



BOARD LETTER APPROVAL

  
NEIL M. GUGLIELMO  
Chief Financial Officer

  
DAVID H. WRIGHT  
General Manager

**DATE:** November 9, 2017

**SUBJECT:** Initial Authorization to Issue up to \$231 Million of Water System Revenue Bonds under Resolution No. 4937

**SUMMARY**

Proposed Resolution No. 4937 will authorize the issuance of up to \$231 million of tax-exempt Water System Revenue Bonds (Water Bonds) to finance a portion of the budgeted capital improvements for Fiscal Year (FY) 2017-2018, including the related costs of issuance. The debt service on the Water 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 Water Bonds will be payable out of the Water Revenue Fund.

Resolution No. 4937 is an initial resolution. A supplemental resolution, which provides additional information about the proposed Water Bond issuance, will be introduced at a subsequent Board of Water and Power Commissioners (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 adopt Resolution No. 4937 authorizing the issuance of up to \$231 million of Water 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 \$231 million in this instance by issuing Water Bonds pursuant to Section 609 of the Charter for the purpose of financing a portion of the Water System's budgeted capital improvements for FY 2017-2018.

## **FINANCIAL INFORMATION**

As a fixed-rate issue, the total estimated cost for the \$231 million Water Bonds, including principal and interest, is approximately \$444.4 million over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$1.08 million equivalent to 0.47 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 Water System's FY 2017-18 Budget, approved by the Board on May 16, 2017 under Resolution No. 017-236 and transmitted to City Council in accordance with Charter Section 684, reflects a need to borrow approximately \$231 million to support a portion of its planned \$861 million capital improvements program over the same period.

The debt service on these Water 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 Water System and would be drawn down to fund a portion of its capital improvements program.

Resolution No. 4937 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. 4937 also provides for the private sale of the Water 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 Water 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 Water Bonds.

Both, LADWP's Chief Financial Officer (CFO) and its financial advisor, the Public Resources Advisory Group (PRAG) recommend the Water 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 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 Water 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. 4937 as to form and legality.

### **ATTACHMENTS**

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