Department of Water and Power the City of Los Angeles

ANTONIO R. VILLARAIGOSA
Mayor

Commission
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H. DAVID NAHAI,
Chief Executive Officer and General Manager

October 8, 2009

The Honorable City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Dear Members:

Subject: Issuance of $1.57 Billion of Power System Revenue Bonds

Pursuant to Charter Section 609, enclosed for approval by your Honorable Body is Resolution No. 4810, adopted by the Board of Water and Power Commissioners (Board) on October 6, 2009, approved as to form and legality by the City Attorney, authorizing the issuance of up to a maximum of $1.57 billion of Power System Revenue Bonds, to finance a majority of the Power System's capital improvement program for Fiscal Years 2009-2010 and 2010-2011. As directed by the Board, transmitted to you are supporting documents.

If there are any questions regarding this item, please contact Ms. Winifred Yancy, Manager – Government and Neighborhood Relations, at (213) 367-0025, or Mr. Mario Ignacio at (213) 367-0690.

Sincerely,

Barbara E. Moschos

Barbara E. Moschos
Board Secretary

BEM:rg
Enclosures: LADWP Resolution
Board Letter
Chief Financial Officer's Report
Letter from Public Resources Advisory Group
CAO Report

c/enc: Mayor Antonio Villaraigosa
Ms. Jan C. Perry, Chair, Energy and the Environment Committee
Mr. Gerry F. Miller, Chief Legislative Analyst
Mr. Miguel A. Santana, City Administrative Officer
Mr. Rafael Prieto, Legislative Analyst, CLA
Mr. William R. Koenig, Chief Administrative Analyst
Ms. Winifred Yancy
Mr. Mario Ignacio

INITIAL RESOLUTION
OF THE BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES

Authorizing the Borrowing of Up to $1,570,000,000 Pursuant to Section 609 of The Charter of The City of Los Angeles Through the Issuance of Revenue Bonds Payable from the Power Revenue Fund

Resolution No. 4810

BE IT RESOLVED BY THE BOARD OF WATER AND POWER COMMISSIONERS OF THE CITY OF LOS ANGELES:

Section 1. This Board of Water and Power Commissioners of the City of Los Angeles (the "Board") hereby determines that the public interest and necessity demand that the Department of Water and Power of the City of Los Angeles (the "Department") should borrow money pursuant to Section 609 of The Charter of The City of Los Angeles (the "Charter") for the purposes specified in Section 3 of this Resolution, and should issue and sell revenue bonds as herein provided (the "Bonds") payable from the Power Revenue Fund to evidence the indebtedness created by such borrowing.

Section 2. The Board hereby authorizes the issuance of the Bonds pursuant to the provisions of Section 609 of the Charter for the purposes specified in Section 3 of this Resolution.

Section 3. The Bonds are to be issued for the purpose of acquiring, constructing, installing, reconstructing, replacing, extending and/or improving electric energy rights, lands, rights-of-way, sites, facilities and/or property used for the generation, transportation, distribution and/or delivery of power for the benefit of the City of Los Angeles (the "City"), its inhabitants and its customers including, without limitation, the acquisition of all necessary or convenient easements and other rights with respect to land, electricity, fuel, fuel transportation facilities and interests therein and rights thereto, and the acquisition, construction and/or installation of all necessary or convenient facilities, structures, machinery, equipment, apparatus, materials and other property and property rights in connection with the Power Assets (as defined in the Charter).

Section 4. The maximum principal amount of the Bonds authorized by this Resolution is

ONE BILLION FIVE HUNDRED SEVENTY MILLION DOLLARS ($1,570,000,000)

and said Bonds are to be issued in one or more series or subseries at such time or times as the Board may determine.

Section 5. The maximum term for which any Bond is to run shall be forty-five years from the date of issuance of such Bond.

Section 6. The maximum interest cost to be incurred through the issuance of any Bond shall be twelve percent (12%) per annum. The manner of determining interest cost for the purpose of determining whether such interest cost is within such maximum is to ascertain the annual rate, compounded semiannually, such that the amounts payable on the Bond on the respective principal (including mandatory sinking fund redemptions) and interest payment dates discounted at such rate to the original issue date of the Bond is equal to the purchase price (net of accrued interest) of the Bond.

Section 7. This Board has received a report (the "Report") of the Chief Financial Officer of the Department stating that such officer has determined that a private sale of the Bonds will be of benefit to, and in the financial interests of, the Department and providing the reasons therefor. As authorized by subsection (d) of Section 609 of the Charter and Section 11.28.4 of Ordinance No. 172,353 of the City, as amended, constituting Article 6.5 of Chapter 1 of Division 11 of the Los Angeles Administrative Code (the "Procedural Ordinance"), this Board hereby authorizes the private sale of each series and subseries of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to Section 11.28.4(b) of the Procedural Ordinance as such team is composed at the time of the sale of such series or subseries; provided, however, that underwriters' discount (exclusive of initial issue discount) with respect to the Bonds shall not exceed one percent of the principal amount of the Bonds and any initial issue discount with respect to the Bonds shall not exceed ten percent of the principal amount of the Bonds to which such initial issue discount shall apply.

Section 8. The authorization of the issuance of the Bonds made by this Resolution is in addition to any and all other authorizations of the issuance of bonds on account of the Power System heretofore made by resolution of this Board.

Section 9. The Secretary of this Board shall forthwith transmit certified copies of this Resolution, together with the Report of the Department's Chief Financial Officer, to the offices of the Mayor, the City Clerk and the City Administrative Officer (previously the Director of the Office of Administrative and Research Services) pursuant to Subsections (a) and (d) of Section 609 of the Charter and Sections 11.28.2 and 11.28.4 of the Procedural Ordinance.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held OCT 0 6, 2009.

Barbara E. Moschos
Secretary

APPROVED AS TO FORM AND LEGALITY
CARMEN A. TRUTANICH, CITY ATTORNEY

AUG 10 2009

BY Priscila E. Castillo
PRISCILA E. CASTILLO
DEPUTY CITY ATTORNEY

LADWP BOARD APPROVAL LETTER

TO: BOARD OF WATER AND POWER COMMISSIONERS	DATE: October 2, 2009
RAMAN RAJ Chief Operating Officer H. DAVID NAHAI Chief Executive Officer and General Manager JEFFERY L. PELTOLA Chief Financial Officer	SUBJECT: **Authorization to Issue up to $1.57 Billion of Power System Revenue Bonds**
	FOR COMMISSION OFFICE USE:
CITY COUNCIL APPROVAL REQUIRED: Yes ☒ No ☐ — IF YES, BY WHICH CITY CHARTER SECTION: 609	

PURPOSE

Transmitted for approval by your Honorable Board is Resolution No. 4810, approved as to form and legality by the City Attorney, which, if adopted, would authorize the issuance of up to a maximum of $1.57 billion of Power System Revenue Bonds (Bonds), payable from the Power Revenue Fund. The Bonds will be used to finance a majority of the Power System's capital improvement program for the Fiscal Years 2009-2010 and 2010-2011.

Resolution No. 4810 is an "initial resolution" of the Board of Water and Power Commissioners (Board), setting forth the purpose for future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 4810 also provides for the private sale of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to the Procedural Ordinance. The Financial Services Organization (FSO) will present "supplemental resolutions" that will authorize the specific terms and conditions for the Bonds, including the lead underwriters that will be selected from among the Department's investment banking team members and the principal financing documents related to the Bonds, at a future Board meeting.

BACKGROUND

The Power System's five-year financial plan for Fiscal Year 2009-2010, approved by the Board on June 16, 2009, reflected a need to borrow approximately $1.57 billion over the next two years in order to support its planned $2.13 billion capital improvement program over the same period. This authorization will provide FSO the flexibility to issue the

Bonds either on a combined basis or separately within the current or next year, depending on the rate of capital spending. If separately, the authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously.

The American Recovery and Reinvestment Act (ARRA) of 2009 provides direct funding and subsidies to state and local governments. One of the programs is the New Taxable Bond Option also called Build America Bonds (BAB), where governmental entities can elect to issue taxable bonds in lieu of tax-exempt bonds for governmental purposes for bonds issued in 2009 and 2010. The Federal Government would reimburse the issuer 35 percent of the interest payment for BAB. There is no limitation on the amount of BAB that can be issued; however, the program requires that BAB be issued no later than December 31, 2010. Based on the fixed-rate BAB transactions completed since April 2009, the net interest cost appears favorable when compared to tax-exempt interest cost. The current interest rate environment and the BAB program provide the Power System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Power System and would be drawn down to fund a portion of its capital improvement program.

Both the Department's Chief Financial Officer (CFO) and Public Resources Advisory Group (PRAG) recommend the Bonds be sold on a negotiated basis (i.e., private sale). The CFO's Report in connection with the proposed private sale, as required by Charter Section 609 is attached. Also, attached is the report setting forth PRAG's opinion with respect to a private sale.

COST AND DURATION

The total estimated costs for a $1.57 billion bond issue, including principal and interest, is approximately $2,838,600,000.00 over 30 years based on current interest rates for tax-exempt bonds and BAB. The debt issuance costs are estimated at $11,863,500.00, representing 0.75 percent of the total bond issue which includes underwriter's discount, bond counsel, financial advisor, and rating agencies fees.

FUNDING SOURCE

Financial transactions for principal and interest payments are budgeted and funded under the Power Revenue Fund:

Fiscal Year:	Fiscal Year 2009-2010 through Fiscal Year 2013-2014
Functional Item No.:	303-3200
Location in Budget:	Joint Book, FI details tab, page 16 of 55

FISCAL IMPACT STATEMENT

Resolution No. 4810 would increase future principal and interest costs of the Power Revenue Fund by approximately $94,621,000.00 annually.

ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that this action is exempt pursuant to the General Exemption described in the CEQA Guidelines, Section 15061(b)(3). General Exemptions apply in situations where it can be seen with reasonable certainty that there is no possibility that the activity in question may have a significant effect on the environment.

CONFLICT OF INTEREST STATEMENT

All conflict of interest procedures were followed. No conflict of interest issues were identified.

RECOMMENDATION

Mayoral and City Council approval are required.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report is attached.

It is recommended that your Honorable Board adopt Resolution No. 4810.

MCI/JD:jms
Attachments
c/att: H. David Nahai
Raman Raj
Richard M. Brown
Aram Benyamin
James B. McDaniel
Jeffery L. Peltola
Cecilia K.T. Weldon
Maria Sison-Roces
Mario C. Ignacio
Judith Daco

CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power,
Power System Revenue Bonds

This report is being delivered in connection with the proposed private sale of Los Angeles Department of Water and Power, Power System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Power System's financial plan for Fiscal Year 2009-10, approved by the Board of Water and Power Commissioners (Board) on June 16, 2009, indicates a need to borrow approximately $1.57 billion over two years, starting in fiscal year 2009-2010, to support its planned $2.13 billion capital improvement program over the same period. Depending on the rate of capital spending, the authorization will provide the Financial Services Organization (FSO) the flexibility to issue the Bonds either on a combined basis or separately within the current or following year. If separately, the combined authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously. The current interest rate environment also provides the Power System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

Due to the size of the proposed bond issue, efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Bonds consistent with the goals set forth in the Department's Outreach Program, the desire to coordinate the timing of what continues to be a volatile interest rate environment, and the desire to implement a retail order period aimed at reducing borrowing costs, I have determined that a private sale of the Bonds would be of benefit to the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4810.

JEFFERY L. PELTOLA
Chief Financial Officer

PRAG

40 RECTOR STREET, SUITE 1600
NEW YORK, NEW YORK 10006
TEL: (212) 566-7800 | FAX: (212) 566-7816

PUBLIC RESOURCES ADVISORY GROUP

August 13, 2009

Mr. Mario Ignacio
Assistant CFO and Treasurer
Department of Water and Power of
the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Ignacio:

The Department of Water and Power of the City of Los Angeles (the "Department") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to the Department, discuss the merits of a negotiated bond transaction for the issuance of new money related to the Department's Power System ("Power Bonds"). It is our understanding that the sales of Power Bonds will equal up to $1.57 billion and may be issued as traditional Power System Revenue Bonds, Clean Renewable Energy Bonds and/or Build America Bonds.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer and same credit. In general, however, PRAG believes that all things being equal a competitive sale will provide an issuer with the lowest cost of funds for the majority issuances, but not necessarily in all cases. Other important factors and market circumstances have a pronounced affect on the decision for issuers to negotiate bond sales. The following are some of the factors that the Department faces with the upcoming sales of Power Bonds that support the decision to issue bonds on a negotiated basis:

- Negotiated sales will allow for the Department to provide meaningful roles for local and regional firms;
- Negotiated sales permit the use of retail order periods and retail investors can be an important factor in the market, as the retail buyer is less sensitive to price compared to the institutional investor;
- Negotiated sales allow the Department to structure specific portions of the issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-callable bonds, specified par amounts, non-traditional couponing and similar features);
- Negotiated bond sales allow the Department to attempt to avoid the recent high volatility in the public capital markets, resulting from wide shifts in credit spreads, interest rates and investor demand, through increased flexibility in timing the pricing of debt.
- There has never been a fixed-rate competitive sale as large as $1.57 billion in the tax-exempt public credit markets.

PRAG

In our opinion, the factors above should be considered by the Department when making the decision to issue bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call Ed Soong 310-477-1453 or me at 212-566-7800 if you have any questions on this matter.

Sincerely,

William W. Cobbs

William W. Cobbs
Chairman

TRANSMITTAL		0220-04523-0000
TO H. David Nahai, General Manager Department of Water and Power	DATE OCT 01 2009	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT

Requested Authority to Issue $1.57 Billion in Power System Revenue Bonds

Transmitted for further processing. See the City Administrative Officer report attached.

MAYOR

MAS:OAV:10100059T

CAO 649-d

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 1, 2009

CAO File No. 0220-04523-0000
Council File No. –
Council District: –

To: The Mayor

From: Miguel A. Santana, City Administrative Officer

Reference: Letter from the General Manager, Department of Water and Power, dated August 19, 2009; referred for report August 29, 2009;

Subject: **REQUESTED AUTHORITY TO ISSUE $1.57 BILLION IN POWER SYSTEM REVENUE BONDS**

SUMMARY

The Department of Water and Power (DWP) requests approval of the Board of Water and Power Commissioners Resolution No. 4810 (Resolution) which authorizes the issuance of $1.57 billion in Power System Revenue Bonds, in order to finance a majority of the Power System's capital program during the Fiscal Years 2009-10 and 2010-11. This request is based upon the projected capital program requirements in the 2009-10 Budget and five-year financial plan approved by the Board of Water and Power Commissioners on June 16, 2009.

The DWP Power System capital program for fiscal years 2010-2014 is focused on several strategic priorities including the Renewable Portfolio Standard (RPS), Infrastructure and the Power Reliability Program, the Integrated Resource Plan (IRP), and Generation Improvement Programs. The Department states that the Resolution is an 'initial resolution' of the Board of Water and Power Commissioners (Board), which sets forth the purpose for future indebtedness and establishes the maximum limit as to principal, interest costs, and term. The Resolution also provides for the private or negotiated sale of the bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609 (d) and Los Angeles Administrative Code Section 11.28.4 (the Procedural Ordinance). In accordance with Section 609(a), Mayor and Council approval is required for this bond issuance.

BACKGROUND

For the five-year period that began on July 1, 2009, the Department expects to invest approximately $5.8 billion on capital improvements to the Power System. The Department intends to pay the costs of the distribution system projects, transmission system projects, and generation system projects with internally generated funds and through the issuance of revenue bonds. The DWP 2009-10 Proposed Five-Year Budget Plan provides for a capital improvement program consisting of a number of strategic priorities including: Infrastructure and Power Reliability; the Renewable Portfolio Standard (RPS); the Integrated Resources Plan (IRP); and Generation Improvement Programs. The Power System projects to be funded focus primarily on increasing and diversifying renewable energy resources sufficiently to meet the Board established 20 percent renewable portfolio goal by the year

2010 and 35 percent by the year 2020; and improving and upgrading electrical generation, transmission and distribution infrastructure and system reliability.

A listing of the projected five-year capital commitments of the Power System Capital program is provided below.

- *Infrastructure and Power Reliability - $2.568 Billion*
  - Temporary Circuits Restoration
  - Power Pole Replacement
  - Cable Replacement; and
  - Various Generating Station Improvements

- *Renewable Portfolio Standard (RPS) - $0.954 Billion*
  - Major Transmission Systems (Pine Tree; Barren Ridge-Castaic; Green Path North; and the Southern Transmission System Upgrade)
  - Existing Resources (aqueduct; Hyperion digestion; Lopez Canyon microturbines; solar rooftops; landfill gas projects; and the Wyoming Wind project)
  - Planned Resources (Wind, Geothermal; Biomass; and Large Scale Solar projects); and,
  - Various Southern California Public Power Authority (SCPPA) projects

- *Integrated Resources Plan (IRP) - $1.084 Billion*
  - Generating Station Repowering projects (Haynes; Scattergood; and Castaic modernization)

- *Generation and Infrastructure Improvements - $543 Million*
  - Repair as well as replacement of aging and inefficient equipment

Capital Program Financing

The Department's five-year financial plan, approved each year by the Board of Water and Power Commissioners, incorporates the Capital program and budget estimates into the five-year plan. The Power System's 2009-10 five-year plan approved by the Board on June 19, 2009, reflected the need to debt finance approximately $1.57 billion over the next two fiscal years in order to support a planned $2.13 billion capital improvement program over the same time period. The intent of this Resolution is to provide the DWP with flexibility to issue bonds either on a combined basis or separately within the current or subsequent fiscal year, based upon the rate of capital project spending. The maximum interest cost to be incurred through the issuance of the bonds is twelve percent per annum; the maximum term for any bond to run is 45 years from the date of issuance. The Department states that approval of the Resolution would increase future principal and interest costs to the Power Revenue Fund by approximately $94.6 million annually. The additional debt service incurred by this new issuance is subject to Master Bond Resolution debt covenants. Significant bond covenants include the requirement that the Power System adjusted net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and future annual aggregate bond interest and principal maturities. The most restrictive covenant is the additional bonds test. This covenant requires the adjusted net income for the applicable calculation period (12 months) shall amount to at least 1.25 times the maximum annual adjusted debt service on all parity obligations.

The chart below illustrates the Power System's compliance with this debt covenant. For the last ten years, the Power Revenue Fund's Net Available Revenue Coverage and Net Operating Cash Flow Coverage exceeded the 1.25 debt service covenant requirement. The Power System has also maintained a recommended Debt Service Coverage Ratio of 2.0, as outlined in a recent independent revenue requirements study.[1] In addition, the 2006 edition of the *U.S. Public Power Peer Study* published by Fitch Ratings, the financial performance of the DWP compared favorably with other public power systems nationwide. The *Study* is based on several Financial Ratios that measure operating cash coverage; liquidity; and debt burden. A comparison of the DWP Financial Ratios with other Fitch-rated public power utilities is provided in Attachment I.

Power Revenue Fund Revenue Bonds and Notes
Pledged- Revenue Coverage
Last Ten Fiscal Years
(Dollar amounts expressed in thousands)

Fiscal Year	Operating Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service (3)	Net Available Revenue Coverage	Net Operating Cash Flow	Net Operating Cash Flow Coverage (4)
1999	2,281,861	1,520,573	761,288	202,260	3.8	684,086	3.4
2000	2,508,213	1,636,106	872,107	369,659	2.4	775,215	2.1
2001	3,257,949	2,358,944	899,005	238,549	3.8	664,053	2.8
2002	2,457,375	1,568,032	889,343	189,338	4.7	784,933	4.1
2003	2,318,167	1,655,240	662,927	168,119	3.9	792,585	4.7
2004	2,437,461	1,771,230	666,231	170,466	3.9	505,187	3.0
2005	2,401,458	1,835,594	565,864	189,105	3.0	611,579	3.2
2006	2,665,535	2,002,695	662,840	218,199	3.0	537,578	2.5
2007	2,799,140	1,996,649	802,491	267,144	3.0	507,934	1.9
2008	2,989,725	2,176,056	813,669	250,484	3.2	469,188	1.9

(1) Operating revenues include capital contributions, net non-operating revenues and allowance for funds used during construction.
(2) Operating expenses do not include depreciation and amortization expenses.
(3) Debt service includes principal and interest payments on bonds and commercial paper notes.
(4) Net operating cash flow coverage is presented to show the Funds' ability to generate sufficient cash flow to cover debt service costs.

Source: Office of the Controller, City of Los Angeles, FY 2006 Comprehensive Annual Financial Report; December 2006.

2007-08 Power System Financial Ratios

The Power System's five-year financial plan for Fiscal Year 2009-10, as approved by the Board on June 19, 2009, projects favorable, creditworthy Financial Ratios for 2009-10, and for the years 2010 through 2014. Debt Service Coverage (the extent to which revenues are sufficient to fund operating expenses plus debt service; expressed as revenues/total debt service); Additional Bond Test (per the

[1] In the April 22, 2006 *DWP Revenue Requirements Study*, the Barrington-Wellesley Group, Inc. recommended a Financial Objective for the DWP to 'maintain Debt Service Coverage Ratio of around 2.0 times' the maximum annual debt service.

Master Bond Resolution, requires a net income amount of at least 1.25 times the total annual adjusted debt service); and Capitalization Factor (percentage of total debt vs. total equity) are provided in the chart below.

Power System Projected Revenue/Net Income & Financial Ratios - Fiscal Years 2009-14 *(Dollars in millions)*						
	2009	*2010*	*2011*	*2012*	*2013*	*2014*
Revenue	$ 2,900	$ 3,242	$ 3,591	$ 3,873	$ 4,143	$ 4,405
Net Income	$ 407	$ 405	$ 428	$ 512	$ 593	$ 744
Financial Ratios						
Debt Service Coverage	2.89	2.26	2.26	2.44	2.30	2.37
Additional Bond Test	2.1	2.2	2.1	2.1	2.2	2.3
Capitalization Factor	52.9%	54.3%	56.7%	58.7%	59.5%	59.4%
Source: Department of Water & Power - Budget, Rates and Efficiency Division						

Negotiated/Private Bond Sale Request

In developing a method of financing the Capital program, the Department has requested authority to conduct private, negotiated sales of bonds to one or more investment banking firms. In March 2008, pursuant to the Procedural Ordinance, DWP issued a Request for Qualifications (RFQ) for Investment Banking Purposes and received 27 responses. Listed below are the 12 firms competitively selected by the Board to serve as the Department's underwriting team. The underwriting team was approved on August 5, 2008 for a term of three years.

Department of Water and Power Selected Underwriting Team

- Citigroup Global Markets, Inc.
- E.J. De La Rosa & Co., Inc.
- Goldman Sachs & Co..
- JP Morgan Securities Inc.
- Morgan Stanley & Co., Inc.
- Siebert Branford Shank & Co., LLC
- Backstrom McCarley Berry & Co., LLC
- Fidelity Capital Markets Services
- Loop Capital Markets, LLC
- Ramirez & Co., Inc.
- RBC Capital Markets, Inc.
- Wachovia Bank, National Association

Different members of the team are selected to participate in different bond deals; however not all members are utilized during the year. The team members for each deal are selected based on the size of the bond and the complexity of the deal.

Charter Section 609 Compliance

Section 609 of the City Charter requires that the Council and Mayor approve issuance of debt for the proprietary departments. Although the City's Debt Management Policy states that the issuance of debt shall be through a competitive sale whenever feasible, Section 609 (d) allows the private sale of bonds subject to the following conditions:

- The Board has authorized the sale of bonds pursuant to private sale after written recommendation of the Chief Financial Officer stating the reasons why a private sale will benefit the Department;

- The Council, after receiving a report from the City Administrative Officer, has approved the sale; and
- The Council be provided an opportunity, as set forth in the Procedural Ordinance, to disapprove the selection by a department of the underwriting firm(s) for the private sale of bonds

In complying with the Charter provisions, the DWP Chief Financial Officer (CFO) provided a report recommending the private sale of the proposed bond issuance (Attachment II). Among the benefits to the DWP of a private sale, the CFO states that this type of issuance allows for favorable interest rates; provides meaningful opportunities for local and regional Minority/Women/Small Business Enterprises; coordinates the timing of a volatile interest rate environment; and offers the ability to structure specific portions of the issuance to meet investor demand. In a written opinion dated August 13, 2009, the DWP's financial advisor, Public Resources Advisory Group, also identified several factors that support the decision to issue the bonds on a private, negotiated basis. (Attachment III).

Debt Issuance Costs

Debt issuance costs are estimated by the DWP at approximately $11.86 million for the total $1.57 billion new bond issuance. A detail of the services provided and the estimated debt issuance costs are included in the chart below.

Debt Issuance Costs - $1.57 Billion Power System Revenue Bonds		
Service	***Estimated Cost***	
Rating Agencies	$	570,000
Financial Advisor		106,000
Bond/Underwriter's Counsel		450,000
Disclosure Counsel		100,000
Underwriter's Discount		10,597,500
Bond Insurance		-
Printing of Official Statements		40,000
TOTAL	$	11,863,500

Competitive v. Negotiated Bond Sale

The advantages and disadvantages of a competitive versus negotiated bond sale can be debated on their own individual merits. Charter Section 609 and the City's adopted Debt Management Policy require the sale of revenue bonds through a competitive basis. This Office has traditionally advocated for the issuance of bonds through a competitive sale, as competitive sales are conducted through an open process and most often result in the lowest cost of borrowing to the City. However, with respect to this issuance, a negotiated sale may be more advantageous to the DWP. A negotiated sale would allow for additional explanation of replacing aging infrastructure and power reliability efforts in order to develop sufficient market interest as well as to explain why the bonds are a solid investment. In addition, due to the size of the proposed negotiated sale, the ability of the DWP to meet departmental Outreach Program goals for minority, women and other business enterprises while actively promoting participation in the sale of Department revenue bonds would be enhanced.

Indebtedness

As of June 30, 2009, the Power System reported approximately $5.29 billion in long-term debt consisting of revenue bonds and refunding revenue bonds payable from the Power Revenue Fund. The following table identifies recent Power System long-term debt activity.

Power System Long-Term Debt Activity - New Issuances				
Fiscal Year	*Issuance*	*Rate*	*Purpose*	*Type of Sale*
2009	172.1 million	Fixed	Refunding Bonds	Negotiated
2009	123.1 million	Fixed	Refunding Bonds	Negotiated
2009	550.0 million	Fixed	Capital Improvements	Negotiated
2008	125.0 million	Fixed	Capital Improvements	Negotiated
2008	528.8 million	Fixed	Capital Improvements	Negotiated

The American Recovery and Reinvestment Act (ARRA) – Build America Bonds (BAB)

The ARRA of 2009 provides for direct funding and subsidies to state and local governments through the Build America Bonds (BAB) program. This program authorizes government entities to issue taxable bonds in lieu of tax exempt bonds for governmental purposes in 2009 and 2010. The Federal Government will reimburse the issuer 35 percent of the interest payment on bonds issues under BAB. There is no limitation on the qualified amount that can be issued under BAB; however, the bonds must be issued no later than December 31, 2010. The procedural funding mechanism has yet to be identified by the Federal Government; however, the qualification standards clearly apply to the two year DWP Bond issue.

Based on estimates from DWP for the fixed rate BAB transactions completed since April 2009, the net interest cost appears favorable when compared to the interest cost of tax-exempt bonds, which continues to be monitored by DWP staff. The Department indicates that the taxable Bonds will increase the pool of investors from a California only pool to include other states, which increases the chances of receiving purchases from additional investors. The current interest rate environment and the BAB program can provide the Power System with an opportunity to lower its interest cost by issuing bonds to finance the capital program at favorable interest rates.

Renewable Portfolio Standard Capital Program Bonds

The Department has indicated that the five year capital program includes $954 million for the Renewable Portfolio Standard (RPS), which includes planned future resources for wind, geothermal, biomass, and large scale solar projects. The Council has approved 12 DWP renewable projects that will allow DWP to provide approximately 18 percent of its electricity from renewable sources by 2010.

An additional request for a purchased power agreement for the Niland Solar Farm Project, which includes an option to purchase the Project, is currently on file for consideration by the Council which will increase the percentage to 19 percent. The CAO has reviewed this request in light of the current state of DWP's renewable energy goals and recommended approval. As also recommended in that CAO report, because there have been 12 other renewable projects approved by the Council DWP should provide regular status reports on the RPS Program. The status report should include the impact of the RPS on DWP's budget, revenue requirements, and anticipated impact on the ratepayers.

RECOMMENDATION

That the Mayor:

1. Approve the Board of Water and Power Commissioners' Resolution No. 4810 authorizing the Department of Water and Power to issue $1.57 billion in Power System Revenue Bonds through private sales; and

2. Approve the use of the proposed underwriters, and return the Resolution for further processing, including Council consideration.

3. Instruct Department of Water and Power to report back in 30 days and every 90 days after to the Mayor and the City Council on the status of the Renewable Portfolio Standard (RPS) Program, including its impact on the Department of Water and Power's budget, revenue requirements, and anticipated impact on the ratepayers.

FISCAL IMPACT STATEMENT

The Department of Water and Power estimates the net impact of this issuance will be to increase debt service costs of the Power System Revenue Fund by approximately $94.62 million annually. One-time costs of issuance from the Power System Revenue Fund are estimated at approximately $11,863,500. One-time costs consist of underwriter's discount; bond counsel, financial advisor; and ratings agencies fees. There is no projected impact on the City General Fund.

TIME LIMIT FOR COUNCIL ACTION

Pursuant to Charter Section 609(a), the issuance of Revenue Bonds shall be transmitted to the Council and Mayor for their approval or disapproval. The Charter does not specify a time limit for this action by the Council and Mayor. The Los Angeles Administrative Code Section 11.28.2 (the Procedural Ordinance) "Revenue Bonds and Other Obligations", states the "Time Period" shall consist of the longer of thirty (30) calendar days or five (5) consecutive Council meetings (convened in regular session) following the receipt by the Council from the City Clerk of certified copies of such resolution.

MAS:OAV:10100059

Attachments

Financial Ratios by Rating Category — All Retail Systems

Rated Company	Region	Debt-Service Coverage (DSC) (x)	Adj. DSC(x)	Coverage of Full Obligations	Debt/FADS (x)	Adj. Debt/FADS (x)	Days Cash On Hand	Days Liquidity On Hand	Equity/Capitalization	Adj. Equity/Capitalization	General Fund Transfer/Revenue	Variable Rate Exposure/Capitalization	Total Debt/Customer
'AA+' Rated Senior Debt													
Chelan County Public Utility District No. 1 (Wash.)	WECC — Northwest	1.61	1.53	1.53	9.5	9.4	358	358	17.4	16.4	2.7	0.0	NR
San Antonio (Texas) (CPS Energy)	ERCOT	2.31	2.31	1.47	5.2	5.2	171	170	43.8	43.8	13.1	12.0	5,792
Median		1.96	1.92	1.50	7.3	7.3	264	264	30.6	30.1	7.9	6.0	5,792
'AA' Rated Senior Debt													
Chattanooga - Electric Power Board (Tenn.)	SERC	8.92	1.31	1.29	7.3	7.8	103	103	48.0	18.7	2.1	0.0	1,774
Colorado Springs Utilities	WECC — Mid	1.63	1.63	1.39	9.4	9.4	80	109	38.6	38.6	3.4	5.2	7,845
Grant County Public Utility District No. 2 (Wash.)	WECC — Northwest	1.95	1.83	1.83	6.2	6.3	249	249	42.6	40.3	3.6	0.0	NR
Lincoln (Neb.) — Electric System	SPP	1.96	1.67	1.67	8.0	8.0	94	363	24.6	21.1	4.1	9.8	5,507
Memphis (Tenn.) — Memphis Light, Gas & Water	SERC	13.71	1.34	1.22	0.2	5.9	58	58	98.2	29.6	2.9	0.0	44
Nashville (Tenn.) — Electric System	SERC	2.52	1.21	1.21	5.5	7.3	37	47	46.7	16.2	2.4	0.0	1,507
Omaha Public Power District (Neb.)	Midwest	1.51	1.38	1.38	8.1	8.1	25	121	45.3	40.2	2.8	0.0	5,745
Orlando Utilities Commission (Fla.)	FRCC	2.01	1.53	1.23	5.6	6.4	151	151	39.2	28.4	8.5	0.0	8,321
Springfield (Mo.) — City Utilities (Electric)	SPP	1.88	1.50	1.45	9.4	9.0	331	331	47.9	40.5	1.0	0.0	7,376
Median		1.96	1.50	1.38	7.3	7.8	94	121	45.3	29.6	2.9	0.0	5,625
'AA–' Rated Senior Debt													
Anaheim Public Utilities Department (Calif.)	WECC — California	1.67	1.26	1.15	8.2	8.1	146	145	35.0	21.8	3.5	0.0	5,471
Austin Combined Utility System (Texas)	ERCOT	2.03	2.03	1.63	5.0	5.0	80	80	0.4	0.4	0.1	0.0	7,947
Concord (N.C.) Utilities System	SERC	2.34	1.59	1.58	4.1	5.5	181	181	66.1	48.6	0.4	0.0	998
Hydro-Quebec	Other	2.23	2.23	1.63	4.6	4.6	290	290	32.9	32.9	16.5	6.8	
JEA (Fla.) — Electric	FRCC	2.38	1.75	1.44	9.3	9.0	33	53	11.6	9.1	5.9	24.8	7,861
Los Angeles Department of Water and Power (Calif.)	WECC — California	3.05	2.12	1.73	6.5	6.8	65	154	47.0	39.9	6.5	13.8	3,447
New Braunfels Utilities (Texas)	ERCOT	5.62	1.73	1.53	1.2	4.5	181	181	88.6	52.2	4.6	0.0	983
Pasadena (Calif.) — Water and Power Department	WECC — California	4.21	1.93	1.69	3.0	4.8	173	173	71.8	50.0	6.1	0.0	2,770
Riverside Public Utilities (Calif.)	WECC — California	2.46	2.46	1.69	6.3	6.3	125	125	39.4	39.4	9.0	0.0	5,177
Rochester Public Utilities (Minn.)	Midwest	4.13	4.13	3.02	2.9	2.9	99	99	0.0	0.0	5.7	4.5	1,928
Snohomish County Public Utility District No. 1 (Wash.)	WECC — Northwest	3.71	2.06	2.06	2.5	4.1	376	384	62.7	41.7	0.0	0.0	1,798
Tallahassee (Fla.) — Energy System	FRCC	2.42	2.06	1.55	5.7	6.0	102	102	43.8	39.4	6.3	0.0	5,010
Median		2.44	2.04	1.63	4.8	5.2	135	150	41.6	39.4	5.8	0.0	3,447

[a]Unaudited 2008 Financials. [b]2007 Financials. FADS Funds available for debt service. ERCOT Electric Reliability Council of Texas. FRCC Florida Reliability Coordinating Council. NR Not relevant. SERC Southeastern Electric Reliability Council. SPP Southwest Power Pool. WECC Western Electricity Coordinating Council. *Continued on next page.*
Source: Fitch Ratings.

Attachment II

CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power,
Power System Revenue Bonds

This report is being delivered in connection with the proposed private sale of Los Angeles Department of Water and Power, Power System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Power System's financial plan for Fiscal Year 2009-10, approved by the Board of Water and Power Commissioners (Board) on June 16, 2009, indicates a need to borrow approximately $1.57 billion over two years, starting in fiscal year 2009-2010, to support its planned $2.13 billion capital improvement program over the same period. Depending on the rate of capital spending, the authorization will provide the Financial Services Organization (FSO) the flexibility to issue the Bonds either on a combined basis or separately within the current or following year. If separately, the combined authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously. The current interest rate environment also provides the Power System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

Due to the size of the proposed bond issue, efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Bonds consistent with the goals set forth in the Department's Outreach Program, the desire to coordinate the timing of what continues to be a volatile interest rate environment, and the desire to implement a retail order period aimed at reducing borrowing costs, I have determined that a private sale of the Bonds would be of benefit to the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4810.

JEFFERY L. PELTOLA
Chief Financial Officer

Attachment III

PRAG

40 RECTOR STREET, SUITE 1600
NEW YORK, NEW YORK 10006
TEL: (212) 566-7800 | FAX: (212) 566-7816

PUBLIC RESOURCES ADVISORY GROUP

August 13, 2009

Mr. Mario Ignacio
Assistant CFO and Treasurer
Department of Water and Power of
the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Ignacio:

The Department of Water and Power of the City of Los Angeles (the "Department") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to the Department, discuss the merits of a negotiated bond transaction for the issuance of new money related to the Department's Power System ("Power Bonds"). It is our understanding that the sales of Power Bonds will equal up to $1.57 billion and may be issued as traditional Power System Revenue Bonds, Clean Renewable Energy Bonds and/or Build America Bonds.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer and same credit. In general, however, PRAG believes that all things being equal a competitive sale will provide an issuer with the lowest cost of funds for the majority issuances, but not necessarily in all cases. Other important factors and market circumstances have a pronounced affect on the decision for issuers to negotiate bond sales. The following are some of the factors that the Department faces with the upcoming sales of Power Bonds that support the decision to issue bonds on a negotiated basis:

- Negotiated sales will allow for the Department to provide meaningful roles for local and regional firms;
- Negotiated sales permit the use of retail order periods and retail investors can be an important factor in the market, as the retail buyer is less sensitive to price compared to the institutional investor;
- Negotiated sales allow the Department to structure specific portions of the issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-callable bonds, specified par amounts, non-traditional couponing and similar features);
- Negotiated bond sales allow the Department to attempt to avoid the recent high volatility in the public capital markets, resulting from wide shifts in credit spreads, interest rates and investor demand, through increased flexibility in timing the pricing of debt.
- There has never been a fixed-rate competitive sale as large as $1.57 billion in the tax-exempt public credit markets.

PRAG

In our opinion, the factors above should be considered by the Department when making the decision to issue bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call Ed Soong 310-477-1453 or me at 212-566-7800 if you have any questions on this matter.

Sincerely,

William W. Cobbs

William W. Cobbs
Chairman