



MEMORANDUM

TO: Mayor and Council
FROM: Jim Smith, Executive Director 
DATE: August 17, 2016
SUBJECT: Airport Hotel and Items #12 and #13 on the August 18, 2016 Agenda

The purpose of this memo is to (1) provide you with background information on Austin-Bergstrom Landhost Enterprises, Inc. (ABLE) and the airport hotel; (2) update you on the current condition of the airport hotel; and (3) advise you of a proposal to refinance ABLE's debt and finance necessary repairs to the airport hotel.

BACKGROUND

In 1998, the City of Austin (City) created ABLE, a public facility corporation, to issue revenue bonds to finance the construction and equipping of the hotel at the airport (Airport Hotel Bonds). The City owns the land and structure. ABLE leases the real estate from the City for \$600,000 annually and operates the hotel. Accordingly, the City is the landlord and ABLE is its tenant.

In 1999, ABLE issued: (1) senior "A" bonds in the amount of \$38,785,000 at 6.75% interest rate secured by a senior lien pledge of hotel revenue, and (2) subordinated "B" bonds in the amount of \$3,730,000 at 10.5% interest rate secured by a subordinate lien pledge of hotel revenue. The Airport Hotel Bonds are limited obligations and payable by ABLE solely from hotel revenue.

Since 2004, ABLE has not generated sufficient cash flow to pay debt service on the Airport Hotel Bonds when due and owed due to the large debt issuance, high interest rates, and other economic factors. The failure to pay debt service when due and owed on the Airport Hotel Bonds is an event of default under the indenture pursuant to which the Airport Hotel Bonds were issued.

In 2013, Austin-Bergstrom Acquisition LLC (Bondholders) acquired and currently holds a majority interest in the senior "A" Airport Hotel Bonds and holds 100% interest in the subordinated "B" Airport Hotel Bonds. Due to ABLE's default under the Airport Hotel Bonds, the Bondholders legally control ABLE's hotel revenue.

CURRENT CONDITION OF THE AIRPORT HOTEL

In 2014, significant damage to the roof of the airport hotel was caused by a hail storm and one of six energy recovery units located on the hotel roof broke down in addition to a water heater. The energy recovery units extract hot air and humidity from the building and are a necessary feature of the hotel's heating and cooling system in maintaining air balance and moisture levels of the

building.

In 2015, mold was identified in the hotel atrium. Mold remediation is estimated to cost approximately \$4 million which includes replacing the hotel's heating, ventilating, and air conditioning (HVAC) system, skylight and stucco repairs, and other related mechanical repairs. Due to ABLE's default under the Airport Hotel Bonds, the Bondholders control hotel revenue and have chosen to pay themselves rather than make the repairs and capital improvements needed by the hotel.

As of June 30, 2016, ABLE's total outstanding debt is over \$61.4 million in principal and interest. For the last 3 years, the City of Austin Department of Aviation (Airport) has assisted ABLE in its negotiations with the Bondholders to: (1) refinance the terms of the Airport Hotel Bonds and (2) finance the necessary repairs and capital improvements the hotel requires to continue operating in a first class manner with high Hilton standards.

PROPOSAL

The Airport, ABLE, and Bondholders propose the following terms of the letter of intent for Council approval:

1. ABLE issues new bonds in the estimated amount of \$46.2M at 3.5%
2. New bonds buy out bondholders with \$30M
3. ABLE and bondholders split cost to replace HVAC and remediate mold in hotel
4. Airport advances up to \$3M to start repairs immediately
5. Airport is reimbursed from new bonds
6. New bonds will provide \$9M for hotel remodel and other capital improvements

ABLE's new bond sale will come to Council for approval on or about December 2016. ABLE's bond sale will allow ABLE to be taken out of default, take control of its hotel revenue, and resume responsibility for its capital improvements. By making the necessary repairs and capital improvements to the airport hotel, the City's asset is protected from deterioration and its value is retained. In 2033, after ABLE's lease with the City expires, the Airport will receive approximately \$6 million in net hotel revenue.

You may contact me at (512) 530-7518 or jim.smith@austintexas.gov if you would like to further discuss.

cc: Marc A. Ott, City Manager
Sue Edwards, Assistant City Manager
Anne Morgan, City Attorney