

CITY OF LOS ANGELES

CALIFORNIA

KAREN E. KALFAYAN
City Clerk



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MAYOR

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When making inquiries
relative to this matter,
please refer to the Council
File No.

08-0951

May 1, 2008

Office of the Mayor
City Administrative Officer
Chief Legislative Analyst
City Attorney

RE: DOCUMENTS NECESSARY FOR THE CITY TO ISSUE BONDS NOT TO EXCEED \$604 MILLION TO
REFUND THE 2001 AND 2006 VARIABLE-RATE WASTEWATER SYSTEM REVENUE BONDS

At the meeting of the Council held April 25, 2008, the following action was taken:

Attached report adopted	_____
Attached motion (-) adopted	_____
Attached resolutions adopted	_____ X _____
FORTHWITH	_____
Mayor concurred	_____
To the Mayor FORTHWITH	_____
Motion adopted to approve committee report recommendation(s)	_____ X _____
Motion adopted to approve communication recommendation(s)	_____
Ordinance adopted	_____
Effective date	_____
Mayor vetoed.....	_____
Mayor approved	_____
Mayor failed to act – deemed approved	_____
Findings adopted	_____
Negative Declaration adopted	_____
Categorically exempt.....	_____
Generally exempt.....	_____

City Clerk
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TO THE COUNCIL OF THE
CITY OF LOS ANGELES

Your

BUDGET AND FINANCE Committee

reports as follows:

BUDGET AND FINANCE COMMITTEE REPORT and RESOLUTIONS relative to documents necessary for the City to issue bonds not to exceed \$604 million to refund the 2001 and 2006 variable-rate Wastewater System Revenue Bonds.

Recommendations for Council action, as initiated by Motion (Parks-Huizar):

1. ADOPT the accompanying Tenth Supplemental Resolution, which sets forth the basic terms under which the City may issue subordinate Wastewater System Revenue Bonds.
2. ADOPT the accompanying RESOLUTION of the City Council of the City of Los Angeles, which incorporates various documents required to execute the refunding and delegates certain actions required to manage the Variable Rate Bond Program to the City Administrative Officer (CAO) such as the ability to issue Commercial Paper to effectuate the proposed refunding and to appoint successor remarketing agents if necessary.
3. INSTRUCT the CAO to report back to the Budget and Finance Committee (Committee) within six months relative to the outcome of the refunding of the variable-rate Wastewater System Revenue Bonds and whether the expected savings have been achieved.
4. INSTRUCT the CAO to report back to the Committee relative to the circumstances surrounding the municipal bond insurance company that was reported to the Committee as being non-responsive to the CAO's efforts to make contact concerning insurance coverage related to the Variable Rate Bond Program;
5. INSTRUCT the CAO to report back to the Committee in a timely manner if similar insurance coverage issues arise relative to variable rate Convention Center bonds.

Fiscal Impact Statement: The CAO reports that there is no impact on the General Fund as a result of the recommended Los Angeles Wastewater System Refunding Series 2008 A and H bond issue. The debt service on the Wastewater System Revenue Bonds is paid from the Sewer Construction and Maintenance Fund. The costs of issuance will be paid from bond proceeds.

Debt Impact Statement: The CAO reports that the proposed bond issue will refund \$444.8 million of Wastewater System debt. The refunding is expected to generate \$22.3 million in savings. Annual debt service payments for the Wastewater System are expected to decrease by \$3 million.

SUMMARY

At its meeting of April 21, 2008, the Budget and Finance Committee considered Motion (Parks-Huizar), CAO report and documents necessary for the City to issue bonds not to exceed \$604 million to refund the 2001 and 2006 variable-rate Wastewater System Revenue Bonds. The CAO is requesting authority to issue up to \$450 million in Los Angeles Wastewater (LAWW) System

Subordinate Revenue Bonds that will be used to refund approximately \$604.8 million in bonds. The remaining balance of approximately \$160 million will be refunded with Wastewater System Commercial Paper, for which authority to issue up to \$300 million has previously been provided.

The CAO reports that the proposed LAWW Refunding Series 2008 A,B,C,D,E,F,G, and H (Series 2008) will consist entirely of variable rate demand bonds and will be used to refund LAWW System Subordinate Revenue Bonds, Variable Rate Refunding Series 2001 A,B,C, and D (Series 2001) and LAWW System Subordinate Revenue Bonds, Variable Rate Refunding Series 2006 A,B,C, and D (Series 2006). The Series 2006 bonds are hedged with a Swap Agreement, which will not be affected by this refunding.

The Bureau of Sanitation has voter approval to issue up to \$3.5 billion in debt to finance the City's Wastewater System Capital Program. To date, the City has issued \$2.6 billion in bonds, leaving \$882 million of authorization available. Since the proposed bond issue will be used to refund outstanding bonds, none of the remaining authorization will be used at this time. This proposed refunding is necessary to control increasing interest costs resulting from the downgrade of the bond insurers and will result in estimated monthly savings of \$800,000 to \$1.3 million in interest costs.

To proceed with the Wastewater Refunding Series 2008 A-H, the Mayor and Council will need to approve the Tenth Supplemental Resolution (Attachment A to the CAO report dated April 18, 2008), which sets forth the basic terms under which the City may issue subordinate Wastewater System Revenue Bonds. The CAO is also requesting approval of the Authorizing Resolution (Attachment B to the CAO report), which delegates certain actions required to manage the Variable Rate Bond Program to the CAO such as appointing successor remarketing agents, if necessary.

During the Committee's discussion, the CAO was asked to provide for inclusion in the Committee report, a summary as to the reasons why the refunding proposal is recommended by the CAO, and its anticipated outcome. Subsequent to the Committee meeting, the CAO provided the following information:

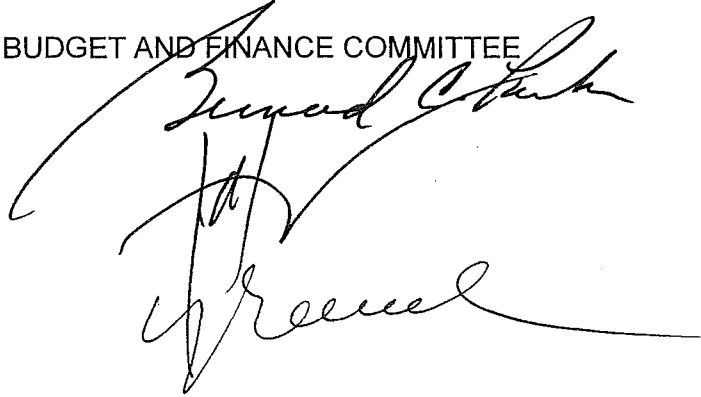
Wastewater System variable rate bonds have incurred escalating interest costs over the past three months as a result of the downgrades of the municipal bond insurers who provide insurance on these bonds by Fitch Ratings, Standard & Poor's Rating Service and Moody's Investors Service. These municipal bond insurers were originally rated AAA at the time the financings were completed, but are not at or near junk bond ratings. The Wastewater System variable rate bonds traded with interest rates as low as 2.9 percent two years ago, but are now trading as high as 10 percent in the last several weeks. The refunding proposal will replace the insurance policies with Letters of Credit to be provided by Bank of Nova Scotia and Bank of America which will boost investor confidence and allow for interest rates to drop closer to prevailing market rates as the perception of risk is minimized. Assuming current rates, this proposed refunding will save an estimated \$800,000 to \$1.3 million in monthly debt service interest costs paid by the Sewer Construction and Maintenance Fund.

The Budget and Finance Committee recommended approval of the CAO recommendations relative to the issuance of Wastewater System Subordinate Revenue Bonds, Variable Rate Refunding Series 2008 A,B,C,D,E,F,G and H. Additionally, the Committee instructed the CAO to report back within six months relative to the outcome of the refunding of the variable-rate Wastewater System Revenue Bonds and whether the expected savings have been achieved. The CAO was also instructed to report back relative to the circumstances surrounding the municipal bond insurance company that was reported to the Committee as being non-responsive to the CAO's efforts to make contact concerning insurance coverage related to the Variable Rate Bond Program; and to report

back to the Committee in a timely manner if similar insurance coverage issues arise relative to variable rate Convention Center bonds. This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE

Handwritten signatures of committee members, including a large signature that appears to be 'Samuel...' and another signature below it.

<u>MEMBER</u>	<u>VOTE</u>
PARKS:	YES
GREUEL:	YES
SMITH:	YES
ROSENDAHL:	YES
HUIZAR:	YES

LB
#080951
4/22/08

Resos.
ADOPTED
MOTION ADOPTED TO APPROVE COMMITTEE REPORT RECOMMENDATION
APR 25 2008
LOS ANGELES CITY COUNCIL

MAYOR WITH FILE

enter into a Continuing Disclosure Certificate in order to undertake the continuing disclosure obligations promulgated under S.E.C. Rule 15c2-12. The City hereby covenants and agrees that they will comply with and carry out all of their respective obligations under any such Continuing Disclosure Certificate for the applicable Series of Series 2008 Subordinate Bonds. Notwithstanding any other provision of the Subordinate General Resolution or this Tenth Supplemental Resolution, failure of the City to comply with any such Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Beneficial Owner of the applicable Series 2008 Subordinate Bonds covered by such Continuing Disclosure Certificate may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, as the case may be, to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any applicable Series 2008 Subordinate Bonds covered by such Continuing Disclosure Certificate (including persons holding such applicable Series 2008 Subordinate Bonds covered by such Continuing Disclosure Certificate through nominees, depositories or other intermediaries).

Section 12.10. Effective Date. This Tenth Supplemental Resolution shall take effect from and upon its adoption.

PASSED AND ADOPTED this 25th day of April, 2008, by the following vote:

YES: 11
NO: 0
ABSENT: 4

I CERTIFY THAT THE FOREGOING
RESOLUTION WAS ADOPTED BY THE
COUNCIL OF THE CITY OF LOS ANGELES
AT ITS MEETING OF APR 25 2008
BY A MAJORITY OF ALL ITS MEMBERS.



KAREN E. KALFAYAN
CITY CLERK

BY *Marsha Eller*
DEPUTY

RESOLUTION OF THE COUNCIL OF THE CITY OF LOS ANGELES APPROVING THE ISSUANCE OF VARIABLE RATE SUBORDINATE REVENUE REFUNDING BONDS IN ONE OR MORE SERIES FOR THE WASTEWATER SYSTEM, THE EXECUTION AND DELIVERY OF DOCUMENTS RELATED THERETO AND APPROVING THE USE OF WASTEWATER SYSTEM COMMERCIAL PAPER REVENUE NOTES TO REFUND CERTAIN OUTSTANDING WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS AND CERTAIN OTHER MATTERS

WHEREAS, the City of Los Angeles (the "City") is a municipal corporation and is a charter city having availed itself of the home rule provisions of the California Constitution and is organized and operates under the terms of The Charter of The City of Los Angeles (the "Charter") and under such Charter has the power and authority to issue bonds and incur other indebtedness and obligations; and

WHEREAS, the City owns and operates a wastewater system that includes sewers, pipes, buildings, systems, plants, works, equipment, improvements and other facilities and undertakings of the City relating to the collection, transportation, treatment and disposal of sewage and wastewater, industrial wastewater and filtration/inflows incidental thereto (such system with all future additions, extensions and improvements thereto, the "System"); and

WHEREAS, the Council (the "Council") of the City, by resolution adopted February 24, 1987, submitted to the qualified voters of the City the proposition of issuing bonds pursuant to the procedures set forth in the Revenue Bond Law of 1941 (Sections 54300 et seq. of the California Government Code) for the purpose of financing a portion of the System, and at such election held June 2, 1987, the voters voting on the proposition approved the issuance of \$500,000,000 of such bonds; and

WHEREAS, the Council, by resolution adopted August 2, 1988, submitted to the qualified voters of the City the proposition of increasing the authorization to issue bonds to finance the System improvement program from \$500,000,000 to \$2,000,000,000, and at such election held November 8, 1988, the voters voting on the proposition approved the increase in the authorization to a total of \$2,000,000,000; and

WHEREAS, the Council, by resolution adopted August 4, 1992, submitted to the qualified voters of the City the proposition of increasing the authorization to issue bonds to finance the System improvement program from \$2,000,000,000 to a total of \$3,500,000,000, and at such election held November 3, 1992, the voters voting on the proposition approved the increase in the authorization to a total of \$3,500,000,000; and

WHEREAS, on November 10, 1987, the Council adopted a resolution designated as the "WASTEWATER SYSTEM REVENUE BONDS GENERAL RESOLUTION" (the "General Resolution") that sets forth the basic terms under which the City may issue wastewater revenue bonds (the "Bonds") and provides for a pledge of Revenues (as defined in the General Resolution) to secure all bonds issued thereunder; and

WHEREAS, on March 26, 1991, the Council adopted a resolution designated as the "WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL

RESOLUTION” (the “Subordinate General Resolution”) that sets forth the basic terms under which the City may issue wastewater system revenue bonds (“Subordinate Bonds”) that are subordinate to the Bonds and provides for a pledge of Revenues to secure all bonds issued thereunder, which pledge of Revenues is subordinate to the pledge of Revenues established pursuant to the General Resolution; and

WHEREAS, the City previously has issued twenty-six (26) series of the Bonds (the “Prior Senior Bonds”) under the General Resolution, issued eleven (11) series of Subordinate Bonds (the “Prior Subordinate Bonds”) under the Subordinate General Resolution and authorized a commercial paper program through the issuance from time to time of Subordinate Bonds in the form of commercial paper notes (the “Commercial Paper Notes” and together with the Prior Senior Bonds and the Prior Subordinate Bonds, the “Prior Obligations”) and now desires to initiate proceedings for the issuance of refunding Subordinate Bonds in one or more series to current refund some of its Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2001-A, Series 2001-B, Series 2001-C and Series 2001-D and its Wastewater System Subordinate Revenue Bonds, Variable Rate Refunding Series 2006-A, 2006-B-1, 2006-B- 2, 2006-C and 2006-D (collectively, the “Refunded Obligations”) and the Subordinate General Resolution provides that each series of Subordinate Bonds issued thereunder shall be authorized by, and the terms thereof shall be set forth in, a supplemental resolution; and

WHEREAS, through the refunding of some of the Prior Obligations, the City can achieve interest cost savings (based on interest rates in the municipal bond market and the interest rate swap market), and/or a desirable restructuring of debt or benefits to the manageability and convenience of the bond financing and refunding program for the System, and the City therefore desires to authorize by resolution additional series of Subordinate Bonds to current refund the Refunded Obligations, which refunding Subordinate Bonds would be in an aggregate principal amount not to exceed \$450,000,000 and designated the “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-A” (the “Series 2008-A Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-B” (the “Series 2008-B Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-C” (the “Series 2008-C Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-D” (the “Series 2008-D Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-E” (the “Series 2008-E Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-F-1” (the “Series 2008-F-1 Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-F-2” (the “Series 2008-F-2 Subordinate Bonds”), “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-G” (the “Series 2008-G Subordinate Bonds”) and “Wastewater System Subordinate Revenue Bonds Variable Rate Refunding Series 2008-H” (the “Series 2008-H Subordinate Bonds” and together with the Series 2008-A Subordinate Bonds, the Series 2008-B Subordinate Bonds, the Series 2008-C Subordinate Bonds, Series 2008-D Subordinate Bonds, Series 2008-E Subordinate Bonds, Series 2008-F-1 Subordinate Bonds, the Series 2008-F-2 Subordinate Bonds and the Series 2008-G Subordinate Bonds, the “Series 2008 Subordinate Bonds”); and

WHEREAS, the City has further determined that it is desirable to issue Commercial Paper Notes under the commercial paper program as authorized under the Subordinate General Resolution to current refund a portion of the Refunded Obligations; and

WHEREAS, the issuance of the Series 2008 Subordinate Bonds initially as variable rate bonds requires the City to retain a paying agent and remarketing agents and to obtain credit facilities for such Series 2008 Subordinate Bonds and to sell such Series 2008 Subordinate Bonds through a negotiated sale;

NOW, THEREFORE, be it resolved by the Council as follows:

Section 1. Approval of Remarketing Agreements. Remarketing Agreements in substantially the form of the Remarketing Agreement before this Council are hereby approved. Each of the City Administrative Officer, the Assistant City Administrative Officer and their respective duly authorized designees, acting singly (each, an "Authorized City Representative") is hereby authorized to execute and enter into a Remarketing Agreement with each of J.P. Morgan Securities Inc. (with respect to the Series 2008-A Subordinate Bonds), Lehman Brothers Inc. (with respect to the Series 2008-B Subordinate Bonds), UBS Securities LLC (with respect to the Series 2008-C Subordinate Bonds), Stone & Youngberg LLC (with respect to the Series 2008-D Subordinate Bonds), Backstrom McCarley Berry & Co., LLC (with respect to the Series 2008-E Subordinate Bonds), Banc of America Securities LLC (with respect to the Series 2008-F-1 Subordinate Bonds), Banc of America Securities LLC (with respect to the Series 2008-F-2 Subordinate Bonds), Loop Capital Markets, LLC (with respect to the Series 2008-G Subordinate Bonds) and Jackson Securities, LLC (with respect to the 2008-H Subordinate Bonds), with such changes as said Authorized City Representative, upon the advice of counsel, deems necessary and appropriate. The signature of any Authorized City Representative shall be sufficient to bind the City and cause the Remarketing Agreements to be valid and binding obligations of the City.

The City Administrative Officer is hereby authorized to remove any Remarketing Agent and to appoint any successor Remarketing Agent in accordance with the Paying Agent Agreement referenced below. The City Administrative Officer is hereby authorized to negotiate on behalf of the City, remarketing agreements between the City and any successor Remarketing Agent, substantially in the form of the initial Remarketing Agreement. Any Authorized City Representative is authorized to execute said successor remarketing agreements with such changes as said Authorized City Representative, upon the advice of counsel, deems necessary and appropriate. The signature of any Authorized City Representative shall be sufficient to bind the City and cause such remarketing agreements to be valid and binding obligations of the City.

Section 2. Approval of Bond Purchase Agreement. The Bond Purchase Agreement in substantially the form before this Council is hereby approved. Each Authorized City Representative is hereby authorized to execute and enter into the Bond Purchase Agreement with Banc of America Securities LLC, on behalf of itself and as representative of J.P. Morgan Securities Inc., Lehman Brothers Inc., UBS Securities LLC, Stone & Youngberg LLC, Backstrom McCarley Berry & Co., LLC, Loop Capital Markets, LLC and Jackson Securities, LLC (collectively, the "Underwriters"), with such changes as said Authorized City Representative, upon the advice of counsel, deems necessary and appropriate. The signature of any Authorized City Representative shall be sufficient to bind the City and cause the Bond

Purchase Agreement to be a valid and binding obligation of the City. The Underwriters' discount under the Bond Purchase Agreement shall not exceed 1.00% of the principal amount of the Series 2008 Subordinate Bonds.

Section 3. Approval of Paying Agent Agreement. The Paying Agent Agreement in substantially the form before this Council is hereby approved. Each Authorized City Representative is hereby authorized to execute and enter into the Paying Agent Agreement with U.S. Bank National Association, as paying agent, with such changes as said Authorized City Representative, upon the advice of counsel, deems necessary and appropriate. The signature of any Authorized City Representative shall be sufficient to bind the City and cause the Paying Agent Agreement to be a valid and binding obligation of the City.

The City Administrative Officer is hereby authorized to remove any Paying Agent and to appoint any successor Paying Agent in accordance with the terms of the Paying Agent Agreement.

Section 4. Approval of Reimbursement Agreements. The initial Credit Facilities for the Series 2008 Subordinate Bonds in the form of the Reimbursement Agreements with an attached form of direct pay letter of credit in substantially the form before this Council are hereby approved. Each Authorized City Representative is hereby authorized to execute and enter into a Reimbursement Agreement with Bank of America, N.A. and a Reimbursement Agreement with The Bank of Nova Scotia, acting through its New York Agency, as credit providers, with such changes as said Authorized City Representative, upon the advice of counsel, deems necessary and appropriate. The signature of any Authorized City Representative shall be sufficient to bind the City and cause the Reimbursement Agreements to be a valid and binding obligations of the City.

The City Administrative Officer is further authorized to execute and deliver one or more amendments to the Reimbursement Agreements for the purpose of modifying the annual commitment fee payable by the City thereunder and/or extending the scheduled expiration date thereof for any duration of time deemed necessary, advisable or prudent thereby, provided that no such amendment shall require an annual commitment fee in excess of 0.55% (or in excess of 1.50% upon the occurrence and during the continuance of a rating agency downgrade of the long-term unenhanced ratings of the Subordinate Bonds or of any event of default under the Reimbursement Agreements) of the amount permitted to be drawn thereunder without the approval of this Council. The signature of any Authorized City Representative shall be sufficient to bind the City and cause such amendments to be a valid and binding obligations of the City.

Section 5. Determinations and Findings. The Council hereby finds and determines that it is appropriate and desirable to authorize the issuance of the Series 2008 Subordinate Bonds as variable rate Subordinate Bonds and to place all or a portion of the variable rate interest obligation of the City on the interest rate basis desired by the City, as will provide a desirable restructuring of debt or benefits to the manageability and convenience of the bond financing and refunding program for the System.

Section 6. Official Statement. The form of Official Statement relating to the Series 2008 Subordinate Bonds (the "Official Statement"), submitted to this meeting is hereby approved for use in connection with the public offering of the Series 2008 Subordinate Bonds, with such

changes as may be approved by the Authorized City Representatives. Said Authorized City Representatives are also hereby authorized and directed to cause the printing and delivery of the Official Statement. The distribution of the Official Statement in connection with the public offering of the Series 2008 Subordinate Bonds is hereby approved.

Section 7. Approval of use of Commercial Paper Program. The issuance of Commercial Paper Notes under the commercial paper program as authorized under the Subordinate General Resolution to current refund certain Prior Obligations is hereby approved. Each Authorized City Representative is hereby authorized to execute and enter into the any necessary documents and take all necessary actions, upon the advice of counsel, deems necessary and appropriate to issue Commercial Paper Notes.

Section 8. Additional Actions. All actions heretofore taken by any officers, employees, agents or directors of the City, with respect to the issuance, delivery or sale of the Series 2008 Subordinate Bonds, or in connection with or related to any of the agreements or documents referenced herein or to the refunding of the Refunded Obligations or the issuance of the Commercial Paper Notes are hereby approved, confirmed and ratified; and the officers of the City and their authorized representatives, and each of the foregoing acting alone is, hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and to take any and all actions, and to execute and deliver such documents, agreements and certificates (including, but not limited to, the Tax Certificate), which they, or any of them, may deem necessary or advisable to effectuate the purposes of this Resolution and the lawful issuance and delivery of the Series 2008 Subordinate Bonds and any Commercial Paper Notes.

I hereby certify that the foregoing resolution was adopted by the Council of the City of Los Angeles, California, at a meeting thereof duly held on the 25th day of April, 2008.

FRANK T. MARTINEZ
CITY CLERK

By: _____
Deputy City Clerk

Approved as to form:

ROCKARD J. DELGADILLO
CITY ATTORNEY

By: _____
Assistant City Attorney

I CERTIFY THAT THE FOREGOING
RESOLUTION WAS ADOPTED BY THE
COUNCIL OF THE CITY OF LOS ANGELES
AT ITS MEETING OF APR 25 2008
BY A MAJORITY OF ALL ITS MEMBERS.



KAREN E. KALFAYAN
CITY CLERK

BY Marsha Keller
DEPUTY