

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 22, 2024

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Council File No.:

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Airports dated March 28, 2024; Resolution 27913 from the Board of Airport Commissioners adopted at its March 7, 2024 meeting; referred by the Mayor for a report on March 28, 2024

Subject: **RESOLUTION NO. 27913 AND PROPOSED ISSUANCE OF UP TO \$3 BILLION IN LOS ANGELES INTERNATIONAL AIRPORT REVENUE BONDS, NOTES, OR OTHER OBLIGATIONS AND SPECIAL FACILITY OBLIGATIONS FOR LOS ANGELES WORLD AIRPORTS**

RECOMMENDATION

That the Mayor:

1. Approve the Los Angeles World Airports (LAWA) request to issue Los Angeles International Airport (LAX) Revenue Bonds, notes, or other obligations, in one or more series, in an aggregate principal amount not to exceed \$3 billion over a five-year period, from Fiscal Year 2024 through Fiscal Year 2028, in a competitive bidding process or a private/negotiated method of sale, pursuant to the requirements of City Charter Section 609 (d), to finance various airfield, apron, terminal, infrastructure, and access capital projects at LAX for a term not to exceed 75 years;
2. Authorize LAWA to accept loans from the federal government the repayment of which will be evidenced by airport revenue bonds, notes, or other obligations and special facility bonds, and obtain loan guarantees from the federal government with respect to such airport revenue bonds and special facility bonds and fund refunding opportunities for a term of up to 75 years;
3. Adopt the Board Determination 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;
4. Approve Resolution No. 27913 as adopted by the Board of Airport Commissioners at its meeting of March 7, 2024; and,
5. Return the proposed request to the Department of Airports for further processing, including Council consideration.

SUMMARY

The Chief Executive Officer of the Los Angeles World Airports (LAWA, Department) requests authorization to issue long- and short-term Revenue Bonds, notes, or Other Obligations and Special Facility Obligations, in one or more series, for the next capital improvement program at Los Angeles International Airport (LAX) in an aggregate principal amount not to exceed \$3 billion for a five-year period through June 30, 2028. The term of these bonds shall not exceed 75 years from the date of issue. The Chief Executive Officer further requests:

- Authority to sell, by private sale and/or competitive sale, such bonds, notes and obligations
- Authority to utilize liquidity and credit facilities, revolving lines of credits, direct purchases, and private placements to lending institutions with respect to such airport revenue bonds and special facility bonds
- Authority to incur loans and obtain loan guarantees from the federal government with respect to such bonds, notes, and other obligations for a term not-to-exceed 75 years
- Authority to prepare required documents and other matters related to the negotiated sale of the airport revenue and special facility bonds, as well as the competitive sale and/or private placement and/or bank direct purchase of such bonds as provided for in Charter Section 609(d)
- Authority to prepare all related documentation and certain other related matters and actions
- Approval of the Board of Airport Commissioners (Board) Resolution No. 27913 (Attachment) as evidence that the bond obligations will be the sole responsibility of the Department and that no City General Fund monies will be obligated for the debt financing on the next capital improvement program at LAX

The existing LAWA capital improvement program is on track to substantially modernize and transform LAX into a world class facility by the end of Fiscal Year 2026. The next airport capital improvement program is expected to cost approximately \$15 billion and is planned to be funded in part with bonds proposed for funding and/or refunding in the next capital program improvement program. Projects included in the next program to be funded, in part, with the proceeds of the \$3 billion bond sales—which are the subject of this report—include the following:

- Delivery of airport capital improvements, including in the Airfield and Terminal Modernization Project, which will involve additional airfield, terminal, and landside roadway improvements while staying largely within the airport's existing footprint
- Completion of the American Airlines' Terminal 4 Project
- Other potential airport projects including, but not limited to, construction of the Midfield Satellite Concourse-South Project

The requested authorization also allows the Department to incur loans from the federal government. LAWA is looking into the potential benefits of utilizing approximately \$829 million in funding and financing from the United States Department of Transportation Build America Bureau's Infrastructure Finance and Innovation Act (TIFIA) to fund a portion of its next capital improvement program. Loans provided under the TIFIA Act can be issued for a longer term of up to 75 years and can help improve LAWA's creditworthiness, diversify its creditor pool, and may help lower financing costs relative to traditional bond financing. The 2024 Authorizing Resolution authorizes debt for a term not to exceed 75 years. The 2021 and 2022 Authorizing Resolutions authorize debt issuances for a term not to exceed 35 years.

The \$15 billion estimated cost of the next capital improvement program will be financed with \$6 billion in principal amount authorized under the 2022 Authorizing Resolution, all of which remains authorized and unissued, and \$3 billion in principal amount requested under the 2024 Authorizing Resolution. The remaining cost will be financed by future revenue bond issue authorizations to be requested at a later date. The \$943.5 million in principal amount remaining from the 2021 Authorizing Resolution will not be utilized to finance the next program and will be allowed to expire.

The current pool of Board-approved underwriting firms for private negotiated sales of all or a portion of the Department's LAX revenue bonds and special facility obligations terminates on June 30, 2024. A pool of underwriting firms was approved by the Board on February 1, 2024, and may be utilized as the selling group for various bond transactions pursuant to the 2022 Authorizing Resolution and the 2024 Authorizing Resolution until its expiration on June 30, 2027. However, the 2024 Authorizing Resolution does not include selection of any underwriters for private negotiated bond sales. The Department will return to the Board for the selection of future underwriting teams.

The financial analysis set forth in the Report of the Airport Consultant, prepared by WJ Advisors LLC (LAWA's bond feasibility consultant) in connection with the issuance of LAWA's subordinate airport revenue bonds Series 2023 A/B Bonds, concluded that the Department will be able to generate sufficient Net Pledged Revenues to meet the debt service requirements of the Senior Indenture and the Subordinate Indenture, considering annual debt service on currently outstanding debt of \$10.8 billion and on the issuance of \$13 billion in aggregate principal of additional airport revenue bonds to fund the capital projects in LAX's next capital program. The next program is expected to be completed by Fiscal Year 2028-29. An update of these metrics will be presented to the Board prior to the approval of bond documents for each issuance of airport revenue bonds issued under this authorization.

Pursuant to Charter Section 609, Board and City Council authorization is the first in a multi-stage process as follows:

- Board, Council and Mayor authorization must be obtained to issue the proposed revenue bonds.
- If a private/negotiated sale is the method selected to sell the bonds, Board and Council approval must be obtained to use the private/negotiated sale. With respect to the underwriting team(s) that will sell the airport revenue bonds and special facility obligations, the Board approves the selection of such teams and the City Council must be given the

opportunity to disapprove the selection of the underwriting team(s).

- Board approval must be granted for all financing and disclosure documents required to complete the sale of any and all bond issues. These documents, including actions related to any federal loan programs utilized by the Department and any direct or private placements of bonds, will be brought before the Board prior to issuance of debt.

Authorization for the LAWA Chief Executive Officer to issue the proposed airport revenue bonds, notes or other obligations was approved by the Board at its meeting of March 7, 2024. An accompanying Resolution was adopted at the same meeting. Charter Section 609 (d)(2) and Los Angeles Administrative Code Article 6.5, Section 11.28 et seq. require that the Council receive a report from the City Administrative Officer prior to approving a private/negotiated method of sale for the proposed bonds. This report serves to satisfy that requirement.

A more specific explanation of City Procedural Requirements for the use of the private/negotiated sale method for issuance of airport revenue bonds for LAX is included in Attachment B of LAWA's March 7, 2024 bond sale authorization request.

Authorization of the proposed bond sale advances LAWA's strategic goal and objective to "Build and Operate Facilities to Meet Evolving Demand: Plan and Deliver Capital Programs."

FISCAL IMPACT STATEMENT

Authorization to issue the proposed revenue bonds for an aggregate principal amount not to exceed \$3 billion will have no impact on the City's General Fund. The bonds will be Airport Revenue Fund obligations and will not constitute an obligation on the City's General Fund. The issuance of these bonds will enable the Los Angeles World Airports to finance major capital improvements at the Los Angeles International Airport, as well as refund bonds in order to reduce debt service costs. At this time and until the Board of Airport Commissioners approves the documents required for each transaction, no appropriations are required or requested. Future bond issues will require annual appropriations for the payment of debt service costs. The proposed request complies with LAWA's approved Financial Policies.

MWS:PJH:JVW:DLG:JFH;10240191

Attachment