



ERIC GARCETTI
Mayor

RONALD O. NICHOLS
General Manager

October 3, 2013

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

Honorable Members:

Subject: Authorizes the issuance of up to \$380 Million of Water System Revenue Bonds

Pursuant to Charter Section 609, enclosed for approval by your Honorable Body is Resolution No. 4866, adopted by the Board of Water and Power Commissioners on October 1, 2013, approved as to form and legality by the City Attorney, which authorizes the issuance up to \$380 million of Water System Revenue Bonds for capital improvements for Fiscal Year 2013-2014. 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 of Intergovernmental Affairs and Community Relations, at (213) 367-0025.

Sincerely,

Barbara E. Moschos
Board Secretary

BEM:oja

Enclosures: LADWP Resolution
Board Letter
Chief Financial Officer's Report
Public Resources Advisory Group Letter
CAO Report
Reference Resolution Copy

Water and Power Conservation ... a way of life



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 \$380,000,000 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. 4866

**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

THREE HUNDRED EIGHTY MILLION DOLLARS (\$380,000,000)

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 interest cost for the purpose of determining whether such interest cost is within such maximum shall be on the basis of a year of 365 days for the actual number of days elapsed.

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 interest cost to be incurred on amounts payable under each such Credit Support Agreement, including the interest rate on Credit Provider Bonds (as defined in the Master Bond Resolution) under such Credit Support Agreement, shall not exceed twenty percent (20%) per annum. The interest cost for the purpose of determining whether such interest cost is within such maximum shall be on the basis of a year of 365 days for the actual number of days elapsed.


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
OCT 01 2013


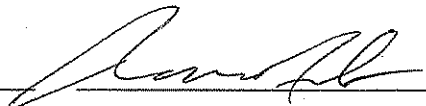

Secretary

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

AUG 29 2013
BY 
PRISCILA E. CASTILLO
DEPUTY CITY ATTORNEY



LOS ANGELES DEPARTMENT OF WATER AND POWER (LADWP) BOARD APPROVAL LETTER

TO: BOARD OF WATER AND POWER COMMISSIONERS		DATE: August 28, 2013
  PHILIP LEIBER Chief Financial Officer		SUBJECT: Authorization to Issue up to \$380 Million of Water System Revenue Bonds for Capital Improvements for FY 2013-2014 under Resolution No. 4866
RONALD O. NICHOLS General Manager		FOR COMMISSION OFFICE USE: RESOLUTION NO. _____
CITY COUNCIL APPROVAL REQUIRED: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>		IF YES, BY WHICH CITY CHARTER SECTION: 609

PURPOSE

The attached Resolution No. 4866, if adopted, would authorize the issuance of up to a maximum of \$380 million of Water System Revenue Bonds (Bonds), payable out of the Water Revenue Fund. The Bonds will be used to finance a portion of the Water System's capital improvement program for Fiscal Year (FY) 2013-2014.

COST AND DURATION

The total estimated costs for a \$380 million bond issue, including principal and interest, is approximately \$629 million over 22 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$1.9 million representing 0.50 percent of the total bond issue which includes underwriter's discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees.

BACKGROUND

Resolution No. 4866 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. 4866 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 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, at a future Board meeting.

August 28, 2013

The Water System's FY 2013-2014 Budget, approved by the Board on May 24, 2013 under Resolution No. 013-281 and transmitted on May 30, 2013 to City Council in accordance with the City Charter, reflects a need to borrow approximately \$348 million. Subsequently, the financial plan was updated to reflect the actual financial data through May 2013 and the capitalization of the "West Basin Reclamation Project". As a result, the borrowing was increased by approximately \$32 million, to a total of approximately \$380 million of tax-exempt revenue bonds to support its planned \$766 million Capital Improvement Program over the same period. The current Water System Rates is sufficient to cover the debt service on these Bonds. 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 the majority of the Water System's 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.

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 women owned, minority owned, or disabled 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, the eighteen (18) investment banks that are in LADWP's current Pool of Underwriters were requested to submit to LADWP a statement signed by an authorized firm representative disclosing their corporate citizenship as described above. Attached is a summary of the 18 Underwriters' statements of corporate citizenship.

RECOMMENDATION

Mayoral and City Council approvals 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. 4866.

MCI/JD:gw

Attachments

e-c/att: Ronald O. Nichols
Richard M. Brown
Aram Benyamin
James B. McDaniel
Gary Wong

Philip Leiber
Mario C. Ignacio
Peter Huynh
Judith G. Daco



ERIC GARCETTI
Mayor

Commission
THOMAS S. SAYLES, *President*
ERIC HOLOMAN, *Vice President*
RICHARD F. MOSS
CHRISTINA E. NOONAN
JONATHAN PARFREY
BARBARA E. MOSCHOS, *Secretary*

RONALD O. NICHOLS
General Manager

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, Water System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Water System's Budget for Fiscal Year (FY) 2013-14, approved by the Board of Water and Power Commissioners on May 24, 2013 under Resolution No. 013-281 and transmitted on May 30, 2013 to City Council in accordance with the City Charter, indicates a need to borrow approximately \$348 million. Subsequently, the financial plan was updated to reflect the actual financial data through May 2013 and the capitalization of the "West Basin Reclamation Project". As a result, the borrowing was increased by approximately \$32 million, to a total of approximately \$380 million of tax-exempt revenue bonds to support its planned \$766 million Capital Improvement Program over the same period.

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. 4866.

Handwritten signature of Philip Leiber in cursive.

PHILIP LEIBER
Chief Financial Officer
July 31, 2013

Water and Power Conservation ... a way of life

111 North Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles 90051-5700
Telephone: (213) 367-4211 Cable address: DEWAPOLA





11500 WEST OLYMPIC BOULEVARD, SUITE 502
LOS ANGELES, CALIFORNIA 90064
TEL: (310) 477-8487 | FAX: (310) 477-0105
WWW.PRAGADVISORS.COM

PUBLIC RESOURCES ADVISORY GROUP

July 29, 2013

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:

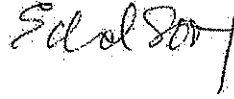
The Department of Water and Power of the City of Los Angeles ("LADWP") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to LADWP, discuss the merits of a negotiated bond transaction for the issuance of debt to fund the capital improvement program of the Water System. We understand that LADWP currently anticipates issuing \$380,000,000 of Water System Revenue Bonds in fiscal year 2013-14.

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, 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 for 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;
- Negotiated sales allow LADWP 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); 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 high 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 William Cobbs at 212-566-7800 if you have any questions on this matter.

Sincerely,



Edmund Soong
Executive Vice President

**SUMMARY OF STATEMENTS RECEIVED FROM
INVESTMENT BANKING SERVICES**

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. Incorporate 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 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 by the firm 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. 	<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
	<ul style="list-style-type: none"> Employees volunteered 2,142 hours with local LA-based nonprofit organizations. 	
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"> The firm 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"> Information not available
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 	<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
	<p>Learning Center, Proyecto Pastoral, Bridges to Success and the Watts/Willowbrook Boys and Girls Club.</p> <ul style="list-style-type: none"> • Citi provides both debt and equity for low income, 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"> • Information not available
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 givings were 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.
The Williams Capital Group, L.P.	<ul style="list-style-type: none"> • The firm's 2012 charitable contributions within California include Prostate Cancer Foundation, Museum of African Diaspora, and Willie Brown Institute. • 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.

0220-04834-0000

TRANSMITTAL

TO:
Ronald O. Nichols, General Manager
Department of Water and Power

DATE
SEP 06 2013


COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT

PROPOSED ISSUANCE OF \$380 MILLION OF WATER SYSTEM REVENUE BONDS

Transmitted for further processing, including Council consideration. See the
City Administrative Officer report attached.


(Ana Guerrero)
MAYOR

MAS:OAV:10140037T

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 3, 2013

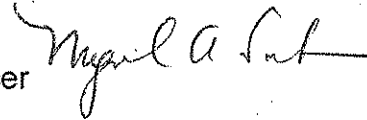
CAO File No. 0220-04834-0000

Council File No. None

Council District: citywide

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Letter from the General Manager, Department of Water and Power, dated July 29, 2013; referred for report August 6, 2013

Subject: **PROPOSED ISSUANCE OF \$380 MILLION OF WATER SYSTEM REVENUE BONDS**

SUMMARY

The Department of Water and Power (DWP) requests approval of the Board of Water and Power Commissioners Resolution No. 4866 (Resolution) which authorizes the issuance of \$380 million in Water System Revenue Bonds, in order to finance a portion of the Water System's fiscal year 2013-14 Capital Improvements Program. The DWP Water System multi-year Capital Program focuses on critical projects necessary to comply with increasing water quality standards; protect existing water supplies; expand and upgrade the existing water distribution system; and develop new water resources. 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 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(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 its rate paying customers. Funding for the fiscal year 2013-14 Capital Improvements Program includes a number of major components illustrated in the following tables:

2013-14 Water System Projects (\$ in millions)

Safe Drinking Water Program

Reservoir improvements Los Angeles Reservoir Water Quality Improvement Project (LARWQIP UV light treatment; Headworks Reservoir; LA Reservoir shade balls) and LA Aqueduct Treatment Plant	\$125
Trunk line replacements and additions (City Trunkline South Units 4, and 5; River Supply Conduit Upper Reach Units 5 and 7; River Supply Conduit Lower Reach Units 1A and Unit 4; and other trunk line projects)	74
Chloramination Station Installations (North Hollywood Ammoniation Station, 99 th Street Wells Ammoniation Station; Tank & Reservoir Nitrification; and other projects)	20
Treatment Improvements and Reservoirs and Tank Minor Improvements & Other	14

Safe Drinking Water Program \$233

Local Water Supply Program

Water recycling (Harbor Refineries pipeline; Hansen Golf Course WRP; W. Basin Capacity Charge & Terminal Island Treatment Plant recycled water); LA/Glendale Recycled Water Storage, Irrigation Monitoring Wells; and other water recycling projects)	\$62
Groundwater Management (Mission Wells and Manhattan Wells Improvements Projects to enable LADWP to pump its adjudicated ground water rights, and groundwater system improvements.)	9
Groundwater Mediation & Cleanup (San Fernando 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)	48
Watershed Stormwater Capture (Tujunga spreading ground project and Pacoima spreading ground upgrade)	15
Water Conservation Programs	22
Other	15

Local Water Supply Program \$170

Water Infrastructure Program

Distribution main replacements (citywide)	\$76
Trunkline Major Construction (Trunkline replacement program, Hubbard to Green Verdugo Reservoir, Sycamore Trunkline, and Stone Hollywood Trunkline)	10
Infrastructure Reservoir Improvements (N. Haiwee Dam #2 Seismic Improvement; Bouquet Dam #1 Design & Construct Liquefaction Improvement & Downstream Buttress; Lower Franklin & Green Verdugo Reservoirs Cover Replacement)	13
General facilities programs (various building and service yard improvements)	7
Distribution services & meters, meter replacement program, & fire hydrants (citywide)	46
Aqueduct system improvements (Owens Valley/Mono Basin flow controls, meters, spill ways, intake structures, & conduits improvements.)	16
Pump Stations (York Pump Station Replacement & Pump Station Minor A&B)	7
Water Services Organization Information Technology (LA Water System Data Acquisition and Control/System Security, Customer relations management, Process control system, and Digitization of water facilities.)	9
Other (Seismic improvements, regulator stations, tools & equipment, and others)	10

Water Infrastructure Program \$194

Regulatory Compliance - Owens Valley

Eastern Sierra Environmental Capital	\$4
Owens Valley Dust Mitigation	9
Supplemental Dust Control Development	111

Water System Reliability Program \$123

Operating Support

Water System's share of Joint Capital Expenditures such as the development of the new Customer Information System Connection (CISCON), fleet purchases, as well as computer and equipment purchases.	\$45
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Operating Support \$45

Total Water System Capital Improvements Budget \$766

In order to support an overall planned \$766 million capital improvements program during this period, a combination of borrowings and internally generated funds will be required. The Water System's Fiscal Year 2013-14 Budget, as approved by the Board on May 24, 2013, includes the need to borrow approximately \$348 million of tax-exempt revenue bonds. However, subsequent update of the financial plan to reflect the actual financial data through May 2013 and the capitalization of the West Basin Reclamation Project resulted in an increase of the borrowing amount by approximately \$32 million, bringing the total to approximately \$380 million of tax-exempt revenue bonds. The maximum interest cost to be incurred through the issuance of the bonds is twelve percent per annum consistent with California Section 53531. Based on the current market conditions, the interest cost is expected to be in the range of 4.5% – 5.5%.

This bond issue is already funded as part of the approved FY 13/14 Budget. In 2012, the Water Quality Adjustment Factor cap increase was approved by the Board of Water and Power Commissioners and City Council. Revenues from both base rates and planned quarterly pass through calculations, consistent with the new Water Quality Adjustment Factor cap increase ordinance, will support these debt service payments. The Department structures each new debt issue to levelize the Water System's total debt service payments; thereby, mitigating needed rate increases to the extent possible. As more debt is issued in FY 14/15 and forward, there will be rate increases required to support those additional debt service payments. The annual revenue requirement, including debt service coverage provisions, to support this bond issue is approximately 2.8% of total water system revenues or \$59.3 million.

In developing a method of financing the Capital Program, DWP has requested authority to conduct private, negotiated sales of bonds to one or more investment banking firms. Listed below are the firms selected through a competitive process by the Board in the first quarter of 2012 to serve as the Department's current underwriting team, pursuant to the Procedural Ordinance. The Department will select from the team of underwriters listed below for each individual bond issuance.

Department of Water and Power Selected Underwriting Team

- | | |
|---|---|
| <ul style="list-style-type: none">• Bank of America Merrill Lynch• Barclays Capital Inc.• De La Rosa & Co.• Goldman Sachs & Co.• JP Morgan Securities LLC• Morgan Stanley & Co., LLC• RBC Capital Markets, LLC• Siebert Branford Shank & Co., LLC• Wells Fargo Securities | <ul style="list-style-type: none">• BMO Capital Markets Inc.• Cabrera Capital Markets, LLC• Citigroup Global Markets Inc.• Fidelity Capital Markets• Loop Capital Markets, LLC• Mitsubishi UFJ Securities (USA) Inc.• Ramirez & Co., Inc.• The Williams Capital Group, L.P.• U.S. Bancorp |
|---|---|

Charter Section 609 Compliance

Section 609 of the City Charter and Article 6.5, Section 11.28.4 of the Los Angeles Administrative Code, the bond Procedural Ordinance governing proprietary bond resolutions, requires that the Mayor and 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 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

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).

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 meaningful roles for local and regional firms in addition to retail investors;
- Retail investors are less sensitive to price compared to the institutional investors, and the retail orders in significant volume can only be achieved through a negotiated sale;

- Negotiated sales allow DWP to structure specialized bonds to meet specific investor needs;
- A Negotiated bond sale allows DWP to attempt to avoid the recent high volatility in the public capital markets, resulting from wide shifts in interest rates and investor demand, through increased flexibility in timing the pricing of debt.

Indebtedness

As of June 30, 2013, the Water System reported approximately \$3.487 billion in long-term debt. This consists of \$2.980 billion fixed rate bonds, \$325 million of variable rate bonds, and approximately \$182 million loans from California Department of Water Resources. The following table identifies recent Water System long-term debt activity.

<i>Fiscal Year</i>	<i>Issuance (\$ in millions)</i>		<i>Rate</i>	<i>Purpose</i>	<i>Type of Sale</i>
2013	\$113.22	Tax-exempt	Fixed	Refunding Bonds	Negotiated
2013	\$322.00	Tax-exempt	Fixed	Capital Improvments	Negotiated
2013	\$92.72	Tax-exempt	Fixed	Refunding Bonds	Negotiated
2012	\$276.77	Tax-exempt	Fixed	Refunding Bonds	Negotiated

If DWP were not able to sell the bonds, the Board of Water and Power Commissioners 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.

Office of Public Accountability

The Office of Public Accountability (OPA) has reviewed the request for approval of the Board of Water and Power Commissioners Resolution No. 4866 (Resolution) which authorizes the issuance of \$380 million in Water System Revenue Bonds and agrees with the overall 'initial resolution' which sets forth the purpose for future indebtedness and establishes the maximum limit as to principal, interest costs, and term. In addition, the OPA advises that the individual bond issuances subsequent to the initial overall approval be subject to additional review and analysis.

RECOMMENDATION

That the Mayor approve the Board of Water and Power Commissioners' Resolution No. 4866 authorizing the Department of Water and Power to issue through private sales, a maximum of \$380 million in Water System Revenue Bonds in accordance with the provisions of 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 \$380 million of Water System Revenue Bonds to finance a portion of its capital improvements program for fiscal year 2013-14. DWP estimates that the net impact of this issuance will be to increase debt service costs of the Water Revenue Fund by approximately \$28.6 million annually. The costs of proposed bond issuance are estimated at \$1.9 million, i.e. underwriter's discount; bond and disclosure counsels, financial advisor; ratings agencies fees, and printing costs.

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WHEREAS, Section 511(b) of the Los Angeles City Charter requires that the Board of Water and Power Commissioners (Board) shall, prior to the beginning of each Fiscal Year (FY), adopt an annual Departmental Budget for the Water Revenue Fund and make an annual appropriation covering its anticipated revenues and expenditures; and

WHEREAS, in March 2011, Los Angeles voters approved Measure J that requires the LADWP submit a Preliminary Budget to the Los Angeles City Council (Council) by March 31, 2013, and shall by May 31, 2013, update the preliminary budget based on additional information received after March 31, 2013, including without limitation, additional information about revenue and expense projections; and

WHEREAS, the Board approved the transmittal of the preliminary budget to the Council for informational purposes on March 19, 2013; and

WHEREAS, upon approval from this Honorable Board, the FY 2013-14 Water Revenue Fund budget will be transmitted to the Council in accordance with the City Charter; and

WHEREAS, Department management and the Board have completed a comprehensive review of the proposed FY 2013-14 Departmental budget; and

WHEREAS, the proposed FY 2013-14 budget provides necessary funding for important needs and mandates in the Local Water Supply Program, Safe Drinking Water Program, and Water System Infrastructure Program; and

WHEREAS, estimated appropriations for FY 2013-14 total \$1.98 billion; and

WHEREAS, net of receipts from the Power System, contributions in aid of construction, individuals, and companies and other miscellaneous sources, appropriations are \$1.64 billion.

NOW, THEREFORE, BE IT RESOLVED by the Board, as follows:

- (1) The "FY 2013-14 Proposed Departmental Budget – Water Revenue Fund," submitted by the General Manager to this Board for adoption, and now on file with the Secretary of this Board, be and the same is hereby adopted as the "Annual Departmental Budget of the Los Angeles Department of Water and Power, FY 2013-14, Water Revenue Fund" and that the appropriation shown therein be, and is hereby, made;
- (2) The amounts shown under the "Estimated Amounts for the FY 2012-13" submitted as part of the "FY 2013-14 Proposed Departmental Budget – Water Revenue Fund" by the General Manager to this Board for adoption, and now on file with the Secretary of this Board, be and the same are hereby adopted as the updated "Annual Budget of the Los Angeles Department of Water and Power, FY 2012-13, Water Revenue Fund" and that the appropriation shown therein be, and is hereby, made;

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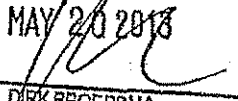
(3) The adopted "Annual Departmental Budget of the Los Angeles Department of Water and Power, FY 2013-14, Water Revenue Fund" be transmitted to the Council as required by Los Angeles City Charter Section 684.

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 MAY 24 2013


ASSISTANT BOARD SECRETARY

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

MAY 20 2013

BY 
DIRK BROERSMA
DEPUTY CITY ATTORNEY