

BOARD OF AIRPORT COMMISSIONERS

Nerida Esguerra-Olivares

Nerida Esguerra-Olivares (Nov 10, 2021 16:57 PST)

Approved by: Nerida Esguerra-Olivares, Director of Finance



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Justin Erbacci (Nov 10, 2021 17:48 PST)

Justin Erbacci, Chief Executive Officer

Meeting Date:

11/18/2021

CAO Review:

Completed
 Pending
 N/A

<u>Reviewed for</u>	<u>Date</u>	<u>Approval Status</u>	<u>By</u>
Finance	11/8/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	JS
CEQA	11/5/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	WW
Procurement	11/8/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> Cond	LK
Guest Experience	11/5/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	TB
Strategic Planning	11/5/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	KC

SUBJECT

Request for authorization to issue Department of Airports of the City of Los Angeles, California, Los Angeles International Airport revenue bonds, notes, or other obligations; and Department of Airports of the City of Los Angeles, California, Los Angeles International Airport special facility obligations, in one or more series, in an aggregate principal amount not to exceed \$3.1 billion; authorize the private sale and/or competitive sale of such bonds, notes, obligations and special facility obligations; select underwriting firms for a private sale of a portion of the bonds; authorize solicitation of a bank direct purchase or private placement of bonds, notes, obligations and special facility obligations; and authorize the preparation of all related documentation and certain other related matters and actions.

RECOMMENDATIONS

Management RECOMMENDS that the Board of Airport Commissioners:

- ADOPT the Staff Report.
- DETERMINE that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.f. of the Los Angeles City CEQA Guidelines.
- AUTHORIZE the issuance of (a) airport revenue bonds, notes, or other obligations (airport revenue bonds) in one or more series; and (b) special facility obligations in one or more series, by the Department of Airports of the City of Los Angeles for Los Angeles

International Airport in an aggregate principal amount not to exceed \$3.1 billion, which the Department expects to issue from time to time through June 30, 2024.

4. AUTHORIZE the negotiated sale (“private sale” as referred to in the Charter) of the airport revenue bonds and the special facility obligations in accordance with City of Los Angeles Charter (Charter) Section 609(d).
5. AUTHORIZE the preparation of all documents and other matters related to the negotiated sale of the airport revenue bonds and the special facility obligations, the competitive sale of the airport revenue bonds and the special facility obligations, and/or a bank direct purchase or private placement of the airport revenue bonds and the special facility obligations with a lending institution.
6. RATIFY and APPROVE the selection of Loop Capital Markets LLC, Citigroup Global Markets Inc., and Samuel A. Ramirez & Co., Inc. for the sale of a portion of the airport revenue bonds.
7. ADOPT the attached Resolution.

DISCUSSION

1. Purpose

Approve the actions associated with the issuance of Department of Airports of the City of Los Angeles, California, Los Angeles International Airport revenue bonds, notes, or other obligations, and Department of Airports of the City of Los Angeles, California, Los Angeles International Airport special facility obligations, in one or more series, in an aggregate principal amount not to exceed \$3.1 billion, which the Department expects to issue from time to time through June 30, 2024.

2. Prior Related Actions

- **September 20, 2017– Resolution No. 26347 (2017 Authorizing Resolution)**
On September 20, 2017, the Board of Airport Commissioners (Board) adopted the 2017 Authorizing Resolution, and on October 24, 2017 and November 1, 2017, the City Council and the Mayor of the City, respectively, approved the 2017 Authorizing Resolution. The 2017 Authorizing Resolution authorizes the issuance and sale of one or more series of Los Angeles International Airport (LAX) revenue bonds payable from the LAX Revenue Account of the Airport Revenue Fund in an aggregate principal amount not to exceed \$2.2 billion through June 30, 2022.
- **September 2018 – Public Hearing and Approval of “Private Activity Bonds”**
In compliance with Section 147(f) of the Internal Revenue Code of 1986, as amended (the “IRC”), on September 24, 2018, Los Angeles World Airports (LAWA) held a public hearing (after providing notice of such hearing on September 10, 2018, in the Los Angeles Daily Journal) with respect to LAWA’s plans to issue, from time to time, not-to-exceed \$4.789 billion of “private activity” airport revenue bonds and commercial paper notes to finance and refinance various improvements at Los Angeles International Airport. Subsequent to the public hearing, the Mayor of the City of Los Angeles (as the applicable elected representative for purposes of the public approval under Section 147(f) of the IRC) approved the issuance, from time to time, by LAWA of its not-to-

exceed \$4.789 billion in aggregate principal amount of “private activity” airport revenue bonds and commercial paper notes to finance and refinance various improvements at Los Angeles International Airport.

- **November 7, 2018 – Resolution No. 26887**

On November 7, 2018, the Board adopted Resolution No. 26887, which resolution approved the selection of underwriting firms (including the underwriting firms for the Subordinate Series 2022 A-F described below) for private negotiated sales of all or a portion of the Los Angeles International Airport revenue bonds and LAWA’s underwriting pool as the selling group for the various bond transactions (other than for transactions involving a competitive sale of the bonds or the private placement of bonds in the form of a direct loan, revolving line of credit, or other short-term financing instrument from a lending institution).

- **February 20, 2020 – Resolution No. 26967 (2020 Authorizing Resolution)**

On February 20, 2020, the Board adopted the 2020 Authorizing Resolution, and on March 17, 2020 and March 20, 2020, the City Council and the Mayor of the City, respectively, approved the 2020 Authorizing Resolution. The 2020 Authorizing Resolution (a) authorized the issuance and sale of one or more series of Los Angeles International Airport revenue bonds payable from the LAX Revenue Account of the Airport Revenue Fund in an aggregate principal amount not to exceed \$1.9 billion (which authorized amount was fully issued by February 17, 2021), and (b) approved and ratified the selection of the underwriting pool provided for in Resolution No. 26887.

3. Current Action

Staff requests the Board to authorize the issuance of airport revenue bonds and special facility obligations, in one or more series, in an aggregate principal amount not to exceed \$3.1 billion which the Department expects to issue from time to time through June 30, 2024, in order to meet the projected capital program funding needs of LAWA; refund all or a portion of the principal of and/or the interest on certain Los Angeles International Airport, Senior and Subordinate Revenue Bonds, as part of the Airline Cost Stabilization and Recovery Plan; and to take advantage of additional refunding opportunities for debt service savings.

The financial analysis undertaken in the Report of the Airport Consultant, dated September 14, 2021, prepared by WJ Advisors LLC, LAWA’s bond feasibility consultant, concluded that the Department will be able to generate sufficient Net Pledged Revenues to meet the debt service coverage requirements of the Senior Indenture and the Subordinate Indenture, considering annual debt service on currently outstanding debt of \$8.9 billion and on the issuance of \$2.7 billion in aggregate principal of additional airport revenue bonds to fund capital projects expected to be completed by Fiscal Year 2025-26. Assuming this total debt included in the Report of the Airport Consultant, the forecasted financial results indicate LAX should remain competitive with peer airports over the projection period in key financial metrics, including debt service coverage and cost-per-enplaned-passenger. Staff will present an update of these metrics to the Board prior to the approval of bond documents for each issuance of airport revenue bonds and special facility obligations issued under this authorization.

Approval of Negotiated Sales

In addition to requesting the Board's approval to issue airport revenue bonds and special facility obligations in the aggregate principal amount of \$3.1 billion, staff is requesting the Board's approval for the use of negotiated sales with the underwriting team ratified later in this Staff Report and the future underwriting teams to be approved by the Board.

Please see Annex A for City of Los Angeles Procedural Requirements regarding the issuance of LAWA's airport revenue bonds and special facility obligations and the sale of such bonds and obligations through the use of negotiated sales.

Ratification of Underwriting Team Approved Pursuant to Resolution No. 26887

Under Resolution No. 26887, the Board approved underwriters, Loop Capital Markets LLC, Citigroup Capital Markets Inc., and Samuel A. Ramirez & Co., Inc. for the negotiated sale of airport revenue bonds (Remaining Underwriters).

Staff is requesting the Board's ratification of and approval for the use of the Remaining Underwriters for a negotiated sale of airport revenue bonds under any remaining authorization under Resolution No. 26347 and the new authorization provided pursuant to this Staff Report, to finance a portion of the projected capital project costs at LAX; to redeem all or a portion of LAWA's senior airport revenue bonds, Series 2012; and refund all or a portion of the principal of and/or the interest on certain senior and subordinate airport revenue bonds due and payable on May 15, 2022, as part of the Airline Cost Stabilization and Recovery Plan.

Los Angeles World Airports will return to the Board to select additional underwriting teams needed for the negotiated sale of the remaining debt authorization provided pursuant to this Staff Report.

Approval of Additional Actions

- To facilitate issuing the airport revenue bonds and special facility obligations, staff will need to prepare certain documents and arrange for various services including: legal services for preparing trust indentures and Preliminary and final Official Statements, appointing trustees, selecting printers for the Preliminary and final Official Statements, acquiring municipal bond insurance (if necessary), and other actions deemed necessary to issue the airport revenue bonds and special facility obligations. These documents and specific actions, including actions related to any private placement of bonds, will be brought before the Board for approval at a later date prior to the sale of each series of airport revenue bonds and special facility obligations.
- The proceeds of the airport revenue bonds and special facility obligations described in this Staff Report will also fund ancillary expenditures associated with the transactions such as capitalized interest, debt service reserve funds, other funds and accounts, the cost of underwriting the bonds and obligations, and costs of issuance (consultants' fees, attorney fees, rating agency fees, printing expenses, etc.).
- Adopt the attached Authorizing Resolution.

How this action advances a specific strategic plan goal and objective

This action advances this strategic goal and objective: *Deliver Facilities & Guest Experiences that are Exceptional: Plan collaboratively to improve guest services while delivering capital improvements.*

The issuance of airport revenue bonds, notes, or other obligations and special facility obligations will provide partial funding toward LAX's Capital Program which is developed to ensure that LAWA can improve guest services and deliver first class facilities at LAX as sought by its airline tenants.

Fiscal Impact

The authorization of debt, approval of the negotiated method of sale, and approval of underwriters under Section 609 of the Charter and Section 11.28.4 of the Los Angeles Administrative Code is a procedural requirement that must be completed before individual debt transactions are approved by the Board. There is no actual fiscal impact until the Board approves the documents required for each transaction. Future approvals of bond issues will require additional annual appropriations for debt service costs incurred in repaying the debt.

4. Alternatives Considered

- ***Issue Less Debt***

Staff has developed a financing plan in support of the ongoing capital program at LAX. The plan balances a number of funding sources including grants, Passenger Facility Charges, Costumer Facility Charges, airport cash, and debt. While some amount of the currently-assumed debt could be reduced by using greater amounts of LAX's unrestricted cash reserves, lower levels of cash reserves would significantly reduce LAX's ability to absorb the financial impacts of an operational disruption or interruptions in access to the capital financing markets.

- ***Use Alternative Financing Approach***

Alternative project delivery methods have emerged in recent years presenting alternatives to traditional financing approaches. These approaches generally include private financing and/or conduit debt financing that would exist outside of LAWA's balance sheet (at some premium to LAWA's cost of financing) and would typically be connected to long-term agreements between LAWA and a third party. To-date, LAWA has selectively utilized these approaches in its plan of finance and continues to evaluate opportunities where the benefits of innovation and balance sheet relief are attractive in comparison to incremental cost.

APPROPRIATIONS

No appropriation of funds is required for this action.

STANDARD PROVISIONS

1. This item, as a continuing administrative, maintenance and personnel-related activity, is exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article II, Section 2.f. of the Los Angeles City CEQA Guidelines.

2. The City Attorney has reviewed this item.
3. Actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 609 and Section 11.28.1 et seq. of the Administrative Code.
4. This action is not subject to the provisions of the Living Wage/Service Contractor Worker Retention Ordinances.
5. This action is not subject to the provisions of the Business Enterprise (BE) Programs.
6. This action is not subject to the provisions of the Affirmative Action Program.
7. This action does not require a Business Tax Registration Certificate number.
8. This action is not subject to the provisions of the Child Support Obligations Ordinance.
9. This action is not subject to the insurance requirements of the Los Angeles World Airports.
10. This action is not subject to the provisions of Charter Section 1022 (Use of Independent Contractors).
11. This action is not subject to the provisions of the Contractor Responsibility Program.
12. This action is not subject to the provisions of the Equal Benefits Ordinance.
13. This action is not subject to the provisions of the First Source Hiring Program.
14. This action is not subject to the provisions of the Bidder Contributions CEC Form 55.
15. This action is not subject to the provisions of the MLO Bidder Contributions CEC Form 50.
16. This action is not subject to the provisions of the Iran Contracting Act.

Attachments:

- Resolution
- Annex A