

0220-05188-0000

TRANSMITTAL

TO
Marcie L. Edwards, General Manager
Department of Water and Power

DATE

OCT 02 2015

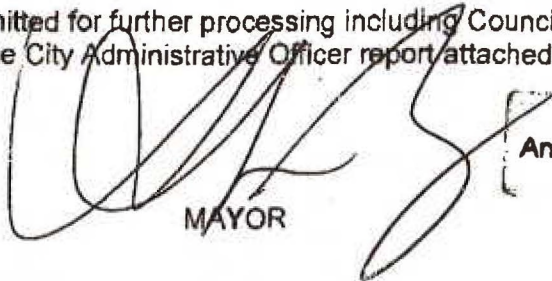
COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT

**INITIAL AUTHORIZATION TO ESTABLISH AND MAINTAIN A REVOLVING LINE OF
CREDIT UP TO \$500 MILLION FOR THE WATER AND POWER SYSTEMS**

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



Ana Guerrero

MAYOR

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 23, 2015

CAO File No. 0220-05188-0000
Council File No. -
Council District: -

To: The Mayor

From: Miguel A. Santana, City Administrative Officer *MAS*

Reference: Communication from the Department of Water and Power dated August 18, 2015; referred by the Mayor for report on September 1, 2015

Subject: **INITIAL AUTHORIZATION TO ESTABLISH AND MAINTAIN A REVOLVING LINE OF CREDIT UP TO \$500 MILLION FOR THE WATER AND POWER SYSTEMS**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of the proposed initial Resolution 4900 (Resolution) to establish and maintain a revolving line of credit (LOC) up to \$500 million for the Water and Power Systems. The LOC will serve as a flexible source of liquidity that can be accessed to (i) reimburse capital expenditures paid from the Water or Power Revenue Funds; (ii) fund current capital expenditures; or (iii) fund working capital on a short-term basis when receipt of grant funds, customer revenue, or bond proceeds is delayed.

Approval of the proposed initial Resolution is intended by DWP to represent a standing authorization of the DWP Board of Commissioners (Board) to establish and maintain one or more bank agreement(s) with credit providers that will be selected through a modified competitive solicitation process. As such, authority is also requested for the private placement of debt from time to time to maximize competitive pricing, terms, and conditions from highly rated banks. Furthermore, approval authorizes debt to be issued from time to time by utilizing a LOC pursuant to City Charter Section 609 and Los Angeles Administrative Code (LAAC) Section 11.28.7 of the Procedural Ordinance for the short term borrowing needs of DWP.

Limits proposed for the LOC(s) are as follows:

- Combined LOC limit of \$500 million;
- Term of LOC agreement up to three years subject to renewal by the DWP Board;
- Duration for repayment of borrowings shall not exceed five years from the date of draw;
- Annual interest rate up to 20 percent which will be negotiated with credit provider(s) selected through a competitive solicitation process.

Also, following the utilization of a LOC, a report from the DWP Chief Financial Officer will be

submitted to the DWP Board providing information including the funding purpose, the amount utilized, associated costs, availability of budgeted funds for repayment of any borrowed amounts and interest, a determination that the current rate structure is sufficient to cover the costs of the LOC, and the anticipated timing of the repayment.

Within the proposed limits, DWP anticipates establishing an initial LOC up to \$300 million. The intended duration for repayment is 12 months from the draw date. Any subsequent LOC expansion up to a combined total of \$500 million will require Board approval. Expansion of the LOC in excess of \$500 million will require further approval by the Mayor, City Council, and DWP Board.

Following approval of the proposed initial Resolution 4900, a separate resolution authorizing the specific terms and conditions for a LOC agreement will be presented for consideration at a future DWP Board meeting.

DWP states that the establishment and use of the proposed LOC is supported by the current rate structure and budget. This action is not dependent on a rate adjustment.

The proposed LOC will be an obligation of the DWP Water Revenue and Power Revenue Fund 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 4900 authorizing the Department of Water and Power to establish and maintain a revolving line of credit up to a combined \$500 million for the Water and Power Systems with a contractual term up to three years, subject to renewal by the DWP Board of Commissioners; 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 establish and maintain a revolving line of credit up to a combined \$500 million for the Water and Power Systems. It is estimated that the annual fee for establishing and maintaining a \$300 million or \$500 million LOC will be approximately \$375,000 or \$625,000. If funds are drawn, the repayment of principal and interest will be paid by the Water Revenue Fund or Power Revenue Fund.

APPENDIX

PURPOSE OF THE LOC

The proposed utilization of a LOC is a flexible and cost effective short-term liquidity management tool providing the DWP with access to funds on an as needed basis. It also enables the Department to maintain its interim financial metrics for while preparing for any long term financing. Another benefit is the avoidance of debt issuance costs. Furthermore, DWP states the current bank regulatory framework allows banks to provide more attractive pricing for a LOC compared to other liquidity support alternatives including its Commercial Paper program, as discussed below.

FEE STRUCTURE

The fee structure for a LOC is comprised of two components consisting of an unutilized and utilized (drawn) portion.

An unutilized fee of approximately 0.125 percent will be paid annually for establishing and maintaining a LOC for the next three years. The unutilized fee will be split between the Water System (33 percent) and the Power System (67 percent). It is estimated that the annual unutilized fee for a LOC of \$300 million or \$500 million will be approximately \$375,000 or \$625,000, respectively.

Funds utilized as tax-exempt bridge funding for capital investments will include an interest charge based on a short term municipal borrowing index such as the Securities Industry and Financial Markets Association (SIFMA), or a percentage (e.g. 70 percent) of the 30-day LIBOR plus a predetermined spread.

Funds utilized for taxable working capital will include an interest charge consisting of the 30-day LIBOR plus a predetermined spread.

Since August 2015, the SIFMA Municipal Swap Index (tax-exempt) has been at 0.02 percent and the 30-day LIBOR has been at 0.20 percent.

ALTERNATIVE

DWP considered expanding its Commercial Paper (CP) program which could provide similar access to short term liquidity as a LOC. However, DWP asserts that a CP program involves substantial administrative burdens and could be less cost effective than a LOC. CP programs involve accessing the capital markets, unlike a LOC, and necessitate additional time and expense for negotiating agreements with CP dealers, obtaining short-term ratings, preparing disclosure documents, and all other related investment activities.

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 recommendation for private bond sale (Attachment) has been made by the DWP CFO.