

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 20-0153

**AUTHORIZATION OF FORBEARANCE IN CONNECTION WITH THE PARTIAL PAYMENT
OR NONPAYMENT OF INTEREST DUE ON THE AIRPORT'S HOTEL SPECIAL FACILITY
REVENUE BONDS**

- 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
- 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 bonds issued by the Commission and secured solely by Hotel revenues (Hotel Special Facility Bonds), thereby combining the desirable features of 1991 Resolution Bonds and Hotel Special Facility Bonds; and
- WHEREAS, on June 6, 2018, the Commission issued \$260,000,000 aggregate principal amount of Hotel Special Facility Bonds, pursuant to a Trust Agreement (the Hotel Trust Agreement) between the Commission and U.S. Bank, National Association, as trustee (the Hotel Bonds Trustee), 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

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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 due to substantially reduced guest reservations and event facility bookings; and

WHEREAS, Staff anticipate that the Commission, as issuer of the Hotel Special Facility Bonds, will 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, it is necessary and desirable for the Commission, as Hotel Special Facility Bonds investor and trust beneficiary, to authorize the Airport Director to cause instructions to be issued to the Hotel Bonds Trustee: (1) to temporarily suspend the payment of, or to accept a partial payment or nonpayment of, interest due on the Hotel Special Facility Bonds on October 1, 2020, (2) to forbear and take no action to declare a nonpayment event or exercise any related remedies until further instructed by the Commission, and (3) to take any other related actions at the direction of the Commission permitted by the Hotel Trust Agreement; now, therefore, be it

RESOLVED, that the Commission finds and declares that the foregoing recitals are true and correct; and, be it further

RESOLVED, that this Commission authorizes the Airport Director or a designee of the Airport Director to take all actions necessary or desirable, in consultation with the City Attorney, in connection with the furtherance of the purposes and intent of this Resolution, including without limitation execution and issuance of notices, instructions, orders, consents, certificates, waivers or other similar instruments, to cause BNY Mellon Trust to instruct the Hotel Bonds Trustee: (1) to temporarily suspend the payment of, or accept a partial payment or nonpayment of, the interest due on the Hotel Special Facility Bonds due on October 1, 2020, including instructions to cause or prevent related transfers of funds held by the Hotel Bond Trustee pursuant to the Hotel Trust Agreement, (2) to forbear and take no action to declare a nonpayment event or exercise any related remedies, until further instructed by the Commission, and (3) to take any other related actions at the direction of the Commission permitted by the Hotel Trust Agreement; and, be it further

RESOLVED, that the actions of the officers, agents and employees of the Commission, prior to the adoption of this Resolution, to accomplish the purposes and intent of this Resolution, are ratified and confirmed.

Page 2 of 2

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

SEP 15 2020


Secretary



MEMORANDUM

September 15, 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

20-0153
SEP 15 2020

FROM: Airport Director

SUBJECT: Authorization of Forbearance in Connection with the Partial Payment or Nonpayment of Interest Due on the Hotel Special Facility Revenue Bonds

DIRECTOR’S RECOMMENDATION: AUTHORIZE FORBEARANCE IN CONNECTION WITH THE PARTIAL PAYMENT OR NONPAYMENT OF INTEREST DUE ON OCTOBER 1, 2020 ON THE AIRPORT’S HOTEL SPECIAL FACILITY REVENUE BONDS.

Executive Summary

Staff recommend authorization to accept an anticipated partial payment or nonpayment of interest due on October 1, 2020 on the Commission’s Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018 (the Hotel Bonds). The Commission is both the issuer of the Hotel Bonds and the ultimate investor in the Hotel Bonds, as well as the owner of the On-Airport Hotel. The COVID-19 pandemic has negatively impacted the Hotel’s financial performance. The attached Resolution provides the necessary authorization for the Airport Director to, in effect, instruct U.S. Bank, National Association, as trustee for the Hotel Bonds (the Hotel Bonds Trustee), to temporarily suspend the payment, or accept a partial payment or nonpayment, of interest due on the Hotel Bonds and to forbear and take no action to declare a non-payment event or exercise any related remedies. This will reduce near-term financial pressures on the Hotel caused by the pandemic that has significantly reduced guest occupancy and Hotel revenues. This action will also allow Staff to consider options to provide additional financial relief to the Hotel.

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

Background

The Hotel is managed by Hyatt Corporation (Hyatt) pursuant to a competitively-procured Hotel Management Agreement (HMA) between Hyatt and the Commission.

The construction of the Hotel was financed in 2018 with Airport Revenue Bonds, Series 2018B/C (the Airport Revenue Bonds) issued under the 1991 Master Bond Resolution, which 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 Airport Revenue Bonds.

THIS PRINT COVERS CALENDAR ITEM NO. 1

Simultaneously, the Commission also issued the Hotel Bonds (which are payable only from Hotel net revenues) and used the proceeds of the Airport Revenue Bonds to purchase the Hotel Bonds. Therefore, the Commission is both the issuer and the sole investor for the Hotel Bonds. Hotel revenues fund operating costs of the Hotel, as well as interest and principal payments on the Hotel Bonds. The diagram attached as Attachment A illustrates these transactions. This financing mechanism was reviewed and approved by the City Controller and Board of Supervisors.

Hotel Bonds Funding Shortfall

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 an \$11.1 million total loss for FY 2020/21 based upon Hotel revenues of \$22.8 million. Also, Hotel cash reserves are being drawn down to fund Hotel operations as needed.

Due to the Hotel's current financial condition, there will not be enough Hotel revenues or reserves to make the full semi-annual interest payment for the Hotel Bonds of \$3.9 million due on October 1, 2020. Staff anticipate that the payment may be partially funded using the Hotel's limited cash reserves available for debt repayment, or not funded at all.

Proposed Commission Action and Rationale

Staff recommend that the Commission (as Hotel Bond investor) give instructions causing the Hotel Bond Trustee to temporarily suspend, or accept a partial payment or nonpayment of, interest due on the Hotel Bonds on October 1, 2020 and to forbear and take no action to declare a nonpayment event or exercise any related remedies. Staff also plan to investigate long-term options for providing financial relief to the Hotel before the next Hotel Bonds payment on April 1, 2021.

These options may include:

- Addressing the nonpayment event, including a possible refinancing, restructuring, or partial forgiveness of the Hotel Bonds; and
- Restructuring the management fee payable to Hyatt under the HMA to provide near-term cost savings.

The rationale for this recommendation 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 impact of the COVID-19 pandemic. Staff view the Hotel as 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 fiscal impact of this recommendation is a small decline in revenues to the Airport as the investor for the Hotels Bonds. The October 1, 2020 debt payment (\$3.9 million) for the Hotel Bonds represents 0.3% of projected total Airport revenues for FY 2020/21. The recommended action will not adversely affect the Commission's ability to make timely debt service payments for the related Airport Revenue Bonds.

Recommendation

I recommend the Commission adopt the attached Resolution authorizing forbearance in connection with the partial payment or nonpayment of interest due on October 1, 2020 on the Hotel Bonds. Staff will return to the Commission with recommendations for next steps to provide financial relief to the Hotel, including addressing future payments due on the Hotel Bonds.



Ivar C. Satero
Airport Director

Prepared by: Kevin Kone
Acting Chief Financial Officer

Attachments

Attachment A

**Structure of Airport Hotel
San Francisco International Airport**

