates and agreements relating to the Hotel Special Facility Bonds; and

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- WHEREAS, on June 6, 2018, the Commission issued \$260,000,000 aggregate principal amount of Hotel Special Facility Bonds, pursuant to the Hotel Trust Agreement, to finance the Hotel; and
- WHEREAS, on June 6, 2018, the Commission also issued \$276,340,000 aggregate principal amount of 1991 Resolution Bonds, Series 2018B and Series 2018C, to finance the construction of the Hotel and certain related projects; and
- WHEREAS, using a portion of the proceeds of the 1991 Resolution Bonds, the Commission invested in the Hotel Special Facility Bonds by causing the Hotel Special Facility Bonds to be purchased by a separate trust entity created under Delaware law for the purpose of making such purchase, with the Commission as trust beneficiary; and
- WHEREAS, as Hotel Special Facility Bonds investor and trust beneficiary, the Commission has authority to direct The Bank of New York Mellon Trust Company, N.A (BNY Mellon Trust), as trustee of the separate trust entity that is the bondholder of the Hotel Special Facility Bonds, to take actions and give directions to the Hotel Bonds Trustee on the Commission's behalf; and
- WHEREAS, the Hotel opened on October 4, 2019 and has been operating at a loss since the onset of the Coronavirus (COVID-19) pandemic in March 2020 due to substantially reduced guest reservations and event facility bookings; and
- WHEREAS, the Commission, as issuer of the Hotel Special Facility Bonds, did not have sufficient Hotel revenues available to fund the \$3.9 million interest payment due on October 1, 2020 on the Hotel Special Facility Bonds; and
- WHEREAS, on September 15, 2020, by Resolution No. 20-0153, the Commission authorized and, by such authority, the Airport Director executed, an instruction to cause BNY Mellon Trust to instruct the Hotel Bonds Trustee: (1) to temporarily suspend the payment of the interest due on the Hotel Special Facility Bonds due on October 1, 2020, (2) not to make certain related transfers of funds held by the Hotel Bond Trustee pursuant to the Hotel Trust Agreement, (3) not to exercise certain related remedies, with such instruction explicitly acknowledging that there is no waiver of the right to receive the suspended interest payment and that the non-payment of such interest payment and the actions directed in the instruction shall not constitute or result in a default or Event of Default under the Hotel Trust Agreement by the Commission, the Hotel Bonds Trustee or Hyatt Corporation, as manager of the Hotel; and
- WHEREAS, the Commission now desires to amend the Hotel Trust Agreement to reduce Hotel Special Facility Bonds debt service requirements, including lowered interest rates and a retroactive amendment to remove the October 1, 2020 interest payment and to require no debt service set-asides until April 1, 2023; and

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WHEREAS, a form of Amended and Restated Trust Agreement (the Amended Trust Agreement), by and between the Commission and the Hotel Bonds Trustee, has been presented to the Commission and is on file with the Commission Secretary; now, therefore, be it

RESOLVED, that this Commission finds that the above recitals are true and correct; and, be it further

RESOLVED, that this Commission approves the Amended Trust Agreement, and the Airport Director is authorized and directed, for and on behalf of and in the name of the Commission, as issuer of the Hotel Special Facility Bonds, to execute and deliver the Amended Trust Agreement, with such changes as are approved by the Airport Director, in consultation with the City Attorney, evidenced by the execution and delivery of the Amended Trust Agreement in final form; if necessary, amended Hotel Special Facility Bonds shall be executed by the manual or facsimile signature of the President of the Commission and attested by the Secretary of the Commission; and, be it further

RESOLVED, that the Airport Director is authorized and directed, for and on behalf of and in the name of the Commission, as Hotel Special Facility Bonds investor and trust beneficiary, to direct and instruct BNY Mellon Trust, as trustee of the separate trust entity that is bondholder of the Hotel Special Facility Bonds, to consent to and approve the Amended Trust Agreement; and, be it further

RESOLVED, that the Airport Director shall not direct BNY Mellon Trust, as trustee of the separate trust entity that is bondholder of the Hotel Special Facility Bonds, to declare an Event of Default with respect to the Hotel Special Facility Bonds pending execution and delivery of the bondholder consent and the Amended Trust Agreement; and, be it further

RESOLVED, that the Airport Director and the other officers, agents and employees of the Commission are authorized and directed: (1) to execute such documents, agreements, instructions, directions, notices, consents and certificates, including without limitation, conforming amendments to the Cash Management and Lockbox Agreement, dated as of June 1, 2018, between the Commission and U.S. Bank National Association, the Hotel Special Facility Bonds, and the trust agreement with BNY Mellon Trust; and (2) to take such other actions, in consultation with the City Attorney; as may be necessary or desirable to accomplish the purposes set forth in this Resolution and the transactions contemplated by this Resolution; and, be it further

RESOLVED, that the Commission Secretary, for and on behalf of and in the name of the Airport Commission, is authorized and directed to seek the approval of the San Francisco Board of Supervisors of the Amended Trust Agreement.

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ADOPTED by the Airport Commission of the City and County of San Francisco this 1 day of December 2020, by the following vote:

Ayes: 5

Noes: 0

Absent: 0

Approved as to Form:

DENNIS J. HERRERA
City Attorney

By: 
Brooke D. Abola
Deputy City Attorney

*I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of* DEC 1 2020


Secretary



MEMORANDUM

December 1, 2020

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Eleanor Johns, Vice President
Hon. Richard J. Guggenlime
Hon. Everett A. Hewlett, Jr.
Hon. Malcolm Yeung

20-0221

DEC 1 2020

FROM: Airport Director

SUBJECT: Approval of Amended and Restated Trust Agreement, Relating to \$260,000,000 Aggregate Principal Amount of Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018, and Related Matters

DIRECTOR'S RECOMMENDATION: ADOPT RESOLUTION TO AMEND AND RESTATE TRUST AGREEMENT, RELATING TO \$260,000,000 AGGREGATE PRINCIPAL AMOUNT OF SPECIAL FACILITY REVENUE BONDS (SAN FRANCISCO INTERNATIONAL AIRPORT), SERIES 2018, AND RELATED MATTERS.

Executive Summary

Staff recommends approval of an Amended and Restated Trust Agreement (Amended Trust Agreement) with U.S. Bank National Association (Hotel Bonds Trustee) that will restructure the outstanding Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018 (Hotel Special Facility Bonds). The restructuring will reduce debt costs while the Hotel recovers from the impacts of the COVID-19 pandemic, which has significantly reduced guest occupancy and Hotel revenues. The attached Resolution provides the necessary authorization for the Airport Director to instruct The Bank of New York Mellon Trust Company (BNY Mellon Trust) to consent to and approve the Amended Trust Agreement, in its role as trustee of the trust entity that is bondholder of the Hotel Special Facility Bonds and acts on behalf of the Commission.

The Airport's Financial Advisory Committee reviewed and concurs with the proposed action.

Background

The Commission is both the issuer of the Hotel Special Facility Bonds and the ultimate investor in the Hotel Special Facility Bonds, as well as the owner of the On-Airport Hotel (the Hotel). The Hotel is managed by Hyatt Corporation (Hyatt) pursuant to a competitively-procured Hotel Management Agreement between Hyatt and the Commission.

On June 6, 2018, the Commission issued San Francisco International Airport Second Series Revenue Bonds (1991 Resolution Bonds) to finance construction of the Hotel that are secured by a pledge of Airport "general revenues." The Commission designated the Hotel as a "special facility," which means that Hotel revenues are excluded from Airport revenues pledged to the 1991 Resolution Bonds. Simultaneously, the Commission issued the Hotel Special Facility Bonds in the principal amount of \$260 million and used the proceeds of the

1991 Resolution Bonds to purchase the Hotel Special Facility Bonds to finance the Hotel at the lowest available interest rate, among other reasons. Hotel revenues fund interest and principal payments on the Hotel Special Facility Bonds as well as operating costs of the Hotel. The diagram in Attachment 1 illustrates these transactions.

Prior to the onset of the COVID-19 pandemic, the Hotel's operating performance was strong. However, since March 2020, the Hotel has been operating at a loss due to substantially lower guest reservations and event facility bookings. Debt service payments for the Hotel Bonds total \$7.8 million in Fiscal Year (FY) 2020/21. These payments represent 23% of the Hotel's total projected expenses of \$33.9 million for the year. The Hotel's budget projects a total loss of as much as \$11.1 million for FY 2020/21 based upon Hotel revenues of \$22.8 million.

Due to the Hotel's financial position, there were not enough Hotel revenues or reserves to make the full semi-annual interest payment for the Hotel Special Facility Bonds of \$3.9 million due on October 1, 2020. On September 15, 2020, by Resolution No. 20-0153, the Commission authorized the Airport Director to execute an instruction to cause BNY Mellon Trust to instruct the Hotel Bonds Trustee to, in effect, temporarily suspend that interest payment and to forbear and take no action to declare a non-payment event or exercise any related remedies. This action also allowed Staff to consider options to provide additional financial relief to the Hotel and address the nonpayment event, which are reflected in the attached Resolution.

A history of prior Commission and Board of Supervisors (Board) actions regarding the Hotel Special Facility Bonds is set forth in Appendix A.

Proposed Commission Action and Rationale

Staff recommends that the Commission adopt the attached Resolution which would approve the Amended Trust Agreement and authorize the Airport Director to take two actions:

- (1) on behalf of the Commission (as Hotel Special Facility Bonds issuer), to execute the Amended Trust Agreement, and
- (2) on behalf of the Commission (as Hotel Special Facility Bonds investor), to instruct BNY Mellon Trust to consent to and approve the Amended Trust Agreement.

Subject to the receipt of Board approval, Staff plans to take these authorized actions before the next interest payment for the Hotel Special Facility Bonds that is due on April 1, 2021. The recommended actions will not adversely affect the Commission's ability to make timely debt service payments for the related 1991 Resolution Bonds.

The rationale for these recommendations is to reduce near-term financial pressures on the Hotel so that it can continue to operate and fund critical operating expenses such as payroll, and remain positioned to provide a high level of service to its guests as demand recovers from the impacts of the COVID-19 pandemic. The Hotel is an important asset with upside financial potential for the Commission in the long term, particularly given the devastating impact of the pandemic on other hotels in San Francisco and San Mateo County.

The restructured Hotel Special Facility Bonds will still have a principal amount of \$260 million and the final maturity will remain on April 1, 2058. However, the restructuring will reduce near-term debt service

requirements as the Hotel will not be required to make monthly set-asides for debt principal and interest payments until April 1, 2023. This will be accomplished by delaying principal repayment until April 1, 2025 instead of April 1, 2022, and by temporarily reducing the interest rate on the Hotel Special Facility Bonds. Specifically, the Hotel Special Facility Bonds were issued with a fixed interest rate of 3.00% which will be reduced temporarily and then restored over time. Interest will accrue at a rate of 0.086% through September 30, 2023, and then increase incrementally until the interest rate is restored to 3.00% beginning on April 1, 2029. In addition, there will be a retroactive amendment to provide that October 1, 2020 is no longer an Interest Payment Date, and there will be no requirement to pay interest until October 1, 2023.

Restructuring debt service will result in cash flow savings for the Hotel and a reduction in revenues to the Airport of approximately \$44.1 million in today's dollars due to reduced debt service payments. Once the interest rate is restored to 3.00%, debt service payments will be the same amounts as the original debt payment schedule for the Hotel Special Facility Bonds.

For FY 2020/21, the near-term fiscal impact of restructuring the Hotel Special Facility Bonds is \$7.8 million and represents 0.6% of projected total Airport revenues for this fiscal year.

Parameters for Restructured Hotel Special Facility Bonds

Section 5852.1 of the California Government Code requires that certain information on the cost of borrowing be disclosed to a governing body prior to the authorization of a bond transaction. The information in Attachment 2 was provided by the Airport's financial advisors as a good faith estimate for the restructured Hotel Special Facility Bonds.

Request to the Board of Supervisors

If the attached Resolution is adopted, approval by the Board will be required to consummate the actions authorized by this Resolution.

Recommendation

I recommend the Commission adopt the attached Resolution approving the Amended Trust Agreement and authorize the Airport Director to execute and deliver the Amended Trust Agreement, instruct BNY Mellon Trust to consent and approve the Amended Trust Agreement, and authorize other related actions by Staff.


Ivar C. Satero
Airport Director

Prepared by: Kevin Kone
Acting Chief Financial Officer

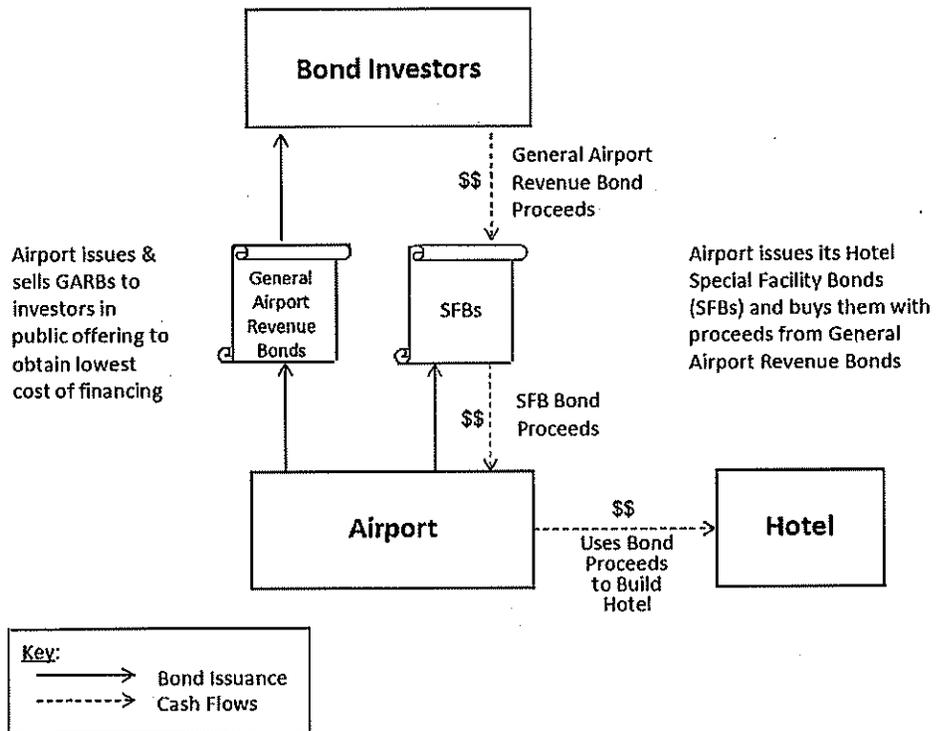
Attachments

APPENDIX A

- On September 22, 2015, by Resolution No. 15-0182, the Commission designated the planned Hotel as a “Special Facility” and authorized the issuance of bonds issued by the Commission and secured solely by Hotel revenues (Hotel Special Facility Bonds).
- On March 7, 2017, by Resolution No. 17-0045, the Commission increased the maximum aggregate principal amount of the authorized Hotel Special Facility Bonds to \$260,000,000.
- On December 1, 2015 and June 27, 2017, by Resolution Nos. 433-15 and 269-17, respectively, the Board approved the issuance of the Hotel Special Facility Bonds and their purchase using proceeds of 1991 Resolution Bonds, the appointment of the Hotel Bonds Trustee, and the execution of the related Trust Agreement as well as other agreements related to the Hotel Special Facility Bonds.
- On April 3, 2018, by Resolution No. 18-0089, the Commission authorized the sale of 1991 Resolution Bonds to investors and the use of a portion of the proceeds of such 1991 Resolution Bonds to purchase the Hotel Special Facility Bonds issued by the Commission.
- On September 15, 2020, by Resolution No. 20-0153, the Commission authorized and, by such authority, the Airport Director executed, an instruction to cause BNY Mellon Trust to instruct the Hotel Bonds Trustee to temporarily suspend the \$3.9 million payment of interest on the Hotel Special Facility Bonds that was due on October 1, 2020, not to make certain related transfers of funds held by the Hotel Bond Trustee pursuant to the Hotel Trust Agreement, and not to exercise certain related remedies, with such instruction explicitly acknowledging the actions directed in the instruction did not constitute or result in a default or Event of Default under the Hotel Trust Agreement by the Commission, the Hotel Bonds Trustee or Hyatt.

ATTACHMENT 1

Bond Issuance Structure



ATTACHMENT 2

Section 5852.1 of the California Government Code requires that local governments disclose good faith estimates of financing costs prior to the authorization of a bond sale. The following information has been provided by the Airport's financial advisors as a good faith estimate.

Hotel Special Facility Bonds

- (1) The true interest cost of the proposed \$260,000,000 in Hotel Special Facility Bonds is estimated to be 2.14%.
- (2) The finance charge is estimated to be \$0. This includes all fees and charges expected to be paid to third parties.
- (3) The amount of proceeds net of the finance charge and any reserves or capitalized interest is estimated to be \$260,000,000.
- (4) The total payment amount is estimated to be \$419,642,710. This is the sum of all payments the Commission will make to repay these Hotel Special Facility Bonds, calculated to the final maturity date.