



Los Angeles  
Department of  
Water & Power

RESOLUTION NO. 4918

BOARD LETTER APPROVAL

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

JEFFERY L. FELTON  
Chief Financial Officer

A handwritten signature in blue ink, appearing to read 'David H. Wright', written over a horizontal line.

DAVID H. WRIGHT  
General Manager

**DATE:** September 12, 2016

**SUBJECT:** Initial Authorization to Issue up to \$875 Million of Power System Revenue Bonds Under Resolution No. 4918

**SUMMARY**

Proposed Resolution No. 4918 will authorize the issuance of up to \$875 million of tax-exempt Power System Revenue Bonds (Power Bonds) to finance a portion of the budgeted capital improvements for Fiscal Year (FY) 2016-17, 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 City Council in March 2016 and became effective on April 15, 2016. The debt service on the Power Bonds will be payable out of the Power Revenue Fund.

Resolution No. 4918 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. 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 of Water and Power Commissioners (Board) adopt Resolution No. 4918 authorizing the issuance of up to \$875 million of Power Bonds per Charter Section 609.

**ALTERNATIVES CONSIDERED**

The 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 \$875 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 2016-17, approved under Resolution No. 016-278.

## **FINANCIAL INFORMATION**

As a fixed-rate issue, the total estimated cost for the \$875 million Power Bonds, including principal and interest, is approximately \$1.85 billion over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$2.6 million equivalent to 0.30 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 2016-17 Budget, approved by the Board on May 17, 2016 under Resolution No. 016-278 and transmitted to City Council in accordance with Charter Section 684, reflects a need to borrow approximately \$875 million to support its planned \$1.5 billion capital improvements program over the same period.

The debt service on these Power Bonds will be funded by the multi-year rate increase approved by the City Council in March 2016 and became effective on April 15, 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. 4918 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. 4918 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 May 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 nineteen (19) 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. 4918 as to form and legality.

### **ATTACHMENTS**

- Resolution
- CFO Report
- PRAG's letter on Negotiated Bond Sale
- CAO Report