

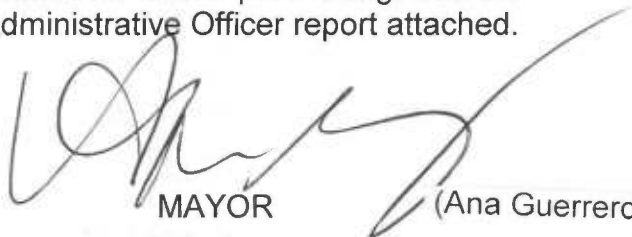
0220-02221-9606

**TRANSMITTAL**

TO The City Council	DATE <b>DEC 05 2014</b>	COUNCIL FILE NO. 12-1590
FROM The Mayor		COUNCIL DISTRICT 11

**Authorization for the Issuance of Revenue Bonds for the Los Angeles World Airport**

Transmitted for further processing. See the  
City Administrative Officer report attached.

  
MAYOR (Ana Guerrero)

MAS:SMB:09150095

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: December 1, 2014

CAO File No. 0220-02221-9606

Council File No. 12-1590

Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from Los Angeles World Airports dated October 29, 2014

Subject: **AUTHORIZATION FOR THE ISSUANCE OF REVENUE BONDS FOR THE LOS ANGELES WORLD AIRPORT**

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### SUMMARY

The Executive Director of the Airports Department (LAWA) requests authority to: 1) issue up to \$1.63 billion in new money bonds for various airfield and terminal capital projects at the Los Angeles International Airport (LAX); 2) issue bonds using a private/negotiated sale and/or competitive bidding; 3) select Morgan Stanley & Co. LLC (Morgan Stanley), Siebert Branford Shank & Co. LLC (Siebert), J.P. Morgan Securities LLC (JP Morgan), Citigroup Global Markets Inc. (Citi), Stifel, Nicolaus & Co., Inc. (Stifel), Samuel A. Ramirez & Co., Inc. (Ramirez), Cabrera Capital Markets, LLC (Cabrera), Loop Capital Markets, LLC (Loop), Merrill Lynch, Pierce, Fenner & Smith Inc. (dba Bank of America Merrill Lynch; BAML), and Wells Fargo National Bank, National Association (Wells Fargo) as the underwriting firms for the sale of the bonds and LAWA's entire investment banking pool as the selling group for the transaction(s); 4) establish a program of short-term revenue bonds; 5) issue a solicitation for the private placement of bonds, notes or other obligations in the form of a direct loan, revolving line of credit other short term financing instrument; and 6) prepare all documents and address other matters related to these aforementioned transactions.

### Method of Sale

LAWA requests authority to have the flexibility to determine whether to use a negotiated method of sale or competitive bid on a case by case basis. LAWA expects that under certain market conditions, the use of a negotiated method of sale would produce lower interest costs through:

- Targeted marketing to a limited buyer base. LAWA revenue bonds are paid from airport revenues which some potential investors perceive to be more risky than bonds supported by a city's taxing authority because of greater exposure to event risk such as economic downturns, terrorist attacks, and airline issues. The negotiated method of sale allows for the underwriters to identify potential buyers in advance of the sale to build sufficient demand to achieve lower interest costs.

- Improved investor outreach. Because of the complexities of LAX's capital program and various revenue streams, additional contact with investors provides the opportunity for LAWA to educate potential investors about LAWA's credit worthiness, thereby increasing demand and reducing interest costs. This has become increasingly essential as investors have assumed greater responsibility for conducting their own credit evaluations, rather than solely relying on the credit rating agencies. Further, it provides LAWA with outreach opportunities to expand the investor base and generate greater demand which will help further reduce borrowing costs over time.
- Flexibility to change the deal structure to meet investor demand. Market conditions can shift with some volatility due to supply and demand for municipal bonds, industry news, and regional and geopolitical events. The negotiated method of sale allows LAWA, in consultation with its financial team, to make prudent structural changes to the transaction to improve investor demand.

In a competitive sale, LAWA staff and its financial advisors evaluate the current market conditions and select a date to sell the bonds. At the time of sale, underwriters submit sealed bids and the sale of bonds is awarded to the lowest bidder. In a negotiated sale, LAWA staff selects the underwriters prior to the sale of the bonds and work with the underwriters to determine when to sell bonds, how best to structure the transaction, and pre-market to investors who can offer the lowest cost of borrowing. The flexibility offered by a negotiated method of sale has the potential to reduce borrowing costs by allowing for all of these issues to be addressed prior to the sale.

In addition to a negotiated sale as described above, LAWA requests authorization to establish a short-term revenue bond program. This program will issue, as needed, bonds in the form of direct loans, revolving lines of credit and/or other short-term financing instruments. The maximum amount of any instrument will be up to \$500 million outstanding at any one time and maximum duration of bonds issued under this program will be no longer than five years.

### **Proposed Transactions and Procedural Issues**

Charter Section 609(d)(3) requires the City Council to have the opportunity to disapprove the selection of underwriters for the negotiated sale of bonds. LAWA utilized a competitive process and established a list of pre-qualified investment bankers approved by the Board of Airport Commissioners (BOAC) (Resolution No. 24835). LAWA is recommending the selection of the top two ranked firms to serve as Senior Manager on the next two transactions and the remaining firms in the pool to serve as Co-Managers. The proposed transactions are as follows:

- Transaction 1:
  - Senior Manager – Morgan Stanley
  - Co-Managers – Cabrera, Loop, BAML, Wells Fargo
  - One or more series of bonds of approximately \$450-550 million, depending on a refunding analysis at the time of issuance

- Tax-exempt/Alternative Minimum Tax (AMT) private activity, tax-exempt governmental use
- Finance capital and acquisition of improvements in terminals, refund outstanding bonds with identifiable savings, and refund private activity Commercial Paper.
- Transaction 2:
  - Senior Manager – Siebert
  - Co-Managers – JP Morgan, Citi, Stifel, Ramirez
  - One or more series of bonds of approximately \$450-550 million, depending on a refunding analysis at the time of issuance
  - Tax-exempt/AMT private activity, tax-exempt governmental use
  - Finance capital and acquisition of improvements in terminals, refund outstanding bonds with identifiable savings, and refund taxable and tax-exempt/AMT private activity Commercial Paper.
- Transaction 3:
  - Solicitation of a direct loan, revolving line of credit or other short-term financing instrument through a competitive process in an amount not to exceed \$500 million
  - Tax-exempt/AMT private activity, taxable
  - Provide short-term construction financing for the Midfield Satellite Concourse and related projects

Firms on LAWA's qualified list not specifically selected for the above-referenced transactions may be used in a selling group during the retail investor order period for the various transactions.

Charter Section 609(d)(1) requires that the Board of the department requesting the sale of revenue bonds through a negotiated method of sale must have the written recommendation of the Chief Financial Officer of the department, stating the reasons why a negotiated method of sale would benefit the department. The required written recommendation was included in LAWA's report submitted to and approved by the BOAC.

Charter Section 609(d)(2) requires that the Council receive a report of the City Administrative Officer before approving a negotiated method of sale.

Charter Section 609(e)(1) requires each underwriter to certify under oath that no gifts totaling \$50 or more in value or political contribution totaling \$100 or more were provided, within the prior 12 months, to any City official having the authority to make or participate in making decisions concerning this sale. LAWA reports that each underwriter has filed its certification when the pool of underwriters was established and they will file updated certification at the time the documentation for the sale is submitted for approved.

In compliance with the City's Responsible Banking Ordinance (CF 09-0234), the recommended underwriters have provided their local corporate citizenship information. Based on their responses, the recommended underwriters have demonstrated their corporate citizenship through their charitable donations and employee volunteer hours. Collectively, the underwriters have

donated to local non-profit organizations such as Community Partners, the Hispanic Scholarship Fund, Center for the Pacific-Asian Family Inc., Community Engagement Foundation Inc., United Negro College Fund, Goodwill Industries, Jewish Federation Council of Greater Los Angeles, LA's Best and many more. Furthermore, a number of firms have established supplier diversity programs.

### **Miscellaneous Issues**

LAWA has determined that the proposed sale of bonds is exempt from the California Environmental Quality Act (CEQA), as provided by Article II, Section 2 (f) of the Los Angeles CEQA Guidelines.

### **RECOMMENDATION**

That the Mayor:

1. Authorize the Department of Airports request to issue Los Angeles International Airport (LAX) Revenue Bonds in an aggregate principal amount not-to-exceed \$1.63 billion to finance various airfield and terminal capital projects at LAX, to refinance outstanding Commercial Paper, and to refund outstanding debt to achieve savings using a negotiated method of sale, including private placement;
2. Authorize the selection of Morgan Stanley & Co. LLC, Siebert Branford Shank & Co., J.P. Morgan Securities Inc., Citigroup Global Markets Inc., Stifel, Nicolaus & Co., Inc., Samuel A. Ramirez & Co., Inc., Cabrera Capital Markets, LLC, Loop Capital Markets, LLC, Merrill Lynch, Pierce, Fenner & Smith Inc. (dba Bank of America Merrill Lynch), Wells Fargo Bank, National Association as the underwriting firms for the sale of the bonds and the Department of Airports' entire investment banking pool as the selling group for the various transactions (other than for transactions involving a competitive sale, private placement in the form of a direct loan, revolving line of credit or other short term financing instrument);
3. Authorize the establishment of a program of short-term revenue bonds as provided in Section 11.28.7 of the Los Angeles Administrative Code; and,
4. Return request for further processing, including City Council consideration.

## **FISCAL IMPACT STATEMENT**

There is no General Fund impact. The revenue bonds will be Airport Revenue Fund obligations and will not constitute an obligation of the City or the General Fund. The issuance of these bonds will enable the Department of Airports to refinance prior private activity bonds and finance major capital improvements. This request complies with the City's Financial Policies, Debt Management Section.

*MAS:SMB:09150095*

Attachment – Report to the Board of Airport Commissioners, October 29, 2014