

Annex A:

City of Los Angeles Procedural Requirements

Pursuant to Section 609 of the Charter and Section 11.28.2 of the Los Angeles Administrative Code, the Board, the City Council, and the Mayor are all required to approve the issuance of LAWA's airport revenue bonds and special facility obligations, and such approval is the first of two steps required for LAWA to issue its airport revenue bonds and special facility obligations.

Step 1 (action currently being considered): The Board, the City Council, and the Mayor must approve the issuance of LAWA's airport revenue bonds and special facility obligations; and, if a negotiated sale is to be used to sell the airport revenue bonds and special facility obligations, the Board must approve the use of a negotiated sale(s) and the underwriting team(s) that will sell the airport revenue bonds and special facility obligations; the City Council must also be given an opportunity to disapprove the selection of the underwriting team(s).

Step 2 (future action required): The Board must approve all financing and disclosure documents necessary to effect the sale of each bond issue. These documents include, among others, senior and subordinate supplemental trust indentures, special facility trust indentures, bond purchase agreements (for negotiated sales), revolving credit/lending agreements (for a direct loan/revolving line of credit/short term financing instrument), and bond official statements. Included in these documents will be detailed plans of finance and further descriptions of current and future projects expected to be funded by bond proceeds.

Authorization of Negotiated Sale

Municipal bonds can be issued through either a competitive sale or a negotiated sale. In a competitive sale, underwriters submit sealed bids on a predetermined date and the bonds are awarded to the underwriter providing the lowest true interest cost. The winning underwriting firm then sells the bonds to interested investors. In a negotiated public sale, the underwriters are selected prior to the sale of the bonds and have the opportunity to work with the issuer and other members of the financing team to determine the optimal structure and timing of the financing. The underwriter will act on the issuer's behalf to market and sell the bonds to investors with the goal of achieving the lowest cost of borrowing. Since a negotiated sale actively engages the services of the underwriters prior to the sale of the bonds, it provides an opportunity to educate investors and generate interest in the sale of the bonds as well as allowing greater flexibility in determining the timing of the sale. Both of these factors have the potential to reduce the costs of borrowing.

Section 609(d) of the Charter and Section 11.28.4 of the Los Angeles Administrative Code allow LAWA to sell its airport revenue bonds and special facility obligations through a competitive bidding process or through a negotiated sale. The Chief Financial Officer evaluated LAWA's options to issue the airport revenue bonds and special facility obligations described in this Staff Report and determined that a negotiated sale provides the greatest benefit to LAWA for the following reasons:

- **Unique risks associated with airport revenue bonds and special facility obligations.** Los Angeles World Airports will be issuing airport revenue bonds whose debt service will be paid from LAX revenues and special facility obligations whose debt service will be paid from special facility revenues. Investors associate these bonds with event risks such as economic downturns; airline bankruptcies; significant

traffic reductions due to adverse events, such as the COVID-19 pandemic; and, in the case of the expected issuance of special facility obligations, the level of rental car use at LAX. For these reasons, airport revenue bonds and special facility obligations can benefit from the extensive disclosure, marketing, and education on the issuer's and other parties' (i.e., rental car companies) financial condition that a negotiated sale provides.

- **Opportunity to expand investor base and potential to lower borrowing costs.** Due to the extensive pre-marketing effort, a negotiated sale lends itself to maintaining and broadening the investor base for an issuer. As LAWA continues to issue more debt, it is important that it generate higher levels of investor interest and maintain a steady stream of potential investors because it plays a critical role in keeping borrowing costs low.
- **Flexibility to address changes in the market and investor base.** The supply and demand for municipal bonds, industry news, and events external to the municipal bond market can change investor demand with great and unpredictable frequency. A negotiated sale enables LAWA, with the assistance of its financial advisors and underwriters, to make prudent adjustments to the structure, interest rates, or call features of the airport revenue bonds and special facility obligations to address unexpected shifts in investor demand in order to achieve lower costs of borrowing.