

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

**Authorizing the Borrowing of Up to \$650,000,000 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. 4891**

**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 purchasing, redeeming, refunding or defeasing bonds, notes, revenue certificates or other obligations of the Department payable from the Water Revenue Fund.

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

**SIX HUNDRED FIFTY MILLION DOLLARS (\$650,000,000)**

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 Resolution No. 4591 (the "Master Bond Resolution") adopted by the Board on February 6, 2001, 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 FEB 03 2015.

  
Secretary

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

DEC 05 2014  
  
PRISCILA CASTILLO KASHA  
DEPUTY CITY ATTORNEY



Los Angeles  
Department of  
Water & Power

21  
RESOLUTION NO. 4891

FEB 03 2015

BOARD LETTER APPROVAL

**PHILIP LEIBER**  
Chief Financial Officer

**DAVID H. WIGGS**  
Chief Administrative Officer

**MARCIE L. EDWARDS**  
General Manager

**DATE:** January 21, 2015

**SUBJECT:** Initial Authorization to Issue up to \$650 Million in Water System Refunding Revenue Bonds

**SUMMARY**

Proposed Resolution No. 4891 seeks authorization to issue up to a maximum of \$650 million of tax-exempt Water System Refunding Revenue Bonds (Refunding Bonds) payable from the Water Revenue Fund. The Bonds will be used to refinance or replace existing Water System Revenue Bonds that have higher interest rates with new bonds that have lower rates thereby lowering the Los Angeles Department of Water and Power's (LADWP) carrying cost of debt.

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 of Water and Power Commissioners' (Board) meeting, will provide additional details about specific proposed refunding issuances. The \$650 million authorization will provide sufficient authority for particular transactions contemplated to take place in the current fiscal year, as well as capacity for future refunding transactions.

**RECOMMENDATION**

It is requested that the Board adopt the attached Initial Resolution (Resolution No. 4891) recommending City Council's approval to issue up to \$650 million of tax-exempt Refunding Bonds per Charter Section 609.

**ALTERNATIVES CONSIDERED**

The LADWP could forego any refinancing opportunity to save millions of dollars on debt service costs and continue to pay the stated debt service on certain higher coupon Water System debt. LADWP also has the choice as to when to execute the refunding

transactions, and could wait for interest rates to potentially fall further from current levels.

## **FINANCIAL INFORMATION**

The debt issuance costs are estimated at \$2.8 million representing 0.43 percent of the total Refunding Bond issue of \$650 million which include underwriter's discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees. As noted above, the \$650 million authority may be utilized to refund certain debt in the current fiscal year and additional debt in the future.

## **BACKGROUND**

Refunding or refinancing of debt primarily involves replacing outstanding bonds with refunding bonds that pay a lower rate of interest than the refunded bonds. The proceeds from the sale or issuance of the Refunding Bonds are used to pay off the refunded bonds. The savings realized from a refunding are derived mainly from the reduction in interest costs. The lower interest costs will help keep rates lower, improve the Water System's financial coverage ratios and enhance its borrowing capacity.

In each Bond transaction, two sets of Board Resolutions are required. The Authorizing (Initial) Resolution, which at a minimum, must specify the purpose of the proposed revenue bonds to be issued, the maximum limit as to principal amount, term, and interest costs, requires approval by the Mayor and the City Council pursuant to Section 609 of the Charter. The Supplemental Resolutions approve the principal financing documents, amendments to the Master Bond Resolution, and more specific information about the transaction including, term, costs, and the sale of the bonds pursuant to the Contract of Purchase with the underwriting team for the related revenue bonds. The Supplemental Resolutions are generally presented to the Board after the Initial Resolution is approved and when the opportunity or necessity to issue the refunding bonds arise.

Resolution No. 4891 is an "initial resolution" of the Board, for the purpose of refunding or refinancing higher interest rate bonds with lower interest rate bonds. It sets forth the maximum limit as to principal, interest costs, and term for future indebtedness. Resolution No. 4891 also provides for the private sale of each series of the Bonds to one or more of the firms included in LADWP's investment banking team members (Banking Team) selected by the Board at the time of the sale. At a future Board meeting, when a determination has been made that a refunding or refinancing would be beneficial to the Water System, the Financial Services Organization (FSO) will present a "supplemental resolution" that will authorize the specific terms and conditions for the Refunding Bonds, including the underwriting firms that will be selected from among the Banking Team and the principal financing documents related to the Refunding Bonds.

With the adoption of this Resolution, LADWP will have the flexibility to maximize the opportunities for savings that are available in the currently low-interest rate environment. The FSO, along with its financial advisors and Banking Team, is constantly monitoring the market, looking for ways to reduce the Water System's borrowing costs.

Recently, various financial institutions proposed unique ideas for responsibly restructuring some of the Water System's debt through a refunding. In accordance with the Board-approved Debt Management Policy, FSO's goal is to achieve a minimum of three percent present value savings of the refunded par amount for current and advance refundings. A current refunding is a refunding transaction that is executed 90 days before the call date of the refunded bonds. An advance refunding transaction can be executed any time before the call date (the call date is usually ten years from the date of issuance) of the refunded bonds. Federal tax law allows issuers to advance refund bonds only once. There is no such limit on current refundings.

Resolution No. 4891 is a standing authorization by the Board and would provide the FSO with the flexibility to execute multiple refunding transactions (up to \$650 million) in the future that will produce economic savings for the Water System when relative interest rate levels decline. LADWP may also refund bonds for other reasons, as outlined in the Debt Management Policy, such as removing restrictive bond covenants, reducing risk, debt restructuring, or to free up cash on a short-term basis by restructuring future principal payments.

At this time, we estimate there may be over \$300 million of Water System revenue bonds outstanding as potential refinancing candidates. In addition, the Water System has approximately \$325 million in variable rate debt bonds (VRDBs) outstanding with interest rates that reset daily or weekly. Current debt holders of the VRDBs can choose to not continue to hold such debt at the next reset date. In the event that the investors no longer want to hold the VRDBs, the most expeditious alternative is for LADWP to refinance them with long-term fixed rate debt. In anticipation of these refinancing opportunities, a \$650 million refunding authorization is being requested.

Both the LADWP's Chief Financial Officer (CFO) and its financial advisor, the Public Resources Advisory Group (PRAG), recommend the Refunding 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.

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 Refunding 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. 4891 as to form and legality.

## **ATTACHMENTS**

- Resolution
- CFO Report
- PRAG Report
- CAO Report

0220-05119-0000

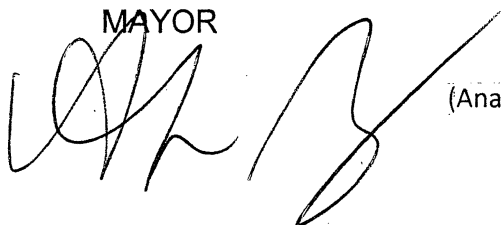
**TRANSMITTAL**

TO Marcie L. Edwards, General Manager Department of Water and Power	DATE JAN 23 2015	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

**AUTHORITY TO ISSUE \$650 MILLION IN WATER SYSTEM REFUNDING REVENUE BONDS.**

Approved and transmitted for further processing including Council consideration.  
See the City Administrative Officer report attached.

MAYOR



(Ana Guerrero)

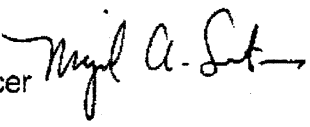
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REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: January 21, 2015  
To: The Mayor  
From: Miguel A. Santana, City Administrative Officer   
Reference: Communication from the Department of Water and Power dated December 4, 2014; referred by the Mayor for report on December 16, 2014  
Subject: **AUTHORITY TO ISSUE UP TO \$650 MILLION IN WATER SYSTEM REFUNDING REVENUE BONDS**

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### SUMMARY

The Department of Water and Power (DWP; Department) requests approval of the proposed Resolution 4891 (Resolution) authorizing the issuance of Water System Refunding Revenue Bonds to refinance existing outstanding debt. Approval of the proposed resolution is intended by DWP to represent a standing authorization of the DWP Board of Commissioners (Board) to issue one or more series of bonds as the Board may determine. This enables DWP to execute multiple refunding transactions currently and in the future while establishing a maximum limit as follows:

- The maximum principal amount is \$650 million;
- The maximum term of the bonds is 45 years from the date of issuance;
- The maximum interest cost to be incurred through the issuance of the bonds is 12 percent<sup>1</sup> per annum consistent with California Code Section 53531.

The proposed Resolution also authorizes the private or negotiated sale of the bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609 and Los Angeles Administrative Code (LAAC) Section 11.28.4 (the Procedural Ordinance) governing proprietary department bond resolutions.

The purpose of the proposed refunding bonds is to refinance a portion of the higher cost outstanding Water System debt in order to reduce the associated borrowing costs. DWP has established a goal of at least three (3) percent present value savings of the refunded par value (principal amount of the bond) for the refunding transaction(s).

The proposed refunding bonds will be DWP Water Revenue Fund obligations and will not constitute an obligation of the City or the General Fund. Background information relating to this request is provided in the attached Appendix. The City Attorney has approved the proposed resolution as to form and legality.



## RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Resolution 4891 authorizing the Department of Water and Power to issue through private sales, a maximum of \$650 million in Water System Refunding Revenue Bonds to refinance existing outstanding debt, in accordance with the provisions of Charter Section 609 and Article 6.5 of the Los Angeles Administrative Code Sections 11.28.1 through 11.28.9; and
2. Return the proposed resolution to the Department for further processing, including Council consideration.

## FISCAL IMPACT STATEMENT

There is no impact on the City or the General Fund. Approval of the proposed Resolution will authorize the DWP to refinance a portion of existing Water System debt. Debt issuance costs are estimated at \$2.8 million for the total \$650 million refunding transactions. Debt issuance costs consist of underwriter's discount, bond and disclosure counsels, financial advisor, rating agencies fees, escrows, verification agent, and printing costs. Debt service on these revenue bonds and all projected savings will accrue to the DWP Water Revenue Fund.

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Attachments

<sup>1</sup> 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 requested initial resolution is meant to be a general authorization to be used over an unspecified period for issuing bonds. In this regard the 12 percent provides a way to react to changing market conditions during this unspecified period. The Supplemental Resolutions, which are adopted closer to the time of bond issuance, typically provide for a much narrower anticipated interest cost. The goal of DWP is to achieve the lowest true interest cost for the Water System.

**APPENDIX**

**WATER SYSTEM HISTORICAL DEBT SERVICE COVERAGE**

The following chart illustrates the Water System Debt Service amount, Net Available Revenue Coverage (NAR) and Net Operating Cash Flow (NOCF) Coverage since 2004. The NOCF coverage has declined, from 4.4 times coverage in 2004 to 1.6 times in 2014 while the 11-year average is 2.0. The Water System achieved a Debt Service Coverage Ratio (NAR) of 2.1 times while the 11-year average is 2.24. Pursuant to the DWP Board action taken on May 21, 2009 as amended on September 12, 2012 and May 20, 2014, the DWP policy is to generally use the following financial planning criteria: 1) maintain a minimum debt service coverage of 1.7 times; 2) maintain a minimum operating cash target of 150 days of operating expenses; and, 3) maintain a debt-to-capitalization ratio of less than 65 percent.

**-Water Revenue Fund Revenue Bonds and Notes  
Pledged-Revenue Coverage  
Fiscal Years 2004 through 2014 (11 years)  
(Dollar amounts expressed in thousands)**

<b>Fiscal Year</b>	<b>Operating Revenues (1)</b>	<b>Less: Operating Expenses (2)</b>	<b>Net Available Revenue</b>	<b>Debt Service (3)</b>	<b>Net Available Revenue Coverage</b>	<b>Net Operating Cash Flow</b>	<b>Net Operating Cash Flow Coverage (4)</b>
2004	618,589	421,634	196,955	64,135	3.1	282,984	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
2014*	1,206,561	770,368	436,193	204,392	2.1	317,395	1.6

- (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.  
\* 2014 data is based on DWP audited financial reports prepared in December 2014..

## **CHARTER SECTION 609 COMPLIANCE**

City Charter Section 609 requires that the City Council and Mayor approve the 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 is 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 Public Resources Advisory Group (PRAG).

## **COMPETITIVE VERSUS NEGOTIATED BOND SALE**

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

- Allows for DWP to encourage significant involvement of local and regional firms in addition to retail investors who are less sensitive to price compared to institutional investors;
- Allows DWP to structure specialized bonds to meet specific investor needs;
- Provides DWP increased flexibility in timing the pricing of debt to attempt to respond to volatility in the public capital markets resulting from wide shifts in interest rates and investor demand; and,
- Incentivizes the underwriting pool to continue providing the Department with cost effective ideas, financing proposals for debt service savings, and offering competitive credit facilities to support the variable rate debt obligations.

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 \$2.8 million for the total \$650 million refunding bond issuance. A detail of the services provided and the estimated debt issuance costs are included in the following chart.

Debt Issuance Costs \$650 million Water System Revenue Bonds	
Service	Estimated Cost
Rating Agencies	\$ 700,000
Financial Advisor	130,000
Bond Counsel	250,000
Disclosure Counsel	100,000
Underwriter's Discount	1,625,000
Verification Agent	6,000
Escrow Fee	8,000
Printing of Official Statements	8,000
<b>TOTAL</b>	<b>\$ 2,827,000</b>

Source: Department of Water & Power - Financial Services Organization

### INDEBTEDNESS

As of November 30, 2014, the Water System reported approximately \$4.213 billion in long-term debt obligations. Long-term debt obligations consist of approximately \$325 million of variable rate debt, \$3.585 billion of fixed rate revenue bonds, and approximately 303 million in loans from the California Department of Water Resources. All debt service payments are payable from the Water Revenue Fund. DWP states a combined present value savings of \$35.2 million or 14.8 percent was achieved as a result of two refunding transactions occurring in fiscal year 2013. The following table identifies recent Water System long-term debt activity.

Water System Long-Term Debt Activity - Recent Issuances						
FY	Issuance (\$millions)		Rate	Purpose	Type of Sale	
2015	\$271.00	Tax-exempt	3.987% Fixed	Capital Improvements	Negotiated	
2014	\$380.00	Tax-exempt	3.836% Fixed	Capital Improvements	Negotiated	
2013	\$113.22	Tax-exempt	2.797% Fixed	Refunding Bonds*	Negotiated	
	\$322.00	Tax-exempt	4.023% Fixed	Capital Improvements	Negotiated	
	\$92.72	Tax-exempt	2.483% Fixed	Refunding Bonds*	Negotiated	

Source: Department of Water & Power - Financial Services Organization

\* Refunding transactions yielded a combined present value savings of \$35.2 million or 14.8 percent of refunded bonds.

## **CHIEF FINANCIAL OFFICER'S REPORT**

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

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

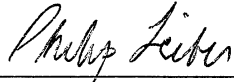
The Financial Services Organization (FSO), along with its financial advisors and banking team members, is constantly monitoring the market looking for ways to reduce the Water System's borrowing costs. The current financial environment has offered the Water System an opportunity to refund and restructure a substantial portion of its outstanding debt to reduce annual interest costs and generate significant savings to the Water System. Recently, various financial institutions have proposed ideas for responsibly restructuring some of the Water System's debt through a refunding. In accordance with the Board-approved Debt Management Policy, FSO's goal is to achieve at least three percent present value savings of the refunded par amount for its current and advance refundings. A current refunding is a refunding transaction that is executed 90 days before the call date of the refunded bonds. An advance refunding transaction can be executed any time before the first call date (usually, ten years from the date of issuance) of the refunded bonds.

Resolution No. 4891 will provide FSO with the flexibility to execute multiple refunding transactions (up to \$650 million) that produce savings for the Water System as market conditions improve.

I have determined that a private sale of the Refunding Bonds would be of benefit to and in the financial interests of LADWP and recommend the private sale of the Refunding Bonds as provided in the attached Resolution No. 4891, 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 Refunding Bonds consistent with the goals set forth in LADWP'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 to LADWP 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.



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PHILIP LEIBER  
Chief Financial Officer  
December 8, 2014

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**PUBLIC RESOURCES ADVISORY GROUP**

December 4, 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 refunding debt related to LADWP's Water System. We understand that LADWP is currently seeking authorization to issue up to \$650 million of refunding bonds for the Water System.

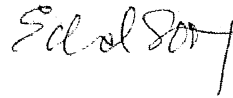
The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer, same credit, and 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 refunding of 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);
- Refunding bonds issued on a negotiated basis provide LADWP with maximum flexibility to refund as many bonds as possible that meeting LADWP's savings objectives while competitive sales have limitations on upsizing or downsizing a refunding based on market conditions;

- Refunding outstanding debt requires funding defeasance escrows which adds a level of complexity to the issuance process;
- 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 refunding 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,



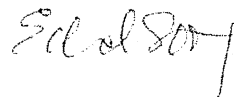
Edmund Soong  
Executive Vice President



- Refunding outstanding debt requires funding defeasance escrows which adds a level of complexity to the issuance process;
- 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 refunding 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 2013	POLICY ON SUBCONTRACTORS' UTILIZATION For CY 2013
<b>SENIOR MANAGERS</b>		
<b>Bank of America Merrill Lynch</b>	<ul style="list-style-type: none"> <li>The firm provided \$5,000.00 to the Watts/Willowbrook Boys and Girls Club, and \$5,000.00 to Puente Learning Center.</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
<b>Barclays Capital Inc.</b>	<ul style="list-style-type: none"> <li>Barclays contributed \$10,000 to the following Los Angeles charitable organizations: Grand Performances, Children's Bureau of Southern California and University of Southern California.</li> <li>Barclays is an active participant and supporter of the activities of the Supplier Diversity Committee to encourage the inclusion of minority and women-owned business enterprises and suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Supporting diverse and inclusive companies is a key component to the Supplier Code commitment in Barclays 2015 Citizenship Plan.</li> <li>Barclays established a Global Head of Supplier Diversity function to provide cross-functional, cross-business unit to engage diverse suppliers across the range of third-party procurements.</li> </ul>
<b>Goldman Sachs &amp; Co.</b>	<ul style="list-style-type: none"> <li>In 2013, Goldman Sachs contributed nearly \$1.6 million to local charities and scholarships in the City of Los Angeles including The LA County Museum of Art, the UCLA Foundation, City Year LA, Las Promise, the L.A. Police Foundation, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Goldman Sachs strives to provide diverse businesses with the opportunity to compete on a fair and equal basis for their business, and encourage the use of qualified businesses where opportunities exist and promote strategic partnerships.</li> <li>The firm established a Vendor Diversity web page on its external corporate website, which includes online registration for the Goldman Sachs Vendor Diversity Program.</li> </ul>
<b>J.P. Morgan Securities LLC</b>	<ul style="list-style-type: none"> <li>In 2013, the firm has provided more than \$7.17 million to local charities in the City of Los Angeles including the LA Philharmonic, LA Conservancy, LA Urban League, Skid Row Housing Trust, Museum Associates, etc.</li> </ul>	<ul style="list-style-type: none"> <li>The firm's Supplier Diversity initiative promotes economic growth and development of diverse suppliers by engaging them with internal and external decision-makers to build a strong and vibrant diverse supplier pipeline that creates mutually beneficial business relationships and increases shareholder value.</li> </ul>
<b>Morgan Stanley &amp; Co. LLC</b>	<ul style="list-style-type: none"> <li>In 2013, the firm contributed approximately \$434,750.00 to local charities and scholarships in the City of Los Angeles including the Make-A-Wish Foundation, the Point Foundation, the American Jewish Committee, USC, UCLA Foundation, the American Heart Association, the California Science Center, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Morgan Stanley actively seeks out the highest quality products and services to supply hundreds of offices all over the world. The firm seeks to partner with minority and multicultural businesses that meet competitive standards including firms run by women, veterans, disabled, and members of the LGBT community.</li> </ul>
<b>RBC Capital Markets, LLC</b>	<ul style="list-style-type: none"> <li>In 2013, the firm contributed approximately \$138,675.00 to local charities in the City of Los Angeles including the Tree People, the Grammy Foundation, Cedar Sinai Medical Center, the UCLA Foundation, USC, the American Heart Association, etc.</li> </ul>	<ul style="list-style-type: none"> <li>RBC is committed to purchasing materials and goods and services from a diversified vendor base.</li> <li>The firm's Supplier Diversity program aims to achieve a truly inclusive supply chain and to advance the achievement of equality by providing access to purchasing opportunities to all qualified suppliers.</li> </ul>
<b>Siebert Brandford Shank &amp; Co. LLC</b>	<ul style="list-style-type: none"> <li>In 2013, the firm contributed approximately \$11,500.00 to local charities in the City of Los Angeles including the Community Engagement Foundation, the United Negro College Fund, and the MLK Community Health Foundation.</li> </ul>	<ul style="list-style-type: none"> <li>Siebert Brandford Shank is a minority owned business enterprise.</li> </ul>
<b>Wells Fargo Securities</b>	<ul style="list-style-type: none"> <li>In 2013, the firm contributed approximately \$11.7 million to local charities in the City of Los Angeles including the Children's Hospital, City of Hope, Catholic Charities, USC, UCLA Foundation, Taking the Reins, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Wells Fargo integrates supplier diversity into all aspects of its business by creating programs and business models that offer education and awareness, measurement and accountability, and partnership development. The firm offers MWDSBEs the opportunity to provide goods and services, and will make effort to ensure that an amount greater than or equal to 10% of the organization's sourceable expenditures are spent with MWDSBEs.</li> </ul>

FIRM NAME	CORPORATE CITIZENSHIP For CY 2013	POLICY ON SUBCONTRACTORS' UTILIZATION For CY 2013
<b>CO-MANAGERS</b>		
<b>BMO Capital Markets GKST, Inc.</b>	<ul style="list-style-type: none"> <li>Contribute to the growth and well-being of communities by creating employment, careers, and a supportive workplace that welcomes individuals from diverse backgrounds and experiences.</li> <li>Create an environment where employees and clients are treated with respect and employees are empowered to take initiative in serving clients and communities.</li> </ul>	<ul style="list-style-type: none"> <li>Has a formal enterprise Supplier Diversity program and is committed to the utilization of diverse suppliers throughout the U.S. and Canada.</li> <li>Promote economic viability in local communities, creating wealth, increased spending by building long-term supplier relationships.</li> </ul>
<b>Cabrera Capital Markets, LLC</b>	<ul style="list-style-type: none"> <li>Cabrera provided support of approximately \$12,100.00 for the Westchester Little League, NALEO Education fund, Relay for Life, TELACU Education Foundation, Independent Cities Summer Sponsorship, the Women in Public Finance Los Angeles Chapter, League of Cities Latino Caucus, Association of Women in Water and Finance and Energy, and the National Latino Peace Officer Association of LA County.</li> </ul>	<ul style="list-style-type: none"> <li>Cabrera Capital Markets is a minority owned business enterprise.</li> </ul>
<b>Citigroup Global Markets Inc.</b>	<ul style="list-style-type: none"> <li>Citi Foundation provided \$224,000.00 in support to 9 charitable organizations in Los Angeles including the Los Angeles Chamber of Commerce Foundation, the Neighborhood Youth Association, Puente Learning Center, Youth Policy Institute, etc.</li> <li>Citi support programs that help families eliminate the financial barriers to college access and completion in order to move up the economic ladder.</li> </ul>	<ul style="list-style-type: none"> <li>Citi's Supplier Diversity initiative launched 35 years ago is an integral part of its corporate social responsibility and sustainability on the principles that it is important to work with a wide range of diverse suppliers and consultants in the communities they served.</li> </ul>
<b>Fidelity Capital Markets</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Fidelity recognizes the value of minority and women-owned business enterprises and does its best to embrace these 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.</li> <li>The firm tracks spending with over 600 suppliers certified across 8 classifications and can report the spending on a quarterly basis.</li> </ul>
<b>Loop Capital Markets, LLC</b>	<ul style="list-style-type: none"> <li>In 2013, the firm has provided approximately \$7,650.00 to local charities including the African American Bond Buyer Dinner, the Posse Foundation, the National Utilities Diversity Council, Women in Public Finance, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Loop Capital Markets is a minority owned investment bank with a keen interest in supporting the growth and establishment of other minority-owned businesses.</li> <li>The firm regularly selects qualified minority and woman-owned business as vendors and partners to support its business.</li> </ul>
<b>Samuel A. Ramirez &amp; Co., Inc.</b>	<ul style="list-style-type: none"> <li>In 2013, the firm did not make any charitable donations to Los Angeles based organizations but are working with employees to coordinate future charitable donations and match employee contributions that adhere to the firms guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>Samuel A. Ramirez &amp; Co. is a minority owned business enterprise.</li> </ul>
<b>The Williams Capital Group, L.P.</b>	<ul style="list-style-type: none"> <li>In 2013, the firm contributed approximately \$75.00 to local charities in the City of Los Angeles including the California Community Foundation, the Community Financial Resource Center, and the Japanese American National Museum.</li> </ul>	<ul style="list-style-type: none"> <li>The Williams Capital Group is a minority owned business enterprise.</li> </ul>
<b>U.S. Bank</b>	<ul style="list-style-type: none"> <li>In 2013, the firm contributed approximately \$1.8 million to local charities in the City of Los Angeles Los Angeles including the Grand Vision Foundation, Downtown Works, Central City Association, Los Angeles Mission, Los Angeles Urban League, The Champion Fund, etc.</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>