# CITY AND COUNTY OF SAN FRANCISCO
# BOARD OF SUPERVISORS
## BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

October 30, 2015

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst

**SUBJECT:** November 4, 2015 Budget and Finance Committee Meeting

## TABLE OF CONTENTS

| Item 1<br>File 15-0935 | Department:<br>Sheriff's Department (Sheriff) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution retroactively authorizes the Sheriff's Department to apply for, accept and expend $950,000 in Mentally Ill Offender Crime Reduction Grant Program funds administered by the Board of State and Community Correction through the State Recidivism Fund for the period of July 1, 2015, through June 30, 2018.

### Key Points

- The Sheriff's Department was awarded a $950,000 Mentally Ill Offender Crime Reduction grant in August 2015 from the Board of State and Community Corrections to support the creation of a new behavioral health court designed to improve outcomes among adult offenders with mental illness who are accused of misdemeanor offenses.
- The three-year grant will fund direct housing services that support a total of 19 dedicated beds in group and single-resident occupancy (SRO) settings that provide an average of six months of temporary and transitional housing for a total of at least 114 adult offenders in the behavioral court program. Grant funds will also support a range of related services.

### Fiscal Impact

- The total budget of the Mentally Ill Offender Crime Reduction Program is $1,861,791, of which $950,000 will be funded by the grant from the Board of State and Community Corrections, $739,503 will be funded through in-kind matches from community-based organizations with contracts with the City, and $172,288 will come from in-kind grant administration and evaluation services from the Sheriff's Department.
- Approximately 54 percent of the total budget, or $1,012,374, will be used for direct housing services with the remaining 46 percent, or $849,417, used for case management, peer support, grant administration and evaluation, and other related services.

### Recommendations

- Amend the proposed resolution to request the Sheriff's Department to provide an implementation plan for securing the 19 needed SRO or group home beds to the Board of Supervisors no later than November 30, 2015.
- Approve the proposed resolution, as amended.

## MANDATE STATEMENT

City Administrative Code Section 10.170-1(b) states that the acceptance and expenditure of federal, State, or other grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

## BACKGROUND

In August 2015, the Sheriff's Department was awarded a $950,000 Mentally Ill Offender Crime Reduction grant from the Board of State and Community Corrections to support the creation of a new behavioral health court designed to improve outcomes among adult offenders with mental illness who are accused of misdemeanor offenses. The three-year grant will fund direct housing services that support a total of 19 dedicated beds in group and single-resident occupancy (SRO) settings that provide an average of six months of temporary and transitional housing for a total of at least 114 adult offenders with mental illness in the behavioral court program. Grant funds will also support a range of related services.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively authorizes the Sheriff's Department to apply for, accept and expend $950,000 in Mentally Ill Offender Crime Reduction Grant Program funds administered by the Board of State and Community Corrections through the State Recidivism Fund for the period of July 1, 2015, through June 30, 2018.

## FISCAL IMPACT

The total three-year budget from FY 2015-16 through FY 2017-18 for the Mentally Ill Offender Crime Reduction Program administered by the Sheriff's Department is $1,861,791. Of this amount, $950,000, or 51 percent of the budget, will be funded by the grant from the Board of State and Community Corrections, and $911,791, or 49 percent of the budget, will be funded through in-kind matches. Of the in-kind matches, $739,503 will be funded by community-based organizations with contracts with the City, and $172,288 will be funded from grant administration and evaluation services provided by the Sheriff's Department, as shown in Table 1 below.

The agreement between the Sheriff's Department and the Board of State and Community Corrections requires minimum matching funds equal to 25 percent of the grant award. Matching funds may be met through cash, in-kind, or a combination of both. The Sheriff's Department and community-based organization contractors will contribute in-kind matches to the program equal to approximately 96 percent of the grant amount, including direct housing, support for case managers, a mental health therapist, and grant administration.

**Table 1: Mentally Ill Offender Crime Reduction Grant Program Budget, by Source**
**FY 2015-16 through FY 2017-18 (Three Years)**

| Budget Category | Grant Funds (51%) | In-Kind Match (49%) | Total (100%) |
|---|---|---|---|
| Community-Based Organization Contracts | | | |
| *Bayview Hunters Point Multipurpose Senior Services* | $270,000 | | $270,000 |
| *Westside Community Services* | $371,704 | $168,795 | $540,499 |
| *Recovery Survival Network* | $216,000 | | $216,000 |
| *UCSF Citywide Case Management* | | $126,750 | $126,750 |
| *UCSF match from Battery-Powered Foundation* | | $200,000 | $200,000 |
| *Pre-Trial Diversion Project, Inc.* | | $180,000 | $180,000 |
| *Correctional Counseling, Inc.* | $5,932 | $1,068 | $7,000 |
| *Indirect Costs/Administrative Overhead* | $86,364 | $62,890 | $149,254 |
| Community-Based Organization Subtotal | $950,000 | $739,503 | $1,689,503 |
| Sheriff's Department | | | |
| *Salaries and Benefits* | | $133,898 | $133,898 |
| *Other* | | $38,390 | $38,390 |
| Sheriff's Department Subtotal | $0 | $172,288 | $172,288 |
| **Total Program Budget** | **$950,000** | **$911,791** | **$1,861,791** |

According to Ms. Jane Mason, Principal Analyst in the Sheriff's Department, $1,012,374, or 54 percent of the total budget, will be used for direct housing services. The remaining $849,417, or 46 percent of the program budget, will be used for case management, peer support, grant administration and evaluation, and other related services, as shown in Table 2 below.

**Table 2: Mentally Ill Offender Crime Reduction Grant Program Budget, by Use**
**FY 2015-16 through FY 2017-18 (Three Years)**

| Budget Category | Direct Housing (54%) | Other Services (46%) | Total (100%) |
|---|---|---|---|
| Community-Based Organization Contracts | | | |
| *Bayview Hunters Point Multipurpose Senior Services* | $270,000 | | $270,000 |
| *Westside Community Services* | $233,800 | $306,699 | $540,499 |
| *Recovery Survival Network* | $216,000 | | $216,000 |
| *UCSF Citywide Case Management* | | $126,750 | $126,750 |
| *UCSF match from Battery-Powered Foundation* | $200,000 | | $200,000 |
| *Pre-Trial Diversion Project, Inc.* | | $180,000 | $180,000 |
| *Correctional Counseling, Inc.* | | $7,000 | $7,000 |
| *Indirect Costs/Administrative Overhead* | $92,574 | $56,680 | $149,254 |
| Community-Based Organization Subtotal | $1,012,374 | $677,129 | $1,689,503 |
| Sheriff's Department [a] | | | |
| *Salaries and Benefits* | | $133,898 | $133,898 |
| *Other* | | $38,390 | $38,390 |
| Sheriff's Department Subtotal | $0 | $172,288 | $172,288 |
| **Total Program Budget** | **$1,012,374** | **$849,417** | **$1,861,791** |

[a] The Board of Supervisors previously appropriated Sheriff's Department's in-kind match in the Department's FY 2015-16 and FY 2016-17 budgets. The Sheriff's Department's FY 2017-18 in-kind match is subject to future Board of Supervisors appropriation approval.

According to Ms. Mason, no grant funds have been expended to date.

## POLICY CONSIDERATION

The proposed grant funds will fund 19 temporary or transitional beds in SRO hotels or group housing. Based on a survey conducted by the Budget and Legislative Analyst, non-profit-owned SRO hotels under master-lease agreements with the Human Services Agency and the Department of Public Health have a vacancy rate of 3.4 percent. Privately-owned SRO hotels in San Francisco have a vacancy rate of 11.9 percent.

The Sheriff's Department should provide a plan to the Board of Supervisors on how the 19 SRO or group home beds will be secured, given the low vacancy rate in non-profit-owned SRO hotels. Therefore, the proposed resolution should be amended to request the Sheriff's Department to provide an implementation plan to the Board of Supervisors no later than November 30, 2015, to ensure that the Department will be able to secure 19 SRO or group home beds for the eligible participants.

## RECOMMENDATIONS

1. Amend the proposed resolution to request the Sheriff's Department to provide an implementation plan for securing the 19 needed SRO or group home beds to the Board of Supervisors no later than November 30, 2015.
2. Approve the proposed resolution, as amended.

| Items 7 and 9<br>Files 15-0987 and 15-1076 | Department:<br>San Francisco International Airport (Airport) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- **File 15-0987:** The proposed resolution would approve the sale of not to exceed $243,000,000 aggregate principal amount of General Airport Revenue Bonds and $225,000,000 aggregate principal amount of Special Facility Revenue Bonds to finance a hotel at San Francisco International Airport; authorizing the execution and delivery of certain agreements related to these bonds; and approving certain related matters.
- **File 15-1076:** The proposed ordinance would appropriate (a) $243,000,000 of General Airport Revenue Bonds proceeds and $450,000 from Airport fund balance, totaling $243,450,000; and (b) $225,000,000 of Special Facility Revenue Bond proceeds, and $5,000,000 contribution from the Hyatt Corporation, totaling $230,000,000. These funds are placed on Controller's Reserve pending receipt of funds.

### Key Points

- The Airport is proposing construction of a 350-room hotel on Airport property that would be owned by the Airport and operated under a Hotel Management Agreement between the Airport and the Hyatt Corporation.

### Fiscal Impact

- The Airport will sell up to $243,000,000 General Airport Revenue Bonds, at a variable interest. Based on the Airport's cash flow projections, total debt service over 40 years is estimated at $466,822,086.
- The hotel financing and operations will be separated from Airport financing and operations by designating the hotel as a "special facility". The Airport will issue $225,000,000 in Special Facility Revenue Bonds that it will purchase using the proceeds from the General Airport Revenue Bonds. Special Facility Revenue Bond proceeds will pay for the hotel construction. In addition, the Hyatt Corporation will contribute $5 million toward hotel construction.

### Policy Consideration

- A slowdown in the economy could result in the hotel failing to meet the Airport's estimates for occupancy rate or revenue per room. Since the Airport is the owner of the Hotel, if Hotel revenues are insufficient for any reason to support the operation of the Hotel (such as during a prolonged economic downturn), the Airport Commission would need to decide at that time whether to voluntarily support the operation of the Hotel with other Airport revenues, or make other decisions.

### Recommendation

- Approve the proposed resolution and ordinance.

## MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

City Charter Section 9.107 authorizes the Board of Supervisors to provide for the issuance of revenue bonds by three-fourths vote of all Board of Supervisors if the bonds are to finance buildings, fixtures or equipment.

## BACKGROUND

The Airport Master Plan has included development of a hotel since 1992 when the Airport planned the renovation of the then-existing 527-room Hilton Hotel at the Airport. The Hilton was demolished in 1998 to accommodate construction of a terminal roadway nearby. The Airport intended to replace the hotel in the following years, but determined that economic conditions in the late 1990's and subsequent decade made the project financially unfeasible. In 2012, the Airport commissioned a market demand study from JLL, a hotel consulting firm, to determine the viability of the project, which identified sufficient demand to support a new hotel in the local hotel market. Furthermore, the study suggested that a premier, first-class, full-service on-site hotel would have a competitive advantage over other properties in the surrounding market due to its location and amenities. JLL updated its study in October 2015 and determined that demand had increased since its 2012 study, but the estimated cost of construction had also increased in the improved economy.

The Airport is now proposing construction of a 350-room hotel on Airport property that would be owned by the Airport and operated under a Hotel Management Agreement between the Airport and the Hyatt Corporation (see File 15-0988 of the Budget and Legislative Analyst's report to the November 4, 2015 Budget and Finance Committee).

## DETAILS OF PROPOSED LEGISLATION

**File 15-0987**: The proposed resolution would approve the sale of not to exceed $243,000,000 aggregate principal amount of General Airport Revenue Bonds and $225,000,000 aggregate principal amount of Special Facility Revenue Bonds to finance a hotel at San Francisco International Airport; authorizing the execution and delivery of certain agreements related to these bonds; and approving certain related matters.

**File 15-1076:** The proposed ordinance would appropriate (a) $243,000,000 of General Airport Revenue Bonds proceeds and $450,000 from Airport fund balance, totaling $243,450,000; and (b) $225,000,000 of Special Facility Revenue Bond proceeds, and $5,000,000 contribution from the Hyatt Corporation, totaling $230,000,000. These funds are placed on Controller's Reserve pending receipt of funds.

**Proposed On-Airport Hotel**

According to Mr. Kevin Kone, the Airport Capital Finance Director, the Airport is proposing development of the on-site hotel at the Airport based on market demand for a four-star hotel near the Airport and the ability to offer this amenity to passengers and pursue a new non-airline revenue source. There are 13 large municipal airports in the U.S. that have on-airport hotels and three more in development not counting San Francisco's proposed hotel. The Airport considers building an on-site hotel a competitive necessity to maintain and attract airlines.

**Project Financing**

The Airport will build and own the proposed new hotel on Airport-owned land. The hotel will be managed and operated by the Hyatt Corporation and its Grand Hyatt brand under a Hotel Management Agreement between the Airport and the Hyatt Corporation (see File 15-0988), subject to the approval of the Board of Supervisors. The hotel will be primarily financed by the sale of $243,000,000 of variable rate General Airport Revenue Bonds sold in accordance with the Airport's main capital improvement program and bond program, 1991 Master Bond Resolution, as discussed in the Fiscal Impact section below. The hotel operator, Hyatt Corporation, will contribute an additional $5 million toward construction costs.

According to Mr. Kone, the Airport is proposing to directly finance and own the hotel, rather than entering into a long-term ground lease with a hotel developer, because the Airport prefers to maintain control over the hotel's operation and the property. According to Mr. Kone, the proposed structure seeks to maximize Airport control, minimize costs, and make the project financially feasible for the Airport, the airlines, and the hotel operator.

## FISCAL IMPACT

**General Airport Revenue Bonds and Hotel Special Facility Revenue Bonds (File 15-0987)**

The hotel project uses a layered financing structure in which the Airport will (a) sell $243,000,000 in tax-exempt General Airport Revenue Bonds at a low interest rate, and (b) sell $225,000,000 Hotel Special Facility Revenue Bonds, which the Airport will buy from itself with proceeds from the General Airport Revenue Bonds. The Hotel Special Facility Revenue Bond proceeds will be used to pay for construction of the hotel.

According to Mr. Kone, the proposed layered financing structure allows the Airport to issue tax-exempt General Airport Revenue Bonds at an interest rated projected at a maximum of 3.18 percent, to finance development of the Airport-owned hotel.

The hotel financing and operations will be separated from Airport financing and operations by designating the hotel as a "special facility" under Section 2.16 of the 1991 Master Bond Resolution No. 91-0210. The special facility allows revenues from the hotel to be segregated from the Airport's general revenues and used to pay debt service and other expenses associated with the hotel. According to Mr. Kone, separating the hotel's cash-flow from the Airport's regular funds is necessary to make the hotel successful and to attract a global hotel operator. This separation allows the hotel operator to pay hotel expenses directly from hotel revenues as is necessary in commercial hotel transactions.

General Airport Revenue Bonds

The Airport proposes to sell the General Airport Revenue Bonds through a competitive sale with a 40-year term at a variable interest rate. According to Mr. Kone, the Airport is proposing a variable rather than a fixed interest rate because the variable interest rate can provide lower debt service costs in the early years of the hotel project. The Airport can also repay the bonds under the terms of the variable rate bonds at an earlier date than the 40-year term.

The Airport estimates a maximum interest rate over the 40-year term of 3.18 percent. However, the estimated maximum interest rate could be higher than 3.18 percent given historical interest rate trends.

Annual principal and interest payments on the $243,000,000 General Airport Revenue Bonds will be secured and paid from revenues generated from the Airport's overall operations. Based on the Airport's cash flow projections, total debt service over 40 years is estimated at $466,822,086, as shown in Attachment I. Total debt service could be higher if interest rates exceed the estimated interest rate of up to 3.18 percent.[1]

The Airport will pay debt service on the Airport General Revenue Bonds as part of its overall debt service on total outstanding Airport General Revenue Bonds. According to the Airport's Debt Policy, the Airport must have sufficient revenues (not including revenues from the Special Facility) to pay debt service on the Airport General Revenue Bonds that will be sold to purchase the Special Facility Revenue Bonds (see Policy Considerations below).

Special Facility Revenue Bonds

The Airport proposes to sell the Special Facility Revenue Bonds as fixed rate bonds with a 40-year term. The Special Facility Revenue Bonds, however, will not be sold to investors, but will be purchased by the Airport itself with the proceeds of the General Airport Revenue Bonds. According to Mr. Kone, the proposed Special Facility Revenue Bonds allow the hotel to access the lower financing of the General Airport Revenue Bonds and create what is essentially a loan between the hotel special facility and the Airport.

The Special Facility will establish a bond trustee/depository bank. As shown in Attachment II, hotel revenues will be deposited with the bond trustee, which will be used to pay hotel operating expenses, debt service on the Hotel Special Facility Revenue Bonds and various reserves. Annual principal and interest payments on the $225,000,000 Special Facility Revenue Bonds will be paid from hotel revenues.

Debt service on the Special Facility Revenue Bonds will be paid by the hotel. Under the Airport's Debt Policy, adopted by the Airport Commission in September 2014, the Airport may issue

[1] The Airport's debt policy allows for 20 percent of outstanding debt to be issued at a variable rate. Under the variable rate structure of these Airport General Revenue Bonds for the hotel, the bonds are remarketed every 7 days. If the Airport is not able to successfully remarket the bonds, the Airport will have a Letter of Credit in place with a bank that can temporarily purchase the bonds. There is a small risk that a Letter of Credit can fail in the event of a market downturn. However, the Airport has successfully managed the risk of remarketing variable rate bonds for the other $481.5 million of outstanding variable rate debt it previously sold. Additionally, the Airport has sufficient cash on hand and a $400 million commercial paper program that the Airport could use to provide liquidity in the event of market failures.

Special Facility Revenue Bonds if projected revenues from the special facility are certified by an outside consultant to be sufficient to pay debt service. According to financial projections prepared by the Airport's consultant, the hotel is projected to pay annual debt service to the Airport ranging from $7.3 million in the first year of operations to $8.9 million in the fifth year of operations.

**Appropriation Details (File 15-1076)**

Under the proposed ordinance, the total appropriation is $243,450,000. The ordinance appropriates $243,450,000 from General Airport Revenue Bond proceeds and Airport fund balance, which will then be used to purchase $225,000,000 in Hotel Special Facility Revenue Bonds, fund construction of the Hotel AirTrain station, and pay bond issuance and audit costs, as shown in the Table below.

**Table: Sources and Uses of Funds**

| | | |
|---|---|---|
| **Appropriation of $243,450,000 in General Airport Revenue Bonds and Airport Fund Balance** | | |
| **Source of Funds** | **Amount** | |
| Proceeds from bond sale | $243,000,000 | |
| Airport fund balance contribution | $450,000 | |
| **Total Sources** | | **$243,450,000** |
| **Use of Funds** | **Amount** | |
| Proceeds Transfer to purchase Hotel Special Facility Revenue Bond | $225,000,000 | |
| Controller's Audit Fund | $450,000 | |
| Costs of Issuance | $3,000,000 | |
| Hotel AirTrain station construction | $15,000,000 | |
| **Total Uses** | | **$243,450,000** |
| **Appropriation of $230,000,000 in Special Facility Revenue Bonds and Hyatt Contribution** | | |
| **Source of Funds** | **Amount** | |
| Transfer in from Proceeds from General Airport Revenue Bonds | $225,000,000 | |
| Hyatt Contribution | $5,000,000 | |
| **Total Source** | | **$230,000,000** |
| **Use of Funds** | **Amount** | |
| Estimated Hotel Construction Costs | | |
| *Hard construction* | *$132,000,000* | |
| *Soft costs* | *$38,500,000* | |
| *Furniture, Fixtures, Equipment, Supplies, and Information Technology* | *$29,000,000* | |
| *Other (Reserve set asides, pre-opening expenses)* | *10,500,000* | |
| **Total Hotel Construction (estimated)** | **$210,000,000** | |
| Bond Issuance Costs and Financing Interest/ Reserves | | |
| Commercial Paper Interest | $3,600,000 | |
| Capitalized Interest on Special Facility Revenue Bonds | $13,000,000 | |
| Costs of Issuance Contingency | $3,400,000 | |
| **Total Uses** | | **$230,000,000** |

**Annual Service Payments to the City's General Fund**

If the hotel performs as projected by the Airport, the hotel is expected to produce net revenue starting in FY 2019-20. The Airport makes an annual service payment to the City's General Fund for all indirect services and facilities provided by the City to the Airport. The annual service payment is equal to 15 percent of Airport concession revenues as defined in the Lease and Use Agreement between the Airport Commission and the signatory airlines. The annual service payment will be increased by an amount equal to the gross revenues of the hotel, less hotel operating and maintenance expenses and scheduled debt service on the Special Facility Revenue Bonds. These amounts are projected to be $274,000 in FY 2019-20, and grow to $1,073,000 in FY 2022-23.[2]

## POLICY CONSIDERATIONS

**Operating Risk Could Slightly Increase Fees that Airlines Pay**

The Airport estimates hotel occupancy rates ranging from 71.3 percent in the first year of operations to 82 percent beginning in the third year of operations. The Airport's estimates of revenue per room are $214 in the first year of operations, increasing to $288 per room in fifth year of operations. The Airport's revenue projections are based on estimates provided by the hospitality consultant JLL and use standard assumptions for the hotel industry. However, a slowdown in the economy could result in the hotel failing to meet the Airport's estimates for occupancy rate or revenue per room. For example, hotel occupancy rates around the Airport fell to 58.2 percent in 2002 following the Dot.Com bubble and 71.8 percent in 2009 during the recession.

Since the Airport is the owner of the hotel, if hotel revenues are insufficient for any reason to support the operation of the hotel (such as during a prolonged economic downturn), the Airport Commission would need to decide at that time whether to voluntarily support the operation of the hotel with other Airport revenues, change the format or brand of the hotel to one that is less costly to operate, restructure or sell the hotel, or close the hotel. The hotel will be covered by various insurance policies (including business interruption insurance) to guard against casualty events.

<u>Debt Service on the General Airport Revenue Bonds</u>

Under the Lease and Use Agreement between the Airport and the airlines, the Airport has the authority to increase the landing and terminal fees charged to the airlines to meet its operating expenses, including annual debt service on outstanding General Airport Revenue Bonds. According to the Airport, the airlines are supportive of the hotel project. The Airport presented the hotel project to the airlines for formal review in June 2013. At that time the estimated to cost to build the hotel was $165 million. According to Airport staff, the airlines supported the hotel project because of the hotel's potential for producing additional nonairline revenue. According to Airport staff, the Airport discussed with the airlines at that time the potential risks

[2] Estimated revenues to the Airport, equal to gross hotel revenues less hotel operating and maintenance expenses and scheduled debt service on the Special Facility Revenue Bonds, are $1,826,667 in FY 2019-20 and $7,153,333 in FY 2022-23.

of economic downturns that could require increases in airlines' landing and terminal fees to offset reductions in hotel and other non-airline revenue. The Airport formally presented the revised hotel project with a budget of $230 million to the airlines for review on September 18, 2015. A formal response from the airlines is due November 2, 2015; however the Airport does not anticipate there will be any objection to the hotel project.

## RECOMMENDATION

Approve the proposed resolution and ordinance.

Attachment I

# Series 2017 General Airport Revenue Variable Rate Demand Bonds (VRDBs) - Estimate Debt Service

## $210 Million Hotel + $15 million Airtrain

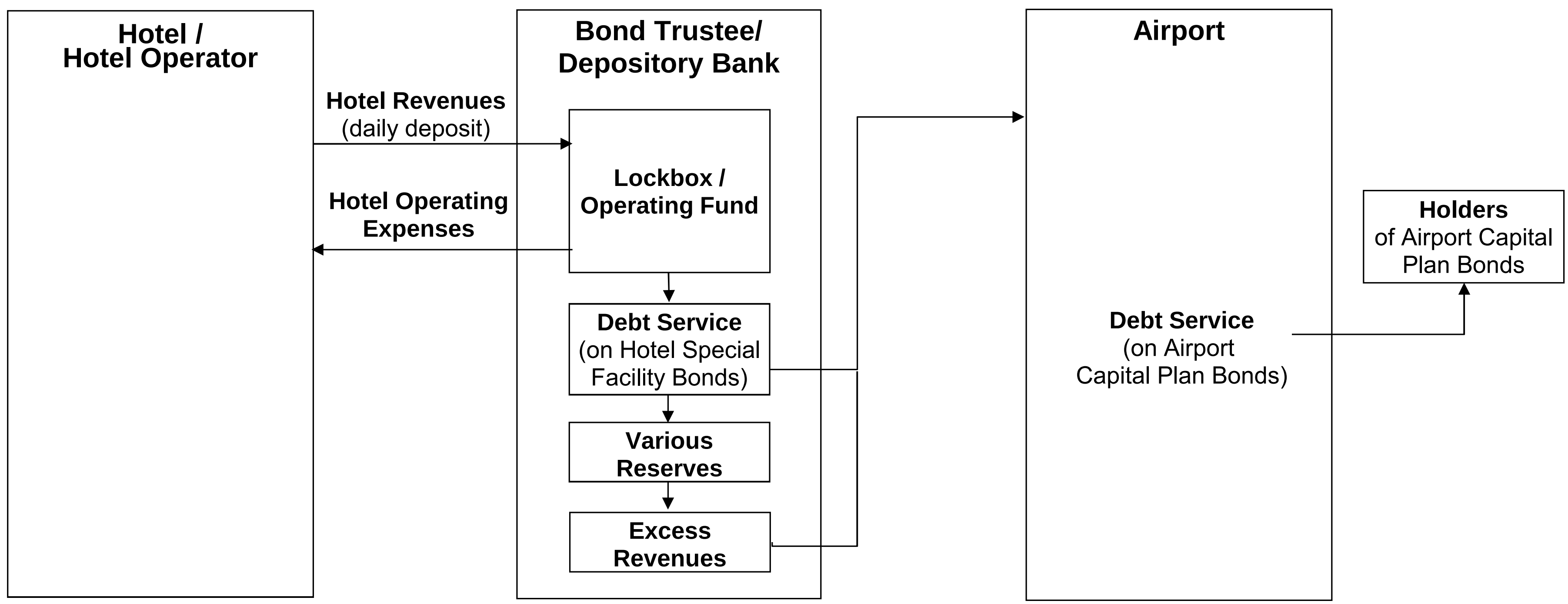
| Bond Information | |
|---|---|
| Dated Date | 7/1/2017 |
| FIINT | 11/1/2017 |
| FiMat | 5/1/2018 |
| First Maturity | 5/1/2022 |
| FIMAT | 5/1/2057 |
| Final Term (Years) | 40 |
| CAPI Date | 6/1/2019 |
| CAPI Switch | 0 |
| Call Date | 5/1/2027 |

| Sources and Uses of Funds | |
|---|---|
| **Sources of Funds** | |
| Bond Par Amount | 243,000,000 |
| Premium/(Discount) | - |
| **Total Sources of Funds** | **243,000,000** |
| **Uses of Funds** | |
| Special Facility Bonds Par Amount | 225,000,000 |
| AirTrain | 15,000,000 |
| Underwriter's Discount | 373,010 |
| Costs of Issuance | 2,626,990 |
| Rounding | - |
| **Total Uses of Funds** | **243,000,000** |

| Date | Principal | Interest Rate | Fees | Interest | Fees | Interest (including Fees) | Total Net GARB Debt Service |
|---|---|---|---|---|---|---|---|
| 2017 | | | | | | | |
| 2018 | - | 2.000% | 0.650% | 4,050,000 | 1,579,500 | 5,629,500 | 5,629,500 |
| 2019 | - | 2.000% | 0.650% | 4,860,000 | 1,579,500 | 6,439,500 | 6,439,500 |
| 2020 | - | 2.650% | 0.650% | 6,439,500 | 1,579,500 | 8,019,000 | 8,019,000 |
| 2021 | - | 3.180% | 0.650% | 7,727,400 | 1,579,500 | 9,306,900 | 9,306,900 |
| 2022 | 1,020,000 | 3.180% | 0.650% | 7,727,400 | 1,579,500 | 9,306,900 | 10,326,900 |
| 2023 | 830,000 | 3.180% | 0.650% | 7,694,964 | 1,572,870 | 9,267,834 | 10,097,834 |
| 2024 | 1,180,000 | 3.180% | 0.650% | 7,668,570 | 1,567,475 | 9,236,045 | 10,416,045 |
| 2025 | 1,600,000 | 3.180% | 0.650% | 7,631,046 | 1,559,805 | 9,190,851 | 10,790,851 |
| 2026 | 1,955,000 | 3.180% | 0.650% | 7,580,166 | 1,549,405 | 9,129,571 | 11,084,571 |
| 2027 | 2,380,000 | 3.180% | 0.650% | 7,517,997 | 1,536,698 | 9,054,695 | 11,434,695 |
| 2028 | 2,830,000 | 3.180% | 0.650% | 7,442,313 | 1,521,228 | 8,963,541 | 11,793,541 |
| 2029 | 3,360,000 | 3.180% | 0.650% | 7,352,319 | 1,502,833 | 8,855,152 | 12,215,152 |
| 2030 | 3,865,000 | 3.180% | 0.650% | 7,245,471 | 1,480,993 | 8,726,464 | 12,591,464 |
| 2031 | 4,400,000 | 3.180% | 0.650% | 7,122,564 | 1,455,870 | 8,578,434 | 12,978,434 |
| 2032 | 4,965,000 | 3.180% | 0.650% | 6,982,644 | 1,427,270 | 8,409,914 | 13,374,914 |
| 2033 | 5,270,000 | 3.180% | 0.650% | 6,824,757 | 1,394,998 | 8,219,755 | 13,489,755 |
| 2034 | 5,475,000 | 3.180% | 0.650% | 6,657,171 | 1,360,743 | 8,017,914 | 13,492,914 |
| 2035 | 5,685,000 | 3.180% | 0.650% | 6,483,066 | 1,325,155 | 7,808,221 | 13,493,221 |
| 2036 | 5,900,000 | 3.180% | 0.650% | 6,302,283 | 1,288,203 | 7,590,486 | 13,490,486 |
| 2037 | 6,130,000 | 3.180% | 0.650% | 6,114,663 | 1,249,853 | 7,364,516 | 13,494,516 |
| 2038 | 6,360,000 | 3.180% | 0.650% | 5,919,729 | 1,210,008 | 7,129,737 | 13,489,737 |
| 2039 | 6,605,000 | 3.180% | 0.650% | 5,717,481 | 1,168,668 | 6,886,149 | 13,491,149 |
| 2040 | 6,860,000 | 3.180% | 0.650% | 5,507,442 | 1,125,735 | 6,633,177 | 13,493,177 |
| 2041 | 7,120,000 | 3.180% | 0.650% | 5,289,294 | 1,081,145 | 6,370,439 | 13,490,439 |
| 2042 | 7,395,000 | 3.180% | 0.650% | 5,062,878 | 1,034,865 | 6,097,743 | 13,492,743 |
| 2043 | 7,680,000 | 3.180% | 0.650% | 4,827,717 | 986,798 | 5,814,515 | 13,494,515 |
| 2044 | 7,970,000 | 3.180% | 0.650% | 4,583,493 | 936,878 | 5,520,371 | 13,490,371 |
| 2045 | 8,275,000 | 3.180% | 0.650% | 4,330,047 | 885,073 | 5,215,120 | 13,490,120 |
| 2046 | 8,595,000 | 3.180% | 0.650% | 4,066,902 | 831,285 | 4,898,187 | 13,493,187 |
| 2047 | 8,925,000 | 3.180% | 0.650% | 3,793,581 | 775,418 | 4,568,999 | 13,493,999 |
| 2048 | 9,265,000 | 3.180% | 0.650% | 3,509,766 | 717,405 | 4,227,171 | 13,492,171 |
| 2049 | 9,620,000 | 3.180% | 0.650% | 3,215,139 | 657,183 | 3,872,322 | 13,492,322 |
| 2050 | 9,990,000 | 3.180% | 0.650% | 2,909,223 | 594,653 | 3,503,876 | 13,493,876 |
| 2051 | 10,370,000 | 3.180% | 0.650% | 2,591,541 | 529,718 | 3,121,259 | 13,491,259 |
| 2052 | 10,770,000 | 3.180% | 0.650% | 2,261,775 | 462,313 | 2,724,088 | 13,494,088 |
| 2053 | 11,180,000 | 3.180% | 0.650% | 1,919,289 | 392,308 | 2,311,597 | 13,491,597 |
| 2054 | 11,610,000 | 3.180% | 0.650% | 1,563,765 | 319,638 | 1,883,403 | 13,493,403 |
| 2055 | 12,055,000 | 3.180% | 0.650% | 1,194,567 | 244,173 | 1,438,740 | 13,493,740 |
| 2056 | 12,515,000 | 3.180% | 0.650% | 811,218 | 165,815 | 977,033 | 13,492,033 |
| 2057 | 12,995,000 | 3.180% | 0.650% | 413,241 | 84,468 | 497,709 | 13,492,709 |
| **Total Par** | **243,000,000** | | | **206,912,382** | **43,894,435** | **250,806,817** | **466,822,086** |

Prepared by Public Financial Management, Inc.

## Structure of Airport Hotel
## San Francisco International Airport



| Item 8<br>File 15-0988 | Department:<br>San Francisco International Airport (Airport) |
|---|---|

**EXECUTIVE SUMMARY**

### Legislative Objectives

- The proposed resolution approves the award of a Hotel Management Agreement to the Hyatt Corporation to supervise, direct and control the management, operation and promotion of all aspects of the 350-room hotel to be built on Airport property. The Agreement is for a term of ten years to commence following opening of the on-site hotel with one five-year option to extend at the discretion of the Airport. Total management fees to be paid by the Airport to the Hyatt Corporation over the initial 10-year term of the Agreement are not-to-exceed $19,945,420.

### Key Points

- The hotel will be owned by the Airport and operated as a Special Facility, separate from Airport operations.
- Hotel operating costs are paid from hotel revenues. Hotel staff will be employees of the Hyatt Corporation, not the Airport, and paid from hotel revenues. The Hyatt Corporation will purchase and maintain necessary supplies to operate the hotel, which will be paid from hotel revenues.
- The Management Agreement provides for capital and other reserves to support hotel operations.
- The Agreement details performance requirements and gives the Airport the option to terminate the agreement if revenue measures are not met.

### Fiscal Impact

- Under the Management Agreement, the Airport will pay an annual fixed management fee to the Hyatt Corporation to operate the hotel, totaling $19,945,420 over the initial 10-year term of the agreement. The Hyatt Corporation will be required to make a contribution toward the construction of the hotel of $5,000,000, resulting in net fee payments to the Hyatt Corporation of $14,945,420
- If the hotel performs as projected by the Airport, the hotel is expected to produce net revenue starting in FY 2019-20. The Airport estimates annual service payments to the City's General Fund from hotel operations of $274,000 in FY 2019-20, and increasing to $1,073,000 in FY 2022-23.

### Recommendation

- Approve the proposed resolution.

## MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) that have anticipated revenues of $1 million or more and requires modifications, are subject to Board of Supervisors approval.

City Charter Section 9.118(b) states that contracts entered into by a department, board, or commission that (i) have a term in excess of ten years, or (ii) that require anticipated expenditures by the City and County of $10 million or more, are subject to Board of Supervisors approval.

## BACKGROUND

The Airport Master Plan has included development of a hotel since 1992 when the Airport planned the renovation of the then-existing 527-room Hilton Hotel at the Airport. The Hilton was demolished in 1998 to accommodate construction of a terminal roadway nearby. The Airport intended to replace the hotel in the following years, but determined that economic conditions in the late 1990's and subsequent decade made the project financially unfeasible. In 2012, the Airport commissioned a market demand study from JLL, a hotel consulting firm, to determine the viability of the project, which identified sufficient demand to support a new hotel in the local hotel market. Furthermore, the study suggested that a premier, first-class, full-service on-site hotel would have a competitive advantage over other properties in the surrounding market due to its location and amenities. JLL updated its study in October 2015 and determined that demand had increased since its 2012 study, but the estimated cost of construction had also increased in the improved economy.

The Airport is now proposing construction of a 350-room hotel on Airport property that would be owned by the Airport and operated under a Hotel Management Agreement between the Airport and the Hyatt Corporation.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the award of a Hotel Management Agreement to the Hyatt Corporation to supervise, direct and control the management, operation and promotion of all aspects of the 350-room hotel. The Agreement is for a term of ten years to commence following opening of the on-site hotel with one five-year option to extend at the discretion of the Airport. Total management fees to be paid by the Airport to the Hyatt Corporation over the initial 10-year term of the Agreement are not-to-exceed $19,945,420.

The Airport issued a Request for Proposals (RFP) in May 2014 to select a hotel operator to manage the proposed hotel to be developed and owned by the Airport on Airport property. The Airport received 10 responsive proposals, which were evaluated by a three-person panel consisting of one City employee and two outside travel and hospitality experts. The Airport selected Hyatt Corporation for the Hotel Management Agreement based on the highest score.

**Management Agreement**

The hotel will be operated as a Special Facility, separate from Airport operations. Hotel revenues will be transferred to a lockbox/operating fund to pay hotel operating expenses (see File 15-0987, Attachment II, of the Budget and Legislative Analyst's report to the November 4, 2015 Budget and Finance Committee).

Under the Hotel Management Agreement between the Airport and Hyatt Corporation, the Hyatt Corporation will supervise, direct and control the management, operation and promotion of all aspects of the hotel. The Airport will pay a fixed annual management fee to the Hyatt Corporation, as shown in the Table below.

Hotel operating costs are paid from hotel revenues.

- Hotel staff will be employees of the Hyatt Corporation, not the Airport, and paid from hotel revenues. Collective bargaining agreements covering hotel employees will be between the Hyatt Corporation and the respective labor unions. Hotel employees are covered by the State and City prevailing wage requirements.
- The Hyatt Corporation will purchase and maintain necessary supplies to operate the hotel, which will be paid from hotel revenues. The Airport will have the right to require the Hyatt Corporation to competitively bid contracts exceeding $50,000. The Airport may also choose to purchase items for hotel operations through contracts between the Airport and outside vendors.

Hotel Reserve Funds

The Management Agreement provides the following reserve funds and contribution amounts to be paid from hotel revenues:

- Furniture, Fixture and Equipment Reserve Fund: 1 percent of total hotel operating revenues in year one, increasing to 4 percent of total hotel operating revenues in year 4 and subsequent years;
- Capital Reserve Fund: 2 percent of total hotel operating revenues; and
- Working Capital Reserve Fund: $2,500,000.

Hotel Performance Requirements

The Agreement details performance requirements and gives the Airport the option to terminate the agreement if revenue measures are not met. There is also an annual plan development and review process, where the Hyatt Corporation will present to the Airport a detailed annual plan, which the Airport must certify. Technical disagreements between the Airport and the Hyatt Corporation would be resolved by an independent hotel consultant. The Airport maintains the right to interview and approve the Hyatt's hiring of senior staff for the hotel such as the General Manager, Director of Finance, Director of Sales and Marketing, Director of Food and Beverage, and Director of Engineering.

## FISCAL IMPACT

Under the Management Agreement, the Airport will pay an annual fixed management fee to the Hyatt Corporation to operate the hotel, as shown in the Table below, totaling $19,945,420 over the initial 10-year term of the agreement. The Hyatt Corporation will be required to make a contribution toward the construction of the hotel of $5,000,000, resulting in net fee payments to the Hyatt Corporation of $14,945,420.

The management fee consists of the base fee, which the Airport will pay to the Hyatt Corporation in 12 monthly installments, and the subordinate fee. The subordinate fee is paid by the Airport to the Hyatt Corporation if sufficient hotel revenues remain after debt service is paid on the Special Facility Revenue Bonds. If annual hotel revenues are not sufficient to pay the subordinate fee, this fee shall be carried forward to subsequent years without interest.

| **Management Fees** | | | |
|---|---|---|---|
| **Year** | **Base Management Fee** | **Subordinate Management Fee** | **Total** |
| 1 | $710,473 | $236,824 | $947,297 |
| 2 | $1,086,714 | $364,049 | $1,450,763 |
| 3 | $1,480,406 | $491,495 | $1,971,901 |
| 4 | $1,524,819 | $506,240 | $2,031,059 |
| 5 | $1,570,564 | $521,427 | $2,091,991 |
| 6 | $1,622,111 | $538,541 | $2,160,653 |
| 7 | $1,666,211 | $553,182 | $2,219,393 |
| 8 | $1,716,197 | $569,777 | $2,285,975 |
| 9 | $1,767,682 | $586,871 | $2,354,553 |
| 10 | $1,825,702 | $606,133 | $2,431,835 |
| | | **Total** | **$19,945,420** |
| | | *Hyatt Corporation's contribution to construction costs* | *$5,000,000* |
| | | Net amount paid by Airport over the 10-year term. | ***$14,945,420*** |

The Management Agreement also provides for (a) centralized services fees to be paid to the Hyatt Corporation from hotel revenues to cover the hotel's share of the Hyatt Corporation's costs for marketing and other Hyatt corporation systems; and (b) specific reimbursable expenses.

### Annual Service Payments to the City's General Fund

If the hotel performs as projected by the Airport, the hotel is expected to produce net revenue starting in FY 2019-20. The Airport makes an annual service payment to the City's General Fund for all indirect services and facilities provided by the City to the Airport. The annual service payment is equal to 15 percent of Airport concession revenues as defined in the Lease and Use Agreement between the Airport Commission and the signatory airlines. The annual service payment will be increased by an amount equal to the gross revenues of the hotel, less hotel operating and maintenance expenses and scheduled debt service on the Special Facility

Revenue Bonds. These amounts are projected to be $274,000 in FY 2019-20, and grow to $1,073,000 in FY 2022-23.[1].

## RECOMMENDATION

Approve the proposed resolution.

[1] Estimated revenues to the Airport, equal to gross hotel revenues less hotel operating and maintenance expenses and scheduled debt service on the Special Facility Revenue Bonds, are $1,826,667 in FY 2019-20 and $7,153,333 in FY 2022-23.

| **Item 10**<br>**File 15-1088** | **Department:**<br>Public Utilities Commission (PUC) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would (a) establish a new Power Enterprise Commercial Paper Program in the principal amount not to exceed $90,000,000, (b) authorize the PUC to sell up to $90,000,000 in commercial paper, (c) authorize PUC to enter into a credit facility agreement with Bank of America, and (d) authorize the PUC to enter into dealer agreements with Barclays, Goldman Sachs and RBC Capital Markets.

### Key Points

- The Board of Supervisors previously authorized the sale of power revenue bonds up to approximately $160.3 million. In May 2015, the Power Enterprise sold $39,555,000 in 2015 Series A and 2015 Series B Power Revenue Bonds to fund certain power generation and transmission projects in the Hetch Hetchy Water and Power Capital Plan.
- Under the City's Administrative Code Section 43.5, the Public Utilities Commission (PUC) may issue short-term debt, including commercial paper, in anticipation of the issuance of revenue bonds. Under the Hetch Hetchy Power Commercial Paper Program, the PUC will use the commercial paper as short term, low interest financing for Hetch Hetchy Power capital projects prior to issuing long term Hetch Hetchy Power Revenue Bonds. This allows PUC to time the issuance of Hetch Hetchy Power Revenue Bonds to achieve better interest rates and meet the needs of the Hetch Hetchy Power capital program.

### Fiscal Impact

- According to the proposed resolution, the interest rate shall not exceed 12 percent per year. However, according to Mr. Carlos Jacobo, PUC Budget Director, the proposed Power Commercial Paper Program will result in an "all-in" borrowing rate of approximately 1 percent per year, which includes interest payments on the commercial paper and associated fees.
- PUC will incur estimated maximum fees of $1,157,135 over the initial three-year term of the Hetch Hetchy Power Commercial Paper Program, including (1) fees of $1,028,885 paid to the Bank of America for the LOC, and (2) a maximum total of $128,250 to the three dealers noted above to sell and remarket the commercial paper to investors.

### Recommendation

- Approve the proposed resolution.

## MANDATE STATEMENT

City Charter Section 8B.124 states that the Public Utilities Commission may issue revenue bonds, including notes, commercial paper, or other forms of indebtedness in order to reconstruct, replace, expand, repair or improve Public Utilities Commission water facilities or clean water facilities and that such debt issuances are subject to a two-thirds approval by the Board of Supervisors.

## BACKGROUND

The Public Utilities Commission (PUC) approved the 10-Year Capital Plan for Hetch Hetchy Water and Power in May 2014. The Public Utilities Commission updated the 10-Year Capital Plan for Hetch Hetchy Water and Power for FY 2015-16 through FY 2024-25 in February 2015. The Hetch Hetchy Power Enterprise's share of the 10-Year Capital Plan is $760,000,000 of which $530,000,000 is planned to be revenue bond funded. The Power Enterprise Capital Plan for FY 2014-15 and FY 2015-16 was approved by the Board of Supervisors as part of the current FY 2014-15 and 2015-16 two-year budget.

The Board of Supervisors previously authorized the sale of power revenue bonds up to approximately $160.3 million as follows:

- $112.3 million in June 2014 to finance various Power Enterprise capital projects; and
- $48 million in March 2015 to finance the reconstruction or replacement of electric power facilities and acquisition, construction, installation, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

In May 2015, the Power Enterprise sold $39,555,000 in 2015 Series A and 2015 Series B Power Revenue Bonds to fund certain power generation and transmission projects in the Hetch Hetchy Water and Power Capital Plan.

Under the City's Administrative Code Section 43.5, the PUC may issue short-term debt, including commercial paper, in anticipation of the issuance of revenue bonds. Based on estimated cash flow needs of the PUC's capital program and bond authorization, it is proposing a new not to exceed $90,000,000 Power Commercial Paper Program to meet the interim capital expenditure requirements and provide low-cost capital project funding. The proposed commercial paper program is modeled after the existing Water and Wastewater Enterprises' programs. Any commercial paper sold as interim financing will be repaid with proceeds from revenue bonds that the PUC will subsequently issue according to its 10 Year Capital Plan.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish (a) a new Power Enterprise Commercial Paper Program in the principal amount not to exceed $90,000,000, (b) authorize the PUC to sell up to $90,000,000 in commercial paper, (c) authorize PUC to enter into a credit facility agreement with Bank of America, and (d) authorize the PUC to enter into dealer agreements with Barclays, Goldman Sachs and RBC Capital Markets.

**Credit Facility Provider**

PUC selected Bank of America as the proposed credit facility provider through a competitive Request for Proposal (RFP) sent to ten qualified banks. Four proposals were received. The PUC selected Bank of America as the lowest cost, and most responsive and responsible proposal. As short term debt, commercial paper is resold up to every 270 days. Bank of America guarantees sufficient funds to PUC through a Letter of Credit to cover problems with the resale of the commercial paper.

The $90,000,000 principal amount of the Letter of Credit will be equal to the authorized amount of the proposed commercial paper. The Letter of Credit term will be for three years, with two one-year options to extend. PUC may terminate the Bank of America agreement, with the early termination fee waived, if the bank's short-term rating is downgraded below A-1 (S&P) and F1 (Fitch).

There are four documents that make up the credit facility with Bank of America.

(1) The Issuing and Payment Agent Agreement between the PUC and the Issuing and Paying Agent (U.S. Bank) sets out the terms by which the PUC issues and repays commercial paper. The agreement establishes various funds into which proceeds of the commercial paper are deposited or from which the PUC repays the credit facility bank (Bank of America) for draws against the credit facility (the Letter of Credit).

(2) An Irrevocable Letter of Credit would be issued by the Bank of America in favor of the Issuing and Paying Agent (U.S. Bank). If PUC does not make the interest and principal payments on the commercial paper, these payments are made by the Issuing and Paying Agent (U.S. Bank) drawing on the Irrevocable Letter of Credit. The Irrevocable Letter of Credit is direct-pay and is irrevocable, once issued, until it expires or is terminated in certain limited circumstances, as described in the Reimbursement Agreement.

(3) The Reimbursement Agreement between the PUC and Bank of America sets out the terms by which the Letter of Credit is issued as well as the terms under which the PUC repays the Bank of America for draws on the Letter of Credit.

(4) The Fee Agreement between the PUC and Bank of America sets out the fees charged by the Bank of America.

**Dealers**

The proposed dealers, Barclays, Goldman Sachs and RBC Capital Markets, were selected through a competitive RFP sent to the City's Office of Public Finance Underwriter Pool of 24 firms. The annual fee for each is 0.0475% of the $90,000,000, which is lower than the 0.05% dealer fees obtained in the past for the Water and Wastewater CP Programs and is only paid on the amount of outstanding commercial paper remarketed by each dealer. The proposed term for the dealer agreements is three years, with two one-year options to extend.

There is a separate Dealer Agreement between the PUC and each respective dealer (Barclays, Goldman Sachs and RBC Capital Markets), which sets out the terms by which such dealer may purchase or arrange for the sale of the commercial paper.

## FISCAL IMPACT

Under the Hetch Hetchy Power Commercial Paper Program, the PUC will use the commercial paper as short term, low interest financing for Hetch Hetchy Power capital projects prior to issuing long term Hetch Hetchy Power Revenue Bonds. This allows PUC to time the issuance of Hetch Hetchy Power Revenue Bonds to achieve better interest rates and meet the needs of the Hetch Hetchy Power capital program.

Under the Hetch Hetchy Power Commercial Paper Program, PUC can sell up to $90,000,000 in commercial paper. According to the proposed resolution, the interest rate shall not exceed 12 percent per year. However, according to Mr. Carlos Jacobo, PUC Budget Director, the proposed Power Commercial Paper Program will result in an "all-in" borrowing rate of approximately 1 percent per year.

The all-in borrowing rate includes interest on the commercial paper as well as fees paid to the Bank of America and to the three dealers. PUC will incur estimated maximum fees of $1,157,135 over the initial three-year term of the Hetch Hetchy Power Commercial Paper Program, including (1) fees of $1,028,885 paid to the Bank of America for the LOC, and (2) a maximum total of $128,250 to the three dealers noted above to sell and remarket the commercial paper to investors.

## RECOMMENDATION

Approve the proposed resolution.