



Los Angeles  
Department of  
Water & Power

RESOLUTION NO. \_\_\_\_\_

BOARD LETTER APPROVAL

Handwritten signature of Neil M. Guglielmo in blue ink.

NEIL M. GUGLIELMO  
Acting Chief Financial Officer

Handwritten signature of David H. Wright in blue ink.

DAVID H. WRIGHT  
General Manager

**DATE:** February 13, 2017

**SUBJECT:** Authorization to Submit a Financing Application to the Southern California Public Water Authority to Issue up to \$772 Million of Rate Reduction Bonds

**SUMMARY**

The Proposed Resolution requests authorization for LADWP, as a member participant of Southern California Public Water Authority (SCPWA), to submit a Rate Reduction Bonds (RRBs) financing application to SCPWA, a Water Joint Powers Authority (JPA), to finance certain Water System capital projects that qualify as utility projects pursuant to California Government Code Section ("Code Section") 6585 as required by the Joint Powers Agreement approved by City Council on June 14, 2016. The financing application shall specify the issuance by SCPWA of up to \$772 million of RRBs to finance the costs of qualifying Water System utility projects for fiscal years 2016-17 and 2017-18. It is estimated that \$400 million of the bond proceeds will be used to reimburse the Water System for capital expenditures already incurred and paid from the Water Revenue Fund and/or borrowed funds during the current fiscal year. The remaining balance of the authorization will be used to fund ongoing or new qualified water utility projects for fiscal year 2017-18.

The \$772 million of SCPWA RRBs will save LADWP customers up to approximately \$390 million, \$256 million of which is saved during the first year (fiscal year 2017-18) and the balance of \$134 million over the remaining life of the 30-year bonds.

City Council approval is required.

**RECOMMENDATION**

It is recommended that the Board of Water and Power Commissioners (Board) adopt the attached Resolution authorizing the submission of a financing application to SCPWA for up to \$772 million of RRBs to finance qualified Water System utility projects for fiscal years 2016-17 and 2017-18.

## **ALTERNATIVES CONSIDERED**

LADWP has two sources for funding its capital improvements program: (1) directly from rates collected from customers, and (2) borrowing from the capital markets with the related debt service payments collected from customers over time.

Collections directly from rates do not provide sufficient funding for the entire capital budget. With respect to borrowing from the capital markets, the LADWP can either issue Water System revenue bonds directly or finance certain capital expenditures through SCPWA with RRBs. The RRBs issued by SCPWA is expected to obtain higher credit ratings (AAA) than the Water System's credit ratings (AA+/AA/Aa2) and will only require a one-time debt service coverage compared to the 1.7 times coverage required for directly-issued Water System Revenue bonds, providing savings and the least rate impact to Water System customers.

Alternatively, if the utility projects were directly financed by the Water System, pursuant to, Section 3, F7, G4, and K4 of the Water Rates Ordinance, it may only borrow up to the Board approved capitalization ratio of 65 percent. As a result, the Water System would have to collect from its customers approximately \$270 million (35 percent of \$772 million utility projects) immediately and issue approximately \$502 million (65 percent of \$772 million utility projects) of Water System revenue bonds to finance the same water projects. Additionally, to comply with the Board approved financial metrics, the Water System must collect from its customers 1.7 times the annual debt service expense, resulting in an additional collection of approximately \$120 million, relative to the annual debt service expense for RRBs, over a 30-year period. The overall impact to the customers would be an increase in revenue requirement of approximately \$390 million, \$256 million of which to be collected in the first year (fiscal year 2017-18) and the balance of \$134 million over the remaining life of the 30-year bonds.

Consistent with the Water System's five-year financial plan that was used to support the multi-year rate increase, it is in the best interest of its customers that LADWP authorize submission of the RRBs financing application to SCPWA to finance up to \$772 million of the costs of the water utility projects that qualify for such financing under Assembly Bill 850 (AB 850) for fiscal years 2016-17 and 2017-18.

## **BACKGROUND**

In October 2013, the City of Los Angeles-sponsored AB 850 was approved by the State Legislature and the Governor. AB850 authorizes specified joint powers authority to issue RRB to finance qualifying water utility projects, as defined in Code Section 6585, and impose a water utility project charge, as a separate nonbypassable charge to finance such bonds.

In early 2015, the Board adopted Resolutions 015-151 and 015-168 recommending that the City Council adopt the JPA Agreement creating the SCPWA. In June 2016, the City Council adopted Ordinance No. 184369, which approved the two Board Resolutions, and authorized

the establishment of a Water JPA to be known as SCPWA. On October 17, 2016, the SCPWA was formed after the execution of the JPA Agreement between LADWP and the City of Burbank.

Pursuant to Section 4 of Ordinance No. 184369, the Board Resolution authorizing the financing application to the SCPWA to finance the costs of qualified water utility projects with RRB is subject to City Council approval.

Once the authorizing Resolution is approved, pursuant to Code Section 6588.7, the LADWP shall make the financing application to SCPWA for the issuance of such RRB, which would specify the qualified water utility projects to be financed by such bonds, the maximum principal amount, maximum interest rate, and the maximum stated terms of the bonds. Subsequently upon SCPWA Board approval, SCPWA is required to submit such financing application to the California Pollution Control Financing Authority (CPCFA) along with a report setting forth the principal facts, assumptions, projections, variables and calculations and concluding that the projects to be financed with the RRBs qualify as utility projects, and the resulting Water System rates are expected to be lower compared to the traditional direct issuance of tax-exempt Water System revenue bonds. Attached is a report by Navigant, an independent engineering firm, tasked by LADWP to opine that the projects to be financed with RRBs had met the definition of utility project and validate the expected savings calculated, which is projected to range from \$358 million to \$390 million under several scenarios. The CPCFA will determine separately whether the requested RRBs financing qualifies under the provisions of Code Section 6588.7.

Based on the Water System's financial plan, which formed the basis for determining the revenue requirements for the multi-year rate increase that was approved by the Board and the City Council in March 2016, certain utility projects of the Water System capital program that were eligible for JPA financing as defined in Code Section 6585 were presented as financed with RRBs. The plan assumptions include financing through SCPWA of approximately \$748 million of rate reduction bonds for fiscal years 2016-17 and 2017-18. After a thorough review of the eligible utility projects, the meter replacement program was determined to be eligible and was added, increasing the eligible RRBs financing amount to \$772 million.

Pursuant to Code Section 6588.7, SCPWA shall impose a utility project charge, as a separate nonbypassable charge in the LADWP's bill, to finance such SCPWA RRB. The Water System, as a billing and collection agent for SCPWA, is required to collect from its customers adequate sums to cover the annual debt service costs of the RRB issued by SCPWA. The annual debt service expense for the \$772 million of RRB issued by SCPWA is estimated to be approximately \$43.2 million over the next 30 years.

### **ENVIRONMENTAL DETERMINATION**

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the proposed authorization to make a RRB financing application to SCPWA 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 as to form and legality the attached Resolution.

## **ATTACHMENTS**

- Resolution
- CAO Report
- Navigant Report