



Los Angeles
Department of
Water & Power

RESOLUTION NO. 4907

BOARD LETTER APPROVAL

A handwritten signature in blue ink, appearing to read 'Jeffery L. Peltola', written over a horizontal line.

JEFFERY L. PELTOLA
Chief Financial Officer

A handwritten signature in blue ink, appearing to read 'Marcie L. Edwards, for', written over a horizontal line.

MARCIE L. EDWARDS
General Manager

DATE: March 3, 2016

SUBJECT: Initial Authorization to Issue up to \$428 Million of Power System Revenue Bonds Under Resolution No. 4907

SUMMARY

Proposed Resolution No. 4907 will authorize the issuance of up to \$428 million of tax-exempt Power System Revenue Bonds (Power 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 Power Bonds will be covered by the multi-year rate increase approved by the Board of Water and Power Commissioners (Board) during its meeting on January 19, 2016. The debt service on the Power Bonds will be payable out of the Power Revenue Fund.

Resolution No. 4907 is an initial resolution. A supplemental resolution, which provides additional information about the proposed Power Bond issuance, will be introduced at a subsequent Board meeting.

RECOMMENDATION

It is recommended that the Board adopt Resolution No. 4907 authorizing the issuance of up to \$428 million of Power 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 customer 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 \$428 million in this instance by issuing Power Bonds pursuant to Section 609 of the Charter for the purpose of financing a portion of the Power 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 Power System's cash requirement will fall significantly below the Board-approved minimum of 150 days of operating cash if the Power Bonds are not issued by May 2016.

FINANCIAL INFORMATION

As a fixed-rate issue, the total estimated cost for the \$428 million Power Bonds, including principal and interest, is approximately \$862 million over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$1.6 million equivalent to 0.37 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 Power System's FY 2015-16 Budget, approved by the Board on May 19, 2015 under Resolution No. 015-216 and transmitted to City Council in accordance with Charter Section 684, reflects a need to borrow approximately \$647 million to support its planned \$1.5 billion capital improvements program over the same period. The updated financial plan, which reflects the actual financial results for fiscal year ended June 30, 2015, shows a need to borrow a lower amount of \$428 million, a decrease of \$219 million from the approved budget. The reduction in borrowing is primarily attributable to the lower capital spending than budgeted for FY 2014-15. As a result, as of June 30, 2015, \$85 million of bond proceeds received from bond sales in FY 2014-15 remained unspent, and the cash balance in the Power Revenue Fund was approximately \$134 million higher than budgeted.

The debt service on these Power Bonds will be funded by the multi-year rate increase approved by the Board on January 19, 2016. The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Power System and would be drawn down to fund a portion of its capital improvements program.

Resolution No. 4907 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. 4907 also provides for the private sale of the Power 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 Power 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 Power Bonds.

Both, LADWP's Chief Financial Officer (CFO) and its financial advisor, the Public Resources Advisory Group (PRAG) recommend the Power 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 (CAO) 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 Power Bonds are 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. 4907 as to form and legality.

ATTACHMENTS

- Resolution No. 4907
- CFO Report
- PRAG's letter on Negotiated Bond Sale
- CAO Report