

San Francisco International Airport

MEMORANDUM

April 3, 2018

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

18-0089

APR 03 2018

FROM: Airport Director

SUBJECT: Authorization of the Sale of an Additional \$278,000,000 Aggregate Principal Amount of Previously Approved San Francisco International Airport Second Series Revenue Bonds for the Hotel Project and Related Purposes; and of \$260,000,000 Aggregate Principal Amount of Previously Approved San Francisco International Airport Special Facility Bonds for the Hotel Project

DIRECTOR'S RECOMMENDATION: ADOPT RESOLUTION AUTHORIZING THE SALE OF AN ADDITIONAL \$278,000,000 AGGREGATE PRINCIPAL AMOUNT OF PREVIOUSLY APPROVED SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE BONDS FOR THE HOTEL PROJECT AND RELATED PURPOSES; AND OF \$260,000,000 AGGREGATE PRINCIPAL AMOUNT OF PREVIOUSLY APPROVED SAN FRANCISCO INTERNATIONAL AIRPORT SPECIAL FACILITY BONDS FOR THE HOTEL PROJECT AND RELATED MATTERS.

Executive Summary

The attached Resolution authorizes the Airport Commission (the "Commission") to sell bonds to finance the Commission-owned Airport hotel (the "Hotel") and the Hotel AirTrain station. In Spring 2018, the Commission plans to issue San Francisco International Airport Special Facility Bonds (the "Hotel Special Facility Bonds") to finance construction of the Hotel. At the same time as the issuance of the Hotel Special Facility Bonds, the Commission plans to sell San Francisco International Airport Second Series Revenue Bonds (the "Capital Plan Bonds"), which will be designated as Series 2018B and Series 2018C. Proceeds of the Capital Plan Bonds will be used to purchase the Hotel Special Facility Bonds and to fund the Hotel AirTrain station. The Hotel-related Capital Plan Bonds and the Hotel Special Facility Bonds together are referred to as the "Hotel Bonds".

The Airport's Financial Advisory Committee has reviewed and concurs with these proposed bond sales.

Background

The Commission is authorized to issue Capital Plan Bonds and Special Facility Bonds under the City Charter and applicable state laws. To issue such bonds, the Commission follows a multi-step approval

THIS PRINT COVERS CALENDAR ITEM NO. 1

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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MAYORLARRY MAZZOLA
PRESIDENTLINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

IVAR C. SATERO
AIRPORT DIRECTOR

process. First, the Commission adopts a resolution authorizing the issuance of the bonds. The Charter then requires the Board of Supervisors (the "Board") to approve the issuance of the bonds. Finally, when the Commission is ready to sell and issue the bonds, it adopts one or more sale resolutions authorizing a bond sale within certain parameters. Staff may then proceed with the bond sale.

The Commission, pursuant to the 1991 Master Bond Resolution, and the Board have authorized the issuance of up to \$7,826,725,000 principal amount of Capital Plan Bonds, of which \$4,935,230,000 remains authorized but unissued. Of this Capital Plan Bonds issuance authority, \$278,000,000 was specifically authorized to finance costs associated with the Hotel and the Hotel AirTrain station; all \$278,000,000 remains unissued.

The Commission, pursuant to the Eighteenth and Twentieth Supplemental Resolutions, and the Board, by its Resolution Nos. 433-15 and 269-17, have authorized the issuance of up to \$260,000,000 principal amount of Special Facility Bonds to finance the Hotel; all \$260,000,000 remains unissued.

The Hotel has been designated as a "special facility," which will allow the Hotel's day-to-day revenues and expenses to be kept separate from the Airport's regular funds, while still providing the Commission with control of the Hotel. In the proposed financing, the Commission would issue up to \$278,000,000 in Series 2018B and Series 2018C Bonds, which would be sold to bond investors. Those funds will be used to purchase up to \$260,000,000 in Hotel Special Facility Bonds, which the Commission would not sell to investors. By issuing both types of bonds and purchasing the Hotel Special Facility Bonds with the proceeds of the Series 2018B and Series 2018C Bonds, the Commission would be able to combine the desirable features of both the lowest cost of financing from the Capital Plan Bonds and the separate revenue treatment from the "special facility" status of the Hotel. Separating Hotel revenues from general airport revenues is critical to implementing the standard hotel industry practice of using a lockbox depository to collect daily receipts and pay expenses.

Sale Resolution

Capital Plan Bonds

The attached Resolution authorizes the sale of an additional \$278,000,000 aggregate principal amount of Capital Plan Bonds. If approved, the sale authority will allow the Commission to issue Capital Plan Bonds in Spring 2018, designated as Series 2018B and Series 2018C, to finance the purchase of Hotel Special Facility Bonds, construction of an AirTrain station to connect the Hotel with the Airport's AirTrain system, and costs of issuance.

Special Facility Bonds

The attached Resolution also authorizes the sale of \$260,000,000 aggregate principal amount of Hotel Special Facility Bonds. If approved, the sale authority will allow the Commission to issue Hotel Special Facility Bonds to finance construction costs of the Hotel, including capitalized interest, and to refinance outstanding commercial paper notes. The Commission plans to purchase all of the Hotel Special Facility Bonds with proceeds of the Series 2018B and Series 2018C Capital Plan Bonds.

Environmental Review

Pursuant to the Nineteenth Supplemental Resolution and Board Resolution No. 156-17, proceeds of the Capital Plan Bonds to be approved for sale by the attached Resolution may only be used to fund:

- (1) Construction costs of projects that either do not require environmental review or have already undergone all necessary environmental review and received Commission approval to proceed; and
- (2) Planning and development costs necessary to prepare other projects for environmental review and the necessary approvals.

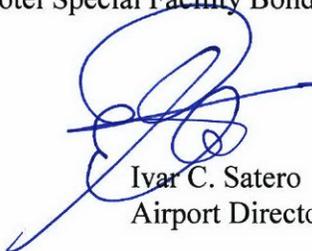
The Hotel and the Hotel AirTrain station have already undergone all necessary environmental review and received Commission approval to proceed on May 19, 2014, by Commission Resolution No. 14-0095.

Parameters for Capital Plan Bonds and Special Facility Bonds

In addition, the attached Resolution confirms that Capital Plan Bonds must be sold with a final maturity not later than 40 years from the date of issuance at interest rates not to exceed 12% for tax-exempt, fixed-rate bonds, 16% for taxable, fixed-rate bonds and 18% for variable rate bonds (other than bonds held by credit or liquidity providers). Hotel Special Facility Bonds must be sold with a final maturity not later than 40 years from their date of issuance and at interest rates not to exceed 4% or below 1%. The attached Resolution authorizes the Hotel Special Facility Bonds to be held in a trust for the benefit of the Commission after their issuance. Finally, the attached Resolution authorizes and directs staff and other appropriate officers of the Commission to execute and deliver the bond documents.

Recommendation

I recommend that this Commission adopts the attached Resolution authorizing the sale of an additional \$278,000,000 aggregate principal amount of previously approved Capital Plan Bonds; and up to \$260,000,000 aggregate principal amount of previously approved Special Facility Bonds for the Hotel. Following the adoption of this Resolution, no additional approvals will be required by either the Commission or the Board of Supervisors to consummate the issuance and sale of the Series 2018B and Series 2018C Capital Plan Bonds and Hotel Special Facility Bonds.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business & Finance Officer

Attachment

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 18-0080

AUTHORIZATION OF THE SALE OF AN ADDITIONAL \$278,000,000 AGGREGATE PRINCIPAL AMOUNT OF PREVIOUSLY APPROVED SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE BONDS FOR THE HOTEL PROJECT AND RELATED PURPOSES; AND OF \$260,000,000 AGGREGATE PRINCIPAL AMOUNT OF PREVIOUSLY APPROVED SAN FRANCISCO INTERNATIONAL AIRPORT SPECIAL FACILITY BONDS FOR THE HOTEL PROJECT AND RELATED MATTERS

WHEREAS, the Airport Commission of the City and County of San Francisco (the "Commission"), on December 3, 1991, duly adopted Resolution No. 91-0210, providing for the issuance of San Francisco International Airport Second Series Revenue Bonds, which Resolution, as previously supplemented and amended, is herein called the "1991 Resolution"; 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 (the "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 is undertaking the development of an on-Airport hotel to be owned by the Commission (the "Hotel") along with a new AirTrain station to connect the Hotel with the AirTrain system (the "AirTrain Station"), collectively the "Hotel Project"; and

WHEREAS, the Commission, pursuant to the 1991 Resolution, has authorized the issuance of up to \$7,826,725,000 aggregate principal amount of 1991 Resolution Bonds to finance and refinance the construction, acquisition, equipping and development of capital projects undertaken by the Airport, including \$278,000,000 for the Hotel Project (the "Capital Plan Bonds"); and

WHEREAS, the Board of Supervisors of the City and County of San Francisco (the "Board") by its Resolutions No. 229-08, No. 50-11, No. 349-12, No. 125-14, No. 433-15, No. 156-17 and No. 269-17 approved the issuance of \$7,826,725,000 aggregate principal amount of the Capital Plan Bonds, including \$278,000,000 for the Hotel Project; and

WHEREAS, pursuant to the Resolutions No. 15-0182 and No. 17-0045, adopted September 22, 2015 and March 7, 2017, respectively, the Commission also authorized the issuance of not to exceed \$260,000,000 aggregate principal amount of special facility bonds, in one or more Series (the "Hotel Special Facility Bonds") pursuant to a Trust Agreement (the "Hotel Trust Agreement") to finance and refinance costs associated with the Hotel; and

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RESOLUTION NO. 18-0089

WHEREAS, the Board, by its Resolutions No. 433-15 and 269-17, adopted on December 1, 2015 and June 27, 2017, respectively, approved the issuance of not to exceed \$260,000,000 aggregate principal amount of Hotel Special Facility Bonds; and

WHEREAS, to maintain the special facility status of the Hotel and to finance it at the lowest available interest rates, the Commission determined to combine the desirable features of the 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 Capital Plan Bonds to investors and purchasing the Hotel Special Facility Bonds with a portion of the proceeds of the Capital Plan Bonds; and

WHEREAS, the Commission approved the sale of \$2,958,765,000 aggregate principal amount of the Capital Plan Bonds pursuant to Resolutions No. 09-0137, No. 13-0013, No. 14-0147, No. 16-0226 and No. 17-0237 adopted on June 2, 2009, January 30, 2013, July 22, 2014, August 23, 2016 and October 3, 2017, respectively (the "Prior Sale Resolutions"), of which \$2,891,495,000 has been issued to date and \$67,270,000 remains unissued; and

WHEREAS, the Commission now desires to amend the Prior Sale Resolutions to approve the sale of an additional \$278,000,000 aggregate principal amount of Capital Plan Bonds for the Hotel Project; and

WHEREAS, the Commission now desires to approve the sale and purchase of \$260,000,000 aggregate principal amount of the Hotel Special Facility Bonds (collectively, these Capital Plan Bonds and the Hotel Special Facility Bonds are referred to as the "2018 Hotel Bonds"); and

WHEREAS, pursuant to prior resolutions of the Commission, including Resolution No. 09-0137 and Resolution No. 10-0307, the latter as duly adopted by the Commission on October 5, 2010, the Commission has previously authorized, with respect to Capital Plan Bonds, the execution and delivery of Credit Facilities and Liquidity Facilities, including the approval of a form of a Standby Bond Purchase Agreement and a Letter of Credit and Reimbursement Agreement, the preparation of Disclosure Documents, the execution and delivery, and form of a Bond Purchase Agreement, Remarketing Agreement and Forward Purchase Agreement; 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

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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; now, therefore, be it

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 the 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 has 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, that this Commission authorizes the following:

Section 1. Commission Findings. The Commission hereby finds and determines as follows:

- (a) The above recitals are true and correct.
- (b) Sufficient unencumbered balances are expected to be available in the proper funds and accounts of the Airport to meet all payments due under the 2018 Hotel Bonds as these become due.
- (c) All capitalized terms used, but not defined herein, shall have the meanings assigned to them in the 1991 Resolution.

Section 2. Amendment of Prior Sale Resolutions. The Prior Sale Resolutions are hereby amended and supplemented as follows:

- (a) The aggregate principal amount of Capital Plan Bonds approved by the Prior Sale Resolutions (\$2,958,765,000) is hereby amended and increased by \$278,000,000 for purposes of financing the Hotel Project, which, if the Commission also adopts on the date hereof the proposed resolution approving the issuance of an additional \$950,000,000 aggregate principal amount of Capital Plan Bonds to finance or refinance the construction, acquisition, equipping and development of other capital projects undertaken by the Airport, will increase the total amount of Capital Plan Bonds authorized by the 1991 Resolution to \$4,186,765,000; and

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- (b) The terms of the Capital Plan Bonds in the Prior Sale Resolutions, including maximum maturity and maximum interest rates, as previously amended, are hereby confirmed.

Section 3. Terms of the Hotel Special Facility Bonds. The Airport Director is hereby authorized and directed, for and on behalf of and in the name of the Commission, to determine the number of series, principal amounts of each series, interest payment dates, dated dates, maturity dates (including serial maturities and/or term maturities), and the terms of any optional or mandatory redemption of the Hotel Special Facility Bonds, the amounts and dates of any mandatory sinking fund payments and the interest rates to be borne by the Hotel Special Facility Bonds; *provided, however*, that the aggregate principal amount of the Hotel Special Facility Bonds shall not exceed \$260,000,000; no Hotel Special Facility Bond shall bear interest at a rate in excess of four percent (4%) per annum or below one percent (1%) per annum, and the final maturity of the Hotel Special Facility Bonds shall be no later than 40 years from their date of issuance. The determinations of the Airport Director provided for in this Section 3 shall be set forth in the Hotel Trust Agreement as finally executed and delivered. The 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.

Section 4. Sale and Purchase of Hotel Special Facility Bonds. The Airport Director is hereby authorized and directed, for and on behalf of and in the name of the Commission, to sell the Hotel Special Facility Bonds to the Commission or to a separate trust entity created under California or Delaware law to purchase such Hotel Special Facility Bonds, and to purchase, or cause the purchase by the separate trust entity of, the Hotel Special Facility Bonds from the proceeds of the Capital Plan Bonds. The Airport Director is hereby authorized to make and enter into such arrangements as may be necessary or desirable to effect creation of the separate entity and the purchase of such Hotel Special Facility Bonds by such entity. The proposed form of Trust Account Agreement approved by Resolution No. 08-0185, adopted by the Commission on October 7, 2008, is hereby approved and the Airport Director or his designee is hereby authorized to execute and deliver one or more such Trust Account Agreements with the Trustee for the Capital Plan Bonds or with a bank or other financial institution selected in such manner as determined by the Airport Director, in substantially said form, with such changes to such agreement as the person signing the same may, with the advice of the City Attorney, determine to be necessary or desirable and such determination to be conclusively evidenced by the execution and delivery thereof.

Section 5. Authentication and Delivery of the Hotel Special Facility Bonds. The Hotel Special Facility Bonds, when prepared, shall be delivered to U.S. Bank National Association or its successor, as trustee (the "Hotel Special Facility Bonds Trustee"), for authentication by the Trustee, as Authenticating Agent. The Hotel Special Facility Bonds Trustee is hereby authorized and directed to authenticate the Hotel Special Facility Bonds by executing the certificate of authentication appearing thereon, and to deliver the Hotel Special Facility Bonds, when duly authenticated and upon the direction of the Commission, to the purchaser of the Hotel Special Facility Bonds, in accordance with written instructions executed on behalf of the Commission by the Airport Director or his designee, which instructions the Airport Director or his designee are hereby authorized and directed to execute and deliver to the Trustee.

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RESOLUTION NO. 18-0029

Section 6. Refunding of Interest. The Airport Director, for and on behalf of and in the name of the Commission, upon consultation with the City Attorney, the Airport's financial advisors and co-bond counsel, is hereby authorized, taking into account the current financial needs of the Airport, to provide for the refunding of interest paid on outstanding subordinate commercial paper notes from a portion of the proceeds of the Hotel Special Facility Bonds, in an amount to be determined by the Airport Director.

Section 7. Ratification of Prior Acts relating to the Hotel Special Facility Bonds. The actions of the officers, agents and employees of the Commission, prior to the adoption of this Resolution to consummate the issuance and sale of the Hotel Special Facility Bonds, are hereby ratified, approved and confirmed. The Airport Director and the other officers, agents and employees of the Commission are hereby authorized and directed to execute such documents, agreements, and certificates and 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 hereby.

Section 8. Effectiveness. This Resolution shall become effective on and as of the date of adoption hereof except as otherwise set forth herein.

Section 9. Ratification of the 1991 Resolution and Prior Sale Resolutions. The 1991 Resolution and the Prior Sale Resolutions are hereby ratified and confirmed and shall continue in full force and effect in accordance with the respective terms and provisions thereof, as amended and supplemented, including as amended and supplemented by this Resolution.

Section 10. Further Amendments to the 1991 Resolution. The approvals contained in this resolution shall extend to any amendments to the 1991 Resolution and to all resolutions of the Commission supplemental thereto, as well as to such additional resolutions that this Commission may adopt for the purposes of implementing the issuance, sale and delivery of any 1991 Resolution Bonds, provided, that in each case such amendment or additional resolution is consistent with the parameters set forth herein and in the 1991 Resolution.

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 18-0089

ADOPTED by the Airport Commission of the City and County of San Francisco this 3rd day of April 2018, by the following vote:

Ayes: 4

Noes: 0

Absent: 1

[SEAL]

Approved as to Form:

DENNIS J. HERRERA
City Attorney

By: Brooke D. Abola
Brooke D. Abola
Deputy City Attorney

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

Juan Camacho
Secretary

I hereby certify that the foregoing resolution was adopted by the Airport Commission at its meeting of _____ ^{Page 6 of 6} APR 03 2018

Juan Camacho
Secretary