



Los Angeles
Department of
Water & Power

RESOLUTION NO. 4904

BOARD LETTER APPROVAL

A blue ink signature of Jeffery L. Peltola, written over a horizontal line.

JEFFERY L. PELTOLA
Chief Financial Officer

A blue ink signature of Marcie L. Edwards, written over a horizontal line.

MARCIE L. EDWARDS
General Manager

DATE: February 5, 2016

SUBJECT: Initial Authorization to Issue up to \$348 Million of Water System Revenue Bonds under Resolution No. 4904

SUMMARY

Proposed Resolution No. 4904 will authorize the issuance of up to \$348 million of tax-exempt Water System Revenue Bonds (Water Bonds) to finance a portion of the budgeted capital improvements for Fiscal Year (FY) 2015-16, including the related costs of issuance. The debt service on the Water Bonds will be covered by the multi-year rate increase approved by the Board of Water and Power Commissioners (Board) during its meeting on December 15, 2015. The debt service on the Water Bonds will be payable out of the Water Revenue Fund.

Resolution No. 4904 is an initial resolution. A supplemental resolution, which provides additional information about the proposed Water Bond issuance, will be introduced at a subsequent Board meeting once the Water System's rates request has been approved by the City Council. Mayoral and City Council approvals are required pursuant to Section 609 of the Charter of the City of Los Angeles (Charter).

RECOMMENDATION

It is recommended that the Board adopt Initial Resolution No. 4904 authorizing the issuance of up to \$348 million of Water Bonds per Charter Section 609.

ALTERNATIVES CONSIDERED

The Los Angeles Department of Water and Power (LADWP) has two sources for funding its capital improvements program: (1) directly through rates collected from customers, and (2) borrowing from the capital market, which is repaid from rate collections over time.

Collections directly from rates do not provide sufficient funding for the entire capital budget. Accordingly, it has been determined that public interest and necessity demand that LADWP borrow \$348 million in this instance by issuing Water 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 2015-16.

Based on the approved budgeted level of spending for FY 2015-16, the cash projections reflect that the Water System's cash requirement will fall significantly below the Board approved minimum of 150 days of operating cash if the Water Bonds are not issued prior to April 2016.

FINANCIAL INFORMATION

As a fixed-rate issue, the total estimated cost for the \$348 million Water Bonds, including principal and interest, is approximately \$702 million over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$1.42 million equivalent to 0.41 percent of the total bond issue which includes underwriters' discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees.

BACKGROUND

Overview of Bond Funding Need

The Water System's FY 2015-16 Budget, approved by the Board on May 19, 2015 under Resolution No. 015-217 and transmitted to City Council in accordance with Charter Section 684, reflects a need to borrow approximately \$285 million to support its planned \$1 billion capital improvements program over the same period. The current financial plan, which reflects the actual financial results of fiscal year ended June 30, 2015, however, reflects a need to borrow approximately \$598 million, an increase of \$313 million from the approved budget. The table below shows the reconciliation for such increase:

	<u>Amount (\$ in millions)</u>	<u>Description</u>
Approved Budget (May 2015)	\$285	New money Revenue Bonds issuance
Adjustments:		
State Loans	47	Increased borrowing resulting from reduced estimates of state loans to reflect timing of funding.
Water JPA	168	Increased borrowing due to delay in the JPA approval process.
Increased Conservation	50	Increased borrowing due to reduced water consumption versus the approved budget level to reflect the Mayor's conservation goal for the City.
Beginning Cash Balance	48	Increased borrowing to compensate for lower actual year-end revenue than forecasted in the approved budget.
Current Financial Plan	\$598	Total borrowing necessary to fund capital program.
Revolving Credit	<u>(250)</u>	Funded through a drawdown from the Revolving Line of Credit (will be repaid through a separate authorization).
Updated Budget (December 15, 2015)	<u>\$348</u>	Revised New money Revenue Bonds issuance

The debt service on these Water Bonds will be funded by the multi-year rate increase approved by the Board on December 15, 2015. 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.

Resolution No. 4904 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. 4904 also provides for the private sale of the Water Bonds to one or more of the firms included in the team of underwriting firms previously selected by the Board (in 2015) 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 Water Bonds, including the underwriting firms that will be selected from among LADWP's investment banking team members and the principal financing documents related to the Water Bonds.

Both LADWP's Chief Financial Officer (CFO) and its financial advisor, the Public Resources Advisory Group (PRAG), recommend the Water 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. All of the twenty (20) investment banks that are in LADWP's current Pool of Underwriters are in compliance with Ordinance No. 182138. Their current disclosures are posted in the City's website at <http://cao.lacity.org/RBO/>.

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

ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the request for authority to issue Water 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. 4904 as to form and legality.

ATTACHMENTS

- Resolution No. 4904
- CFO Report
- PRAG's letter on Negotiated Bond Sale
- CAO Report