



San Francisco International Airport

MEMORANDUM

September 28, 2015

TO: Members, Capital Planning Committee

FROM: Ivar Satero, Airport Chief Operating Officer

SUBJECT: Capital Planning Committee Meeting, September 28, 2015 – Airport bond authorization and related supplemental appropriation.

Executive Summary

The Airport is requesting Capital Planning Committee (CPC) consideration and approval of the Bond Resolution authorizing the issuance of up to \$243 million principal amount of Airport Capital Plan Bonds and \$225 million principal amount of Hotel Special Facility Bonds, and approval of the related Supplemental Appropriation. Bond proceeds will be used to finance the construction and development of the proposed on-site Airport Hotel. The Airport Hotel project is included in the Airport's approved Capital Improvement Plan that was presented to the CPC on March 2, 2015.

The special facility financing structure will allow the Hotel's cash flow to be kept separate from the Airport's regular funds, while still providing the Airport control of the Hotel. This will enable the Airport to implement the necessary hotel industry practice for these types of transactions of using a lockbox depository to collect daily receipts and pay the Hotel expenses. It is anticipated that the Hotel Special Facility Bonds would not be sold to the public, but would be purchased by the Airport with the proceeds of the Airport Capital Plan Bonds. The Airport Commission, as well as the Airport's Finance Advisory Committee and the Hotel Advisory Panel have reviewed and approved this course of action.

Background

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

The separate treatment of Hotel revenues would be achieved by the Commission designating the Hotel as a "special facility" under Section 2.16 of the 1991 Master Bond Resolution No. 91-0210, as

supplemented and amended (the “1991 Resolution”), which will allow revenues from the Hotel to be segregated from the Airport’s general revenues and used to pay debt service and other expenses associated with that facility. The Airport has previously utilized these provisions in connection with the Commission’s outstanding SFO FUEL Special Facility Revenue Bonds.

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

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

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

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

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

The proposed Bond Resolution for consideration by the Board would:

- Approve the issuance of up to \$243 million of Airport Capital Plan Bonds to finance and refinance the AirTrain station, costs of issuance, and purchase of the Hotel Special Facility Bonds. The Airport Capital Plan Bonds will be subject to the maximum maturity of 40 years, and interest rate limitations set forth in Resolution No. 50-11 of the Board of Supervisors, will be sold prior to June 30, 2020, and may be issued as Variable Rate Bonds.
- Approve the issuance of up to \$225 million of Hotel Special Facility Bonds, to finance and refinance the Hotel and related costs, and fund a capitalized interest account. The Hotel Special Facility Bonds will have a maturity of 40 years and bear interest at fixed rate to be determined at the time of their issuance.

The Airport is also seeking a related supplemental appropriation that would appropriate the \$243 million in bond proceeds, in addition to a \$5 million working capital contribution by Hyatt Corporation, the hotel operator, that will help fund the project (per the Hotel Management Agreement with Hyatt), and \$450,000 in Airport operating funds that will support CSA auditing services. The total supplemental appropriation amount is \$248,450,000.

Request to the Board of Supervisors

The Airport Commission will request that the Board of Supervisors approve the Airport Capital Plan Bonds and the Hotel Special Facility Bonds, in addition to any necessary appropriations. The Airport will also request that the Board of Supervisors approve the Trust Agreement between the Commission and bond trustee.

If you have any questions or need additional information on this proposal, please let me know.

Ivar Satero
Airport Chief Operating Officer