

Los Angeles  Department of Water & Power

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Mayor

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MARCIE L. EDWARDS
General Manager

August 20, 2014

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

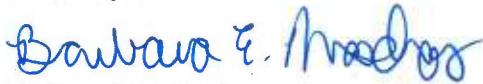
Honorable Members:

Subject: Authorizes the Issuance up to a Maximum of \$271 Million Water System Revenue Bond

Pursuant to Charter Section 609, enclosed for approval by your Honorable Body is Resolution No. 4882, adopted by the Board of Water and Power Commissioners on August 19, 2014, approved as to form and legality by the City Attorney, which authorizes the issuance up to a maximum of \$271 million in Water System Revenue Bonds.

If additional information is required, please contact Ms. Winifred Yancy, Director of Intergovernmental Affairs and Community Relations, at (213) 367-0025.

Sincerely,



Barbara E. Moschos
Board Secretary

BEM:oja

Enclosures: LADWP Resolution
Board Letter
CAO Report
Chief Financial Officer's Report
Public Resources Advisory Group Letter
Summary of Statements Received from LADWP's Pool of
Underwriters Providing Investment Banking Services as Required
by Ordinance No. 182138, the Responsible Banking Ordinance

Los Angeles Aqueduct Centennial Celebrating 100 Years of Water 1913-2013

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c/enc: Mayor Eric Garcetti

Councilmember Felipe Fuentes, Chair, Energy and the Environment Committee

Gerry F. Miller, Chief Legislative Analyst

Miguel A. Santana, City Administrative Officer

Rafael Prieto, Legislative Analyst, CLA

William R. Koenig, Chief Administrative Analyst

Winifred Yancy

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

**Authorizing the Borrowing of Up to \$271,000,000 Pursuant to Section 609 of
The Charter of The City of Los Angeles Through the Issuance of
Revenue Bonds Payable from the Water Revenue Fund**

Resolution No. 4882

**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 Water 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 financing one or more Capital Improvements to the Water System (as such terms are defined in Resolution No. 4591 (the "Master Bond Resolution") adopted by the Board on February 6, 2001).

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

TWO HUNDRED SEVENTY-ONE MILLION DOLLARS (\$271,000,000)

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 rate on any Bond shall be twelve percent (12%) per annum. For this purpose, the interest rate shall be the rate at which the sum of the present values of all payments of principal and interest on such Bond equals the sale proceeds of such Bond received by the Department. Present values shall be calculated using a year of twelve, 30-day months with semi-annual compounding.

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 of Los Angeles (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. As provided in Section 11.28.5 of the Procedural Ordinance, in connection with, or incidental to, the issuance or carrying of the Bonds, the Department may enter into one or more credit enhancement or liquidity agreements (each for purposes of this Resolution and the Master Bond Resolution, a "Credit Support Agreement") with one or more banks, insurance companies or other financial institutions approved by the Board which shall contain such payment, interest rate, security, default, remedy and other terms and conditions as shall be approved by the Board. Notwithstanding Section 6 of this Resolution, the maximum stated interest rate payable by the Department in any year on amounts due under such Credit Support Agreement, including the interest rate on Credit Provider Bonds (as defined in the Master Bond Resolution), shall be twenty percent (20%).

Section 9. 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 Water System heretofore made by resolution of this Board.


Section 10. 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

AUG 19 2014


Secretary

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY

JUL 31 2014
BY 
PRISCILA CASTILLO KASHA
DEPUTY CITY ATTORNEY





Los Angeles
Department of
Water & Power

17
RESOLUTION NO. 4882

BOARD LETTER APPROVAL

Handwritten signature of Philip Leiber in blue ink.

PHILIP LEIBER
Chief Financial Officer

Handwritten signature of Marcie L. Edwards in blue ink.

MARCIE L. EDWARDS
General Manager

DATE: August 7, 2014

SUBJECT: Initial Authorization to Issue up to \$271 Million in Water System Revenue Bonds

SUMMARY

Proposed Resolution No. 4882 seeks authorization to issue up to a maximum of \$271 million of tax-exempt Water System Revenue Bonds (Bonds) payable from the Water Revenue Fund. The Bonds will be used to finance a portion of the Water System's budgeted capital improvements for Fiscal Year (FY) 2014-15. The bond funding was contemplated in the financial plan for the year, and the debt service that will be required to repay the debt is covered by the currently approved rate level. The bonds will fund a variety of capital work for the Water System including infrastructure reliability, water quality, local water supply, and regulatory work.

Mayoral and City Council approvals are required pursuant to Section 609 of the Charter of the City of Los Angeles (Charter). A subsequent resolution, to be introduced at a subsequent Board meeting, will provide additional details (such as the underwriter, key bond related documents, etc.) about the proposed issuance as the transaction progresses further.

A companion item (a Reimbursement Resolution) to be discussed at this Board meeting will allow bond proceeds to be used to fund capital expenditures 60 days prior to the adoption of that Resolution.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners (Board) adopt the attached Initial Resolution (Resolution No. 4882) recommending City Council's approval to issue up to \$271 million of tax-exempt Water System Revenue Bonds per Charter Section 609.

ALTERNATIVES CONSIDERED

The Los Angeles Department of Water and Power (Department) has two sources for funding its capital improvements program: through rates and borrowing from the capital market. Annually, a budget is prepared and approved by the Board and presented to the City Council.

Collections directly from rates do not provide sufficient funding for the entire capital budget. Accordingly, It has been determined that the public interest and necessity demand that the Department should borrow \$271 million by issuing Water System Revenue Bonds pursuant to Section 609 of the Charter for the purpose of financing a portion of the Water System's budgeted capital improvements for FY 2014-15.

FINANCIAL INFORMATION

The total estimated cost for the \$271 million fixed rate tax-exempt bond issue, including principal and interest, is approximately \$539 million over 30 years based on current interest rates. The debt issuance costs are estimated at \$1.33 million representing 0.49 percent of the total bond issue which includes underwriter's discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees.

BACKGROUND

Overview of Bond Funding Need

The Water System's FY 2014-15 Budget, approved by the Board on May 20, 2014 under Resolution No. 014-217 and transmitted to City Council in accordance with the Charter Section 684, reflects a need to borrow approximately \$271 million of tax-exempt revenue bonds to support its planned \$722 million Capital Improvements Program over the same period. The debt service on these Bonds is already funded by the approved FY 2014-15 Budget. The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Water System and would be drawn down to fund a portion of its capital improvements program, for projects including:

Safe Drinking Water Program	<i>(millions)</i>
Reservoir improvements: Headworks Reservoir; LA Reservoir shade balls; and Upper Stone Canyon Reservoir	\$65
Trunk line replacements and additions: City Trunkline South Units 4 and 5; River Supply Conduit Lower Reach #1A East; River Supply Conduit Upper Reach Units 5; and other trunk line projects	66
Chloramination Station Installations: 99 th Street Wells Ammoniation Station and Tank & Reservoir Nitrification	17
Treatment Improvements and Reservoirs and Tank Minor Improvements & Other	22
Safe Drinking Water Program	\$170

Local Water Supply Program

Water recycling: LA Zoo water recycling project; Irrigation Monitoring Wells; Gaber St. Recycled Water Tank & T/L; Griffith Park S. Water Recycling Project and other water recycling projects	\$36
Groundwater Management: Mission Wells and Manhattan Wells Improvements Projects to enable LADWP to pump its adjudicated ground water rights, and groundwater system improvements.	
Groundwater Mediation & Cleanup: SF Basin groundwater system improvement study & installation of up to 40 new monitoring wells; North Hollywood & Tujunga groundwater remediation; Ground Water Remediation Facilities; and Monitoring Wells for Remediation & Cleanup	29
Watershed Stormwater Capture: Tujunga spreading ground project and Pacoima spreading ground upgrade	26
Water Conservation Programs	21
Ground Water Management & Resource Development	5
Owens Lake Master Project	22
Local Water Supply Program	\$140

Water Infrastructure Program

Distribution main replacements: citywide	\$78
Trunkline Major Construction: Trunkline replacement program, Hubbard to GRN Verdugo Res, Sunset Blvd Trunkline Rehab phase I, and Stone Hollywood Trunkline	12
Infrastructure Reservoir Improvements: N. Haiwee Dam #2 Seismic Improvement; Upper Stone Canyon Reservoir Landslides enhance slope stability; Eagle Rock & Lower Franklin Reservoirs Cover Replacement	23
General facilities programs: various building and service yard improvements	7
Distribution services & meters, meter replacement program, & fire hydrants: citywide	47
Aqueduct system improvements: Owens Valley/Mono Basin flow controls, meters, spill ways, intake structures, & conduits.	17
Pump Stations: Redmont Pump Station; York Pump Station Replacement & Pump Station Minor A&B	9
Water Services IT: LAUSD/SCADA Security, CRM, Process control system, and Digitization of water facilities.	9
Other: Seismic improvements, regulator stations, tools & equipment, and others	27
Water Infrastructure Program	\$229

Regulatory Compliance - Owens Valley

Eastern Sierra Environmental Capital and Owens Valley Dust Mitigation	\$14
Supplemental Dust Control Development	132
Regulatory Compliance – Owens Valley	\$146

Operating Support

Water System's share of Joint Capital	\$37
Operating Support	\$37
Total Water System Capital Improvements Budget for Fiscal Year 2014-15	\$722

Transaction Approval and Details

Resolution No. 4882 is an "initial resolution" of the Board, setting forth the purpose for future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 4882 also provides for the private sale of the Bonds to one or more of the firms included in the team of underwriting firms previously selected by the Board (in 2012) pursuant to the Procedural Ordinance. At a future Board meeting, the Financial Services Organization will present a "supplemental resolution" that will authorize the specific terms and conditions for the Bonds, including the underwriting firms that will be selected from among the Department's investment banking team members and the principal financing documents related to the Bonds.

Both the Department's Chief Financial Officer (CFO) and its financial advisor, the 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.

Ordinance No. 182138 requires investment banks to disclose their corporate citizenship which shall include their participation in charitable programs or scholarships within the City of Los Angeles and internal policies regarding utilization of subcontractors which are designated as small business and disabled veteran business enterprises. The Ordinance also states that the information requested shall be disclosed on a form to be provided by the City, which form is not currently available per the Office of the City Administrative Officer. In order to comply with the spirit of the Ordinance, in August 2013, while working on the issuance of the Water System Revenue Bonds,

2013 Series B, the eighteen (18) investment banks that are in the Department's current Pool of Underwriters were requested to submit to the Department a statement signed by an authorized firm representative disclosing their corporate citizenship as described above. Attached is a summary of the eighteen (18) Underwriters' statement of corporate citizenship.

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

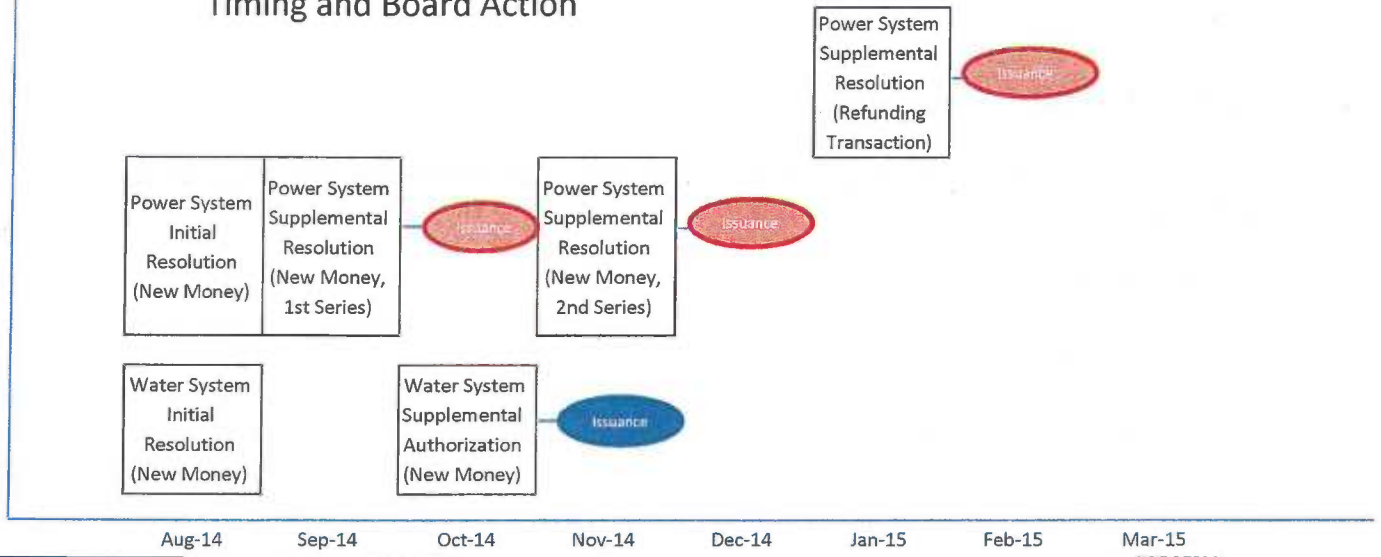
FY14/15 Bond Offering Schedule

The following page contains an overview of the Department's anticipated schedule of bond issuances for Fiscal Year 2014-15. For the current fiscal year, the Department is planning for a Power System new money issuance, a Water System new money issuance, and a Power System refunding issuance. Each box shown in the chart represents required Board action.

For the new money issuances, the Board is being asked today to approve separate "initial resolutions" for the Power and Water System. The Board will be asked to approve "supplemental resolutions at a later date.

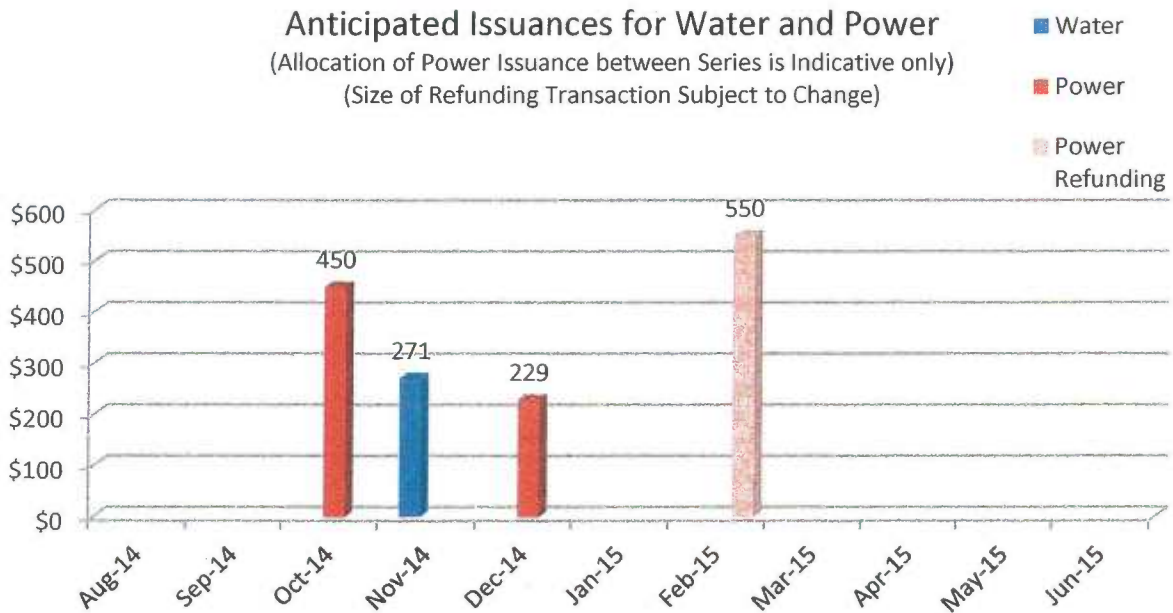
For the Power refunding transaction, the Board will be asked to only approve a "supplemental resolution" as the Board and City Council has previously approved the "initial resolution" for such refundings.

Overview of FY14/15 Bond Transaction Timing and Board Action



Anticipated Issuances for Water and Power

(Allocation of Power Issuance between Series is Indicative only)
(Size of Refunding Transaction Subject to Change)



ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the request for authority to issue Water System Revenue Bonds is exempt pursuant to the General Exemption described in CEQA Guidelines Section 15061(b)(3).

CITY ATTORNEY

The Office of the City Attorney reviewed and approved Resolution No. 4882 as to form and legality.

ATTACHMENT

- A. Resolution
- B. Reports
- C. Underwriters' Summary

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 21, 2014

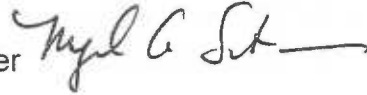
CAO File No. 0220-04290-0003

Council File No. --

Council District: --

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Water and Power dated June 13, 2014; referred by the Mayor for report on June 19, 2014

Subject: **AUTHORITY TO ISSUE \$271 MILLION IN WATER SYSTEM REVENUE BONDS**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of the Board of Water and Power Commissioners (Board) Resolution No. 4866 (Resolution) which authorizes the issuance of \$271 million in Water System Revenue Bonds, in order to finance a portion of the Water System's Fiscal Year 2014-15 Capital Improvements Program. The DWP Water System multi-year Capital Program focuses on critical projects necessary to comply with increasing water quality standards, protecting existing water supplies, expanding and upgrading the existing water distribution system, and developing new water resources. The Department states that the Resolution is an 'initial resolution' of the 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 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 (LAAC) Section 11.28.4(b) of the Procedural Ordinance. The bonds will be Water System Revenue Fund obligations and will not constitute an obligation of the City or the General Fund. The City Attorney has approved the proposed resolution as to form and legality.

BACKGROUND

The DWP Water System Capital Program's strategic priority is to ensure the safe and cost-effective delivery of water to the City's ratepayers. Funding for the Fiscal Year 2014-15 Capital Improvements Program includes a number of major components illustrated in the tables below:

WATER SYSTEM CAPITAL IMPROVEMENTS BUDGET FOR FY 2014-15

	(millions)
Safe Drinking Water Program	
<i>Reservoir improvements:</i> Headworks Reservoir; LA Reservoir shade balls; and Upper Stone Canyon Reservoir	\$65
<i>Trunk line replacements and additions:</i> City Trunkline South Units 4 and 5; River Supply Conduit Lower Reach #1A East; River Supply Conduit Upper Reach Units 5; and other trunk line projects	66
<i>Chloramination Station Installations:</i> 99 th Street Wells Ammoniation Station and Tank & Reservoir Nitrification	17
<i>Treatment Improvements and Reservoirs and Tank Minor Improvements & Other</i>	22
Safe Drinking Water Program	\$170
Local Water Supply Program	
<i>Water recycling:</i> LA Zoo water recycling project; Irrigation Monitoring Wells; Gaber St. Recycled Water Tank & T/L; Griffith Park S. Water Recycling Project and other water recycling projects	\$36
<i>Groundwater Management:</i> Mission Wells and Manhattan Wells Improvements Projects to enable LADWP to pump its adjudicated ground water rights, and groundwater system improvements	
<i>Groundwater Mediation & Cleanup:</i> SF Basin groundwater system improvement study & installation of up to 40 new monitoring wells; North Hollywood & Tujunga groundwater remediation; Ground Water Remediation Facilities; and Monitoring Wells for Remediation & Cleanup	29
<i>Watershed Stormwater Capture:</i> Tujunga spreading ground project and Pacoima spreading ground upgrade	26
<i>Water Conservation Programs:</i> California Friendly Landscape Incentive Program, Customer Rebate Program for the installation of water efficient devices, and a Water Conservation Potential Study	21
<i>Ground Water Management & Resource Development</i>	5
<i>Owens Lake Master Project</i>	22
Local Water Supply Program	\$140
Water Infrastructure Program	
<i>Distribution main replacements:</i> Citywide	\$78
<i>Trunkline Major Construction:</i> Trunkline replacement program, Hubbard to GRN Verdugo Res, Sunset Blvd Trunkline Rehab Phase I, and Stone Hollywood Trunkline	12
<i>Infrastructure Reservoir Improvements:</i> N. Haiwee Dam #2 Seismic Improvement; Upper Stone Canyon Reservoir Landslides enhance slope stability; Eagle Rock & Lower Franklin Reservoirs Cover Replacement	23
<i>General facilities programs:</i> Various building and service yard improvements	7
<i>Distribution services & meters, meter replacement program, & fire hydrants:</i> Citywide	47
<i>Aqueduct system improvements:</i> Owens Valley/Mono Basin flow controls, meters, spill ways, intake structures, & conduits	17
<i>Pump Stations:</i> Redmont Pump Station; York Pump Station Replacement & Pump Station Minor A&B	9
<i>Water Services IT:</i> LAWSDAC/SCADA Security, CRM, Process control system, and Digitization of water facilities	9
<i>Other:</i> Seismic improvements, regulator stations, tools & equipment, and others	27
Water Infrastructure Program	\$229
Regulatory Compliance - Owens Valley	
<i>Eastern Sierra Environmental Capital and Owens Valley Dust Mitigation</i>	\$14
<i>Supplemental Dust Control Development</i>	132
Water System Reliability Program	\$146
Operating Support	
<i>Water System's share of Joint Capital</i>	\$37
Operating Support	\$37
Total Water System Capital Improvements Budget for Fiscal Year 2014-15	\$722

Note: Detail may not sum to total due to rounding.

Capital Program Financing

In order to support an overall planned \$722 million capital improvements program during this period, a combination of borrowings and internally generated funds will be required. The Water System's Fiscal Year 2014-15 Budget, as approved by the Board on May 20, 2014, includes the need to borrow approximately \$271 million of tax-exempt revenue bonds. The maximum legally permissible interest cost that could be incurred through the issuance of the bonds is 12 percent per annum consistent with California Code Section 53531¹. Based on the current market conditions, the interest cost is expected to be in the range of 4.5 percent to 5.5 percent.

This bond issue is already funded as part of the approved Fiscal Year 2014-15 Budget Revenues from both base rates and planned quarterly pass-through rates, consistent with the new Water Quality Factor cap increase which was approved by the Board and City Council and became effective March 2012. The Fiscal Year 2014-15 Budget anticipates interest costs of 4.9 percent on the issuance; as noted above, actual interest costs will vary depending on market conditions at the time of issuance.

The chart below illustrates the Water System's debt service amount, Net Available Revenue Coverage (NAR) and Net Operating Cash Flow (NOCF) Coverage over the last decade. The NOCF coverage has declined, from 4.4 times coverage in 2004 to 1.8 times in 2013 while the 10-year average is 2.03. The Water System achieved a Debt Service Coverage Ratio (NAR) of 2.2 times while the 10-year average is 2.25. Pursuant to the DWP Board action taken on May 21, 2009 as amended on September 12, 2012 and May 20, 2014, the Department policy is to generally use the following financial planning criteria: 1) maintain a minimum debt service coverage of 1.70 times; 2) maintain operating cash target of 150 days; and, 3) maintain a capitalization ratio of less than 65 percent.

¹ Setting a maximum interest rate or cost is a requirement of Section 11.28.1 of the Procedural Ordinance. The 12 percent figure reflects the guidance set forth on a State level through California Government Code Section 53531 that sets forth a statutory maximum bond rate of 12 percent. The initial resolution is meant to be a general authorization to be used over an unspecified period for issuing bonds. As such, the 12 percent provides a way to react to changing market conditions during this unspecified period. The Supplemental Resolutions are adopted closer to the time of bond issuance. In recent Supplemental Resolutions, the Board has been approving lower not-to-exceed amounts for each individual issuance. For example, in the Twenty-Seventh Supplemental Bond Resolution authorizing the issuance of the 2014 Series C Power System Bonds, a proviso is included that states "provided, however, that the true interest cost to be incurred through the issuance of the 2014 Series C Bonds shall not exceed 6 percent per annum; and provided further that the stated interest rate so specified for any 2014 Series C Bond shall not exceed 12 percent per annum."

**Water 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)
2004	618,589	421,634	196,955	64,135	3.1	282,914	4.4
2005	590,751	387,264	203,487	71,851	2.8	210,129	2.9
2006	625,995	394,543	231,452	95,681	2.4	251,198	2.6
2007	717,145	442,962	274,183	122,928	2.2	231,297	1.9
2008	799,706	523,657	276,049	133,354	2.1	132,714	1.0
2009	825,168	581,587	243,581	116,026	2.1	189,718	1.6
2010	858,201	584,382	273,819	134,106	2.0	152,044	1.1
2011	831,771	540,041	291,730	167,371	1.7	290,206	1.7
2012	875,909	544,824	331,085	178,468	1.9	238,099	1.3
2013	1,091,710	672,462	419,248	192,885	2.2	347,264	1.8

(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 2013 Comprehensive Annual Financial Report, February 2014.

In addition, a 2013 peer review study of California water and sewer utilities published by Fitch Ratings indicates that the AA senior debt rating of the DWP Water System is in line with the average rating of other water utilities in California. The study, which is provided as an attachment, is based on financial ratios that measure operating cash coverage, liquidity, and debt burden. However, no specific data is provided for comparing DWP to other California water utilities.

Charter Section 609 Compliance

City Charter Section 609 and LAAC Article 6.5, Section 11.28.4, the bond Procedural Ordinance governing proprietary bond resolutions, require that the Mayor and City Council 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 (CFO) stating the reasons why a private sale will benefit the Department;
- The City Council, after receiving a report from the City Administrative Officer, has approved the sale; and,
- The City 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.

Pursuant to the Procedural Ordinance, the recommendations for private bond sale (Attachments) have been made by both the DWP's CFO and by its financial advisor, the Public Resources Advisory Group (PRAG).

In developing a method of financing the Capital Program, DWP requests authority to conduct private, negotiated sales of bonds to one or more investment banking firms. Pursuant to the Procedural Ordinance, listed below are the firms selected by the Board in the first quarter of 2012 to serve as the Department's underwriting team for a duration of three years expiring in approximately March 2015. The Department will select from the team of underwriters for each individual bond issuance.

Department of Water and Power Selected Underwriting Team	
• Bank of America Merrill Lynch	• BMO Capital Markets Inc.
• Barclays Capital Inc.	• Cabrera Capital Markets, LLC
• De La Rosa & Co.	• Citigroup Global Markets Inc.
• Goldman Sachs & Co..	• Fidelity Capital Markets
• JP Morgan Securities LLC	• Loop Capital Markets, LLC
• Morgan Stanley & Co., LLC	• Mitsubishi UFJ Securities (USA) Inc.
• RBC Capital Markets, LLC	• Ramirez & Co., Inc.
• Siebert Branford Shank & Co., LLC	• The Williams Capital Group, L.P.
• Wells Fargo Securities	• U.S. Bancorp

Competitive v. Negotiated Bond Sale

DWP's request for the use of a negotiated or private bond sale is based upon the determinations made by the CFO in consultation with PRAG. The rationale for recommending a negotiated sale is provided below.

- A negotiated sale will allow for DWP to provide substantial involvement of local and regional firms in addition to retail investors who are less sensitive to price compared to institutional investors;
- Negotiated sales allow DWP to structure specialized bonds to meet specific investor needs; and,
- A negotiated bond sale allows DWP to attempt to avoid the recent high volatility in the public capital markets (seen particularly in 2013 as interest rates increased significantly, before settling down through 2014), resulting from wide shifts in interest rates and investor demand, through increased flexibility in timing the pricing of debt.

Furthermore, a negotiated bond sale can provide DWP an opportunity to communicate directly with investment firms regarding potential concerns including, but not limited to, operations, developments, challenges, and mitigation efforts, which can be effective for ensuring appropriate borrowing rates.

Debt Issuance Costs

Debt issuance costs are estimated by the DWP at approximately \$1.34 million for the total \$271 million new bond issuance. A detail of the services provided and the estimated debt issuance costs are included in the chart below.

Debt Issuance Costs \$271 million Water System Revenue Bonds	
<i>Service</i>	<i>Estimated Cost</i>
Rating Agencies	\$ 308,000
Financial Advisor	57,000
Bond Counsel	103,000
Disclosure Counsel	50,000
Underwriter's Discount	813,000
Printing of Official Statements	4,000
TOTAL	\$1,335,000
<i>Source: Department of Water & Power - Financial Services Organization</i>	

Indebtedness

As of May 31, 2014, the Water System reported approximately \$3.943 billion in long-term debt. This consists of \$3.334 billion fixed rate bonds, \$325 million of variable rate bonds, and approximately \$284 million loans from California Department of Water Resources. The following table identifies recent Water System long-term debt activity.

Water System Long-Term Debt Activity - Recent Issuances					
<i>Fiscal Year</i>	<i>Issuance (\$ in millions)</i>		<i>Rate</i>	<i>Purpose</i>	<i>Type of Sale</i>
2014	\$380.00	Tax-exempt	3.836% Fixed	Capital Improvments	Negotiated
2013	\$113.22	Tax-exempt	2.797% Fixed	Refunding Bonds	Negotiated
2013	\$322.00	Tax-exempt	4.023% Fixed	Capital Improvments	Negotiated
2013	\$92.72	Tax-exempt	2.483% Fixed	Refunding Bonds	Negotiated
2012	\$276.77	Tax-exempt	4.319% Fixed	Refunding Bonds	Negotiated

If DWP were not able to sell the bonds, the DWP Board might be unable to approve contracts for developing local water supply and water quality projects this year and it is possible that the Department would fail to meet regulatory deadlines for compliance.

RECOMMENDATION

That the Mayor approve the Board of Water and Power Commissioners' Resolution No. 4882 authorizing the Department of Water and Power to issue through private sales, a maximum of \$271 million in Water System Revenue Bonds in accordance with the provisions of City Charter Section 609 and Article 6.5 of the Los Angeles Administrative Code Sections 11.28.1 – 11.28.9; and return the Resolution to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

There is no direct impact on the City's General Fund. Approval of the recommended action will authorize the DWP to issue \$271 million of Water System Revenue Bonds to finance a portion of its capital improvements program for Fiscal Year 2014-15. DWP estimates that the net impact of this issuance will be to increase debt service costs of the Water Revenue Fund by approximately \$17.5 million annually. The costs of issuance for the proposed bond are estimated at \$1.34 million. These costs consist of underwriter's discount, bond and disclosure counsels, financial advisor, ratings agencies fees, and printing costs.

MAS:RPR:10150002

Attachments

CHIEF FINANCIAL OFFICER'S REPORT


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

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

The Water System's Budget for Fiscal Year 2014-15, approved by the Board of Water and Power Commissioners on May 20, 2014 under Resolution No. 014-217 and transmitted on May 27, 2014 to City Council in accordance with the City Charter, indicates a need to borrow approximately \$271 million of tax-exempt revenue bonds to support its planned \$722 million Capital Improvements Program over the same period.

I have determined that a private sale of the Bonds would be of benefit to and in the financial interests of the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4882, for reasons including the following:

- the size of the proposed bond issue and 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,
- the desire to implement a retail order period aimed at reducing borrowing costs,
- the benefits of a motivated and incentivized underwriting pool that will bring the Department cost effective ideas and financing proposals for debt service savings, and
- the benefits of banks offering low cost credit facilities given the opportunities to receive negotiated underwriting opportunities.



PHILIP LEIBER
Chief Financial Officer
July 30, 2014

June 6, 2014

Mr. Philip Leiber
Chief Financial Officer
Department of Water and Power of the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Leiber:

The Department of Water and Power of the City of Los Angeles ("LADWP") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to LADWP, discuss the merits of negotiated bond transactions for the issuance of debt to fund the capital improvement program of the Water System. We understand that LADWP currently anticipates issuing \$271,000,000 of Water System Revenue Bonds during fiscal year 2014-15.

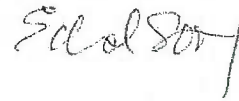
The benefits of negotiated versus competitive sales have been analyzed by municipal market participants over the years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer, same credit, and same maturities. In general, PRAG believes, that all things being equal, a competitive sale will provide an issuer with the lowest cost of funds for the majority of issuances, but not necessarily in all cases. There are other important factors and market circumstances that have an impact on the decision for issuers to negotiate bond sales. The following are some of the factors that LADWP faces with its upcoming new money Water System Revenue Bonds that support the decision of issuing on a negotiated basis:

- A negotiated sale will allow LADWP to provide meaningful roles for local and regional firms;
- Retail investors can be an important factor in the market, as the retail buyer is typically less sensitive to price compared to the institutional investor and retail orders in significant volume can only be achieved through a negotiated sale;
- LADWP relies on commercial banks to provide a significant amount of credit support for its variable rate programs;
 - By offering negotiated underwriting business, LADWP receives more aggressive credit support fee bids and, very importantly, will often secure bids from banks that have received negotiated underwriting business, during periods of time when other banks refuse to offer credit;
- Negotiated sales allow LADWP to structure specific portions of an issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-traditional call features, specified par amounts, non-traditional couponing and similar features);
- An underwriter is the party that can best assist LADWP with comprehensive investor outreach (e.g. investor road shows, meetings, conference calls, etc.) as they have direct relationships with investors; and

- Negotiated bond sales provide increased flexibility in timing and structuring which will allow LADWP to navigate through difficult market conditions;
 - For example, as a result of significant and rapid shifts in interest rates, including changing supply and demand relationships for municipal bonds, there has recently been volatility in the public capital markets, including narrowing and widening credit spreads;
 - Negotiated issuers have been able to respond to then current market conditions by modifying the timing and structure of their bonds to better meet investor demands.

In our opinion, the factors above should be considered by LADWP when making the decision to issue Water System Revenue Bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call me at 310-477-1453 or Michelle Issa at 310-477-2786 if you have any questions on this matter.

Sincerely,



Edmund Soong
Executive Vice President

Summary of Statements Received from LADWP's Pool of Underwriters Providing Investment Banking Services as Required by Ordinance No. 182138, the Responsible Banking Ordinance

FIRM NAME	CORPORATE CITIZENSHIP For CY 2012	POLICY ON SUBCONTRACTORS' UTILIZATION For CY 2012
SENIOR MANAGERS		
Bank of America Merrill Lynch	<ul style="list-style-type: none"> In 2012, the Bank contributed \$7.8 million to charitable organizations such as L.A. Neighborhood Housing Services, Boys and Girls Club of L.A. County and United Way of Greater L.A. to name a few. Recent Los Angeles-focused community development efforts include financing for the Valley Economic Development Corporation, P.A.C.E. Los Angeles Business Development Center and Pacific Coast Regional Small Business Development Center. Employees reported over 56,000 hours of volunteer service to local non-profits in 2012. 	<ul style="list-style-type: none"> The Bank has a long-standing supplier diversity program, which has two main objectives: (1) to ensure diverse businesses are given maximum opportunity to participate in its competitive contracting and procurement processes, (2) to increase the amount of quality products and services it obtains directly from businesses that are owned by minorities, women, veterans and disabled persons, or indirectly through companies sharing its commitment to diversity.
Barclays Capital Inc.	<ul style="list-style-type: none"> Barclays contributed \$18,000 to the following Los Angeles charitable organizations: City of Hope Cancer Research Center, Special Olympics of Southern California, University of Southern California, The Mexican American Bar Foundation of Los Angeles, the Children's Bureau of Southern California, and The Harold Robinson Foundation amongst others. Incorporates diversity in its recruitment strategy by partnering with schools and specific organizations to target under-represented minorities. 	<ul style="list-style-type: none"> Barclays has an active Diversity and Inclusion Program as well as an Affirmative Action Plan. The firm's sourcing process includes aggressive goals for involving women, minority, and other diverse-owned businesses in its bid lists, and routinely survey its primary suppliers to ensure they comply with similar practices.
De La Rosa & Co.	<ul style="list-style-type: none"> The centerpiece of the firm's charitable foundation is the "Fabric of Society Scholarship Essay Contest" that awards \$2,000 college scholarship to 20 seniors from 20 high schools across California. The firm makes yearly contributions to the following charitable organizations in Los Angeles: Watts/Willowbrook Boys and Girls Club, HOPE, PUENTE Learning Center, Rio Hondo College Foundation, TELACU, Girls Today Women Tomorrow, Mid Valley YMCA, LA Community College District Foundation, Peace Over Violence, LMU, among others. 	<ul style="list-style-type: none"> De La Rosa & Co is a minority owned business enterprise.
Goldman Sachs & Co.	<ul style="list-style-type: none"> In 2012, "Goldman Sachs Gives" contributed nearly \$600,000 to local charities and scholarship in the City of Los Angeles including The LA Museum of Art, the UCLA Foundation, City Year, Inc., Children's Hospital of L.A., the L.A. Food Bank, and the L.A. Police Foundation. The firm deployed over \$10.4 million in small business loans to local Los Angeles businesses. Employees volunteered for 11 nonprofit organizations in the City and contributed 885 hours. 	<ul style="list-style-type: none"> The Goldman Sachs Vendor Diversity Program seeks to build long-standing relationships with diverse businesses that share its commitment to quality and service by enabling them to compete on an equal basis with all other suppliers for the opportunity to distribute goods and services to the firm. The firm established a Vendor Diversity web page on its external corporate website, which includes online registration for the Goldman Sachs Vendor Diversity Program.
J.P. Morgan Securities LLC	<ul style="list-style-type: none"> In Los Angeles, the firm has provided more than \$4.28 million in grants to scholarships and to a wide variety of organizations in 2012. \$1 million grant to I Am Angel Foundation for the TRANS4M Boyle Heights collaboration Chase Community Giving selected two LA-based nonprofits to each receive \$100,000 grant: the Ian Somerhalder Foundation and the Bill Memorial Foundation. Donated \$135,000 to support LA's BEST in providing high-quality afterschool programming for children in the LA Unified School District. Employees volunteered 2,142 hours with local LA-based nonprofit organizations. 	<ul style="list-style-type: none"> The firm's Supplier Diversity processes are integrated into the strategic sourcing process. It partners with the sourcing managers and the lines of business to be involved in each step of a sourcing engagement. Utilizes the firm's Supplier Diversity Network which benefits among others include first consideration for procurement opportunities where certified diverse suppliers are sought. Uses other external databases to find qualified diverse businesses that can meet the needs of its internal clients.

FIRM NAME	CORPORATE CITIZENSHIP For CY 2012	POLICY ON SUBCONTRACTORS' UTILIZATION For CY 2012
Morgan Stanley & Co. LLC	<ul style="list-style-type: none"> In 2012, the firm contributed to communities in the County of Los Angeles \$444,817. Contributed over \$475,000 to the Grow Clinic at Harbor-UCLA Medical Center. Employees contributed a total of \$57,363 in the greater L.A. area in 2012 to the following: UCLA Foundation, University of Southern California, A Place Called Home, and the L.A. Philharmonic Association. 	<ul style="list-style-type: none"> The firm's policy, through its Supplier Diversity Program ("SD Program"), is to enhance the participation of Minority and Women-Owned Businesses (M/WBEs) in bidding on and participating in the performance of contracts. Companies that do business with the firm are asked to participate with its SD Program by virtue of their own status as M/WBEs.
RBC Capital Markets, LLC	<ul style="list-style-type: none"> In 2012, the firm contributed \$17,755 to organizations within the City of L.A. including Bet Tzedek Justice for All, MUAT, University of Southern California, Foundation for Prader Willi Research, American Heart Association Inc.-L.A., Autism Speaks-L.A., International Myeloma Foundation, Academy for New Musical Theater, Inc and ARME. 	<ul style="list-style-type: none"> The firm has made an effort to increase the participation of women-owned, minority owned and disadvantaged Business Enterprises by serving as co-financial advisors with a minority owned firm. In 2011, the firm hired Lofton and Jennings, a minority and women-owned law firm to serve as underwriters' counsel on two financings in California totaling about \$800 million.
Siebert Brandford Shank & Co. LLC	<ul style="list-style-type: none"> In 2012, the firm supported the League of California Cities Latino Caucus and the Greater Los Angeles YWCA. 	<ul style="list-style-type: none"> As a M/WBE firm, Siebert consistently places minority and women owned firms in its financial transactions as underwriters' counsel, co-underwriter, special counsel, marketing specialists and financial printers.
Wells Fargo Securities	<ul style="list-style-type: none"> In Los Angeles, Wells Fargo provided \$12,946,568 to nonprofits and schools through corporate and foundation giving. Wells Fargo matched \$467,453 of its team member contributions to accredited educational institutions, foundations and Habitat for Humanity. Wells Fargo team members logged 6,131 volunteer hours throughout the L.A. community. In L.A., the firm provided 8 community development loans in L.A. totaling \$30.4 million. 	<ul style="list-style-type: none"> Wells Fargo integrates supplier diversity into all aspects of its business by creating programs and business models that offer technical assistance and development opportunities to MWDSBEs, and by supporting sourcing of services and goods from MWDSBEs and encouraging leaders across the firm to provide diverse-owned businesses equal opportunities to compete for Wells Fargo business. The firm has 804 total suppliers based in LA and total spending for 2012 was \$36.5M for LA-based M/WBEs.
CO-MANAGERS		
BMO Capital Markets Inc.	<ul style="list-style-type: none"> While BMO contributed through donations, sponsorships and employee giving to support charities and not-for-profit organizations in Canada and the United States, it did not specify contribution strictly for the benefit of charitable organizations in the City of Los Angeles. 	<ul style="list-style-type: none"> BMO Harris has had a formal Supplier Diversity program since the early 1990's. Its outreach to diverse suppliers includes participating in trade and procurement fairs in both US and Canada. The Enterprise Office of Supplier Diversity is housed within BMO and is designed to increase the M/WBE participation in the supply chain of all BMO operations.
Cabrera Capital Markets, LLC	<ul style="list-style-type: none"> In 2012, Cabrera provided support of approximately \$44,000 for the Women in Public Finance Los Angeles Chapter, NALEO Education fund, Chicano Latino Youth Leadership Project, TELACU Education Foundation, California Youth Karate Club, CA Women Lead, CA Independent Cities Assoc., The Heart Foundation and California Latino School Boards Association. 	<ul style="list-style-type: none"> Cabrera Capital Markets is a minority owned business enterprise.
Citigroup Global Markets Inc.	<ul style="list-style-type: none"> Citi Foundation provided \$1.2 million in 2012 in support to 26 nonprofit agencies in Los Angeles including Skid Row Housing Trust, Mercy Housing California, LINC Housing Corporation to name a few. Citi through direct corporate giving provided over \$1.6 million in grants and contributions in 2012 to 52 L.A. nonprofit organizations including Puente Learning Center, Proyecto Pastoral, Bridges to Success and the Watts/Willowbrook Boys and Girls Club. Citi provides both debt and equity for low income, 	<ul style="list-style-type: none"> The firm's Supplier Diversity initiative has been in existence since 1977. It continues to provide suppliers with mentoring, networking opportunities and scholarships for entrepreneurial training. Citi teaches diverse and small business owners how to negotiate the corporate contracting and procurement process and match their companies' products and services to Citi's needs.

FIRM NAME	CORPORATE CITIZENSHIP For CY 2012	POLICY ON SUBCONTRACTORS' UTILIZATION For CY 2012
	special needs and workforce housing.	
Fidelity Capital Markets	<ul style="list-style-type: none"> In 2012, Fidelity sponsored 6 concerts with the LA Philharmonic at the Hollywood Bowl. The organizations that the firm supported in Los Angeles metro area in 2012 include Boys and Girls Club of Conejo and Las Virgenes, Pasadena Pops, Greater Conejo Valley Chamber of Commerce, Pasadena Symphony Association and Pasadena Education Foundation. 	<ul style="list-style-type: none"> Fidelity does its best to embrace minority and women owned business enterprises when engaging suppliers and subcontracting relationships when that enterprise is capable of delivering the specific products, services, and expertise that Fidelity and its clients require. The firm invests approximately 3.8% of its annual spending in minority and women-owned, veteran and disabled veteran businesses.
Loop Capital Markets, LLC	<ul style="list-style-type: none"> The firm and its employees are actively involved with a number of charitable programs and organizations in the Los Angeles community including The Posse Foundation, The League of United Latin American Citizens (LULAC) National Educational Service Center, Inc., L.A. Plaza De Cultura y Arte-Museum, Salesian High School, The Leukemia & Lymphoma Society, Center for Civic Participation Children's Educational Program, Women Against Gun Violence, Habitat for Humanity, South Central Scholars, and the Anti-Defamation League. 	<ul style="list-style-type: none"> Loop Capital Markets is a minority owned investment bank. The firm historically set a precedent of regularly selecting a M/W/D business enterprise to serve as underwriter's counsel and will continue to do so in the future.
Mitsubishi UFJ Securities (USA) Inc.	<ul style="list-style-type: none"> In 2012, the firm through Union Bank, made charitable contributions totaling \$2.8 million in the City of Los Angeles. The charitable giving was directed to Affordable Housing, Community Economic Development, Education, Environment, Culture and Arts, Health and Human Services, and Emergency Services. The firm has several community lending programs that are designated to assist small and medium-sized businesses that are majority-owned by ethnic minorities, women, and/or disable veterans. 	<ul style="list-style-type: none"> In 2005, an initial redefined supplier diversity goal of 12% of all Bank purchases was established, to be increased ½ or more each year to 20% by the year 2015. In 2012, the bank increased its actual diverse business enterprise spending to 16.9% or over in excess of \$120 million dollars, approximately 99% of the 16% target for the year.
Ramirez & Co., Inc.	<ul style="list-style-type: none"> The firm and its employees provided charitable contributions to the local organizations providing services to Angelinos including California Women Lead, Rainbow PUSH Coalition, the March of Dimes, and the Leukemia and Lymphoma Society to name a few. The firm did not indicate the amount of contributions specifically for organizations within the City of Los Angeles. 	<ul style="list-style-type: none"> Ramirez & Co. is a minority owned business enterprise and is particularly sensitive to the need to provide opportunities to minorities and women in business. Nearly 48% of the firm and 64% of the Public Finance Department's employees are minorities and/or women.
The Williams Capital Group, L.P.	<ul style="list-style-type: none"> The firm's 2012 charitable contributions within California include Prostate Cancer Foundation (Santa Monica), Museum of African Diaspora (SF), and Willie Brown Institute (SF). While the firm supports a wide range of civic and non-profit organizations, it did not include specific contribution to organizations within the City of Los Angeles. 	<ul style="list-style-type: none"> The Williams Capital Group is a minority owned business enterprise.
U.S. Bancorp	<ul style="list-style-type: none"> In 2012, US Bank donated \$2,096,520 in grants and corporate contributions in multiple organizations in the greater Los Angeles area such as Junior Achievement of Greater Los Angeles, Neighborhood Housing Services Los Angeles, Pacific Coast Regional Small Business Development Center, Los Angeles Family Housing, and United Way Greater Los Angeles. 	<ul style="list-style-type: none"> The firm's Supplier Diversity Program was created in 1998 to support the participation of women and minority owned businesses in its procurement operations. It strives to identify business opportunities for certified Minority and Women-Owned Business Enterprises to participate equally with other suppliers in the competitive supplier evaluation process. In 2012, the firm's national MWBE participation totals \$305 million of which \$652,496 is for the greater Los Angeles area.