

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: June 22, 2010 0220-02221-8639

To: Energy and Environment Committee

From: Miguel A. Santana, City Administrative Officer *DAH*

Subject: **WASTEWATER LOC EXTENSION/SUBSTITUTION (CF 08-0951)**

The CAO requests authority to extend/substitute agreements with banks providing credit facilities for the Wastewater System Commercial Paper program and Wastewater System Variable Rate Refunding Bonds Series 2008. This report is in response to concerns raised by Councilmember Perry during the Committee meeting on June 16, 2010. The following is a summary of the process our Office completed in determining our recommendations.

- We were advised by our Financial Advisors and some of the banks currently providing credit facilities that negotiating extensions on existing facilities generally results in cheaper fees, a more streamlined process and terms more favorable to the City than issuing a Request for Proposal and soliciting bids. Therefore, we reached out to the banks with whom we had existing credit facilities for Wastewater and initiated discussions.
- On Commercial Paper, one of the three current banks put the Wastewater Program on notice of termination effective June 30, 2010. The two remaining banks sought a replacement bank and presented a joint offer by the three banks.
- For the Series 2008 Bonds, one of the existing banks was unable to agree to an extension in a timely manner. Media reports about the City's deficits and the situation regarding the decision by DWP to withhold the \$73M transfer were prevalent during this time. Several banks, including one for the Series 2008 Bonds, expressed concerns about the City's finances and headline risk associated with doing business with the City which resulted in such extensive delays that it became unclear whether a transaction with them could be executed prior to the expiration of the existing credit facilities.
- We instructed our Financial Advisors to canvass the banks known to provide credit facilities for the amounts needed by the Wastewater Program to determine interest in providing facilities and fee ranges. We received expressions of interest from three banks. Of the three, one presented the most attractive offer as a replacement facility for the Series 2008 Bonds, as it was able to provide the full amount of the remaining facility alone and was willing to reduce its originally proposed pricing to match the level negotiated with the other bank. We determined that the joint offer on the Commercial Paper program was the most attractive option.
- We ultimately negotiated fees down by 30-40 bps from where the banks initially started.

- Our Financial Advisors confirm that this is comparable to what other agencies, including DWP, are currently paying for similar credit facilities.

If the decision is made to not proceed with these facilities, the Commercial Paper program will have to be terminated effective July 1, 2010. There is currently \$300 million outstanding which will become due and payable between June 25, 2010 and June 30, 2010 when the existing notes mature. We are in the process of refunding Commercial Paper with long-term bonds, but will not be able to complete the bond issue prior to June 30, 2010 when the current facilities expire. Absent credit facilities for the Series 2008 Bonds, the bond documents require the City to take all action necessary to either convert the bonds to fixed rate or to defease \$444 million in debt. In the interim, interest on these bonds will automatically increase to the maximum interest rate of 12 percent. Further, there would be significant negative effect on the City's ability to procure any new or renewal credit facilities in the future.

The following is an itemization of upcoming transactions our Office is working on:

<u>Est. Time</u>	<u>Amount</u>	<u>Program</u>
Q3 2010	\$400 million	Wastewater System (tax-exempt and taxable)
	\$4.8 million	Community Facility District No. 8 - Cascades
Q4 2010	\$50-270 million	Recovery Zone Facility Bonds (Private Activity Bonds)
	\$50 million	MICLA taxable Recovery Zone Economic Development Bonds
	\$100 million	MICLA tax-exempt lease revenue bonds
Q1 2011	\$120 million	General Obligation Bonds

While the Council has expressed serious concerns recently about engaging in business with financial institutions that are also the subject of litigation with the City, the above-mentioned process was undertaken with the understanding that the litigation did not pose a conflict since it was based on investment activities by the banks, unrelated to the underwriting or credit business of these financial institutions. If the decision is made to prohibit the City from doing business with the financial institutions named in the litigation, that would result in the elimination of those institutions most likely to extend credit to the City. However, our Office will handle future transactions consistent with whatever policy Council adopts.

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