


0220-05209-0001

TRANSMITTAL

TO David H. Wright, General Manager Department of Water and Power	DATE NOV 20 2017	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

AUTHORITY TO ISSUE \$231 MILLION IN WATER SYSTEM REVENUE BONDS

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: November 14, 2017

CAO File No. 0220-05209-0001

Council File No. --

Council District: --

To: The Mayor

From: Richard H. Llewellyn, Jr.,  Interim City Administrative Officer

Reference: Communication from the Department of Water and Power dated October 27, 2017

Subject: **AUTHORITY TO ISSUE \$231 MILLION IN WATER SYSTEM REVENUE BONDS**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution 4937 authorizing the Department of Water and Power (DWP) to issue up to \$231 million of Water System Revenue Bonds to fund a portion of the Water System Capital Improvements Program (CIP) for Fiscal Year 2017-18 in accordance with the provisions of City Charter Section 609 and Ordinance and Article 6.5 of the Los Angeles Administrative Code Sections 11.28.1 – 11.28.9; and,
2. Return the proposed resolution to the Department for further processing, including Council consideration.

SUMMARY

DWP intends to issue bonds to finance a portion of its FY 2017-18 Water System CIP Adopted Budget which totals \$861 million. Approval of the proposed resolution is intended by DWP to represent an 'initial resolution' of the Board, which sets forth the purpose for future indebtedness and establishes the maximum limits for this issuance as follows:

- The maximum principal is \$231 million;
- The maximum term of the debt is 45 years from the date of issuance;
- The maximum interest cost to be incurred through the issuance of bonds is 12 percent.

The maximum legally permissible interest cost that could be incurred through the issuance of the bonds is 12 percent per annum consistent with California Code Section 53531. DWP expects that the current market conditions will provide an interest cost in the range of 4.0 to 5.5 percent.

The proposed Resolution also authorizes the private sale of the bonds to one or more underwriting firms selected by the DWP Board of Commissioners (Board) pursuant to City Charter Section 609(d) and Los Angeles Administrative Code (LAAC) Section 11.28.4 (the

Procedural Ordinance) governing proprietary department bond resolutions.

The \$231 million bond issuance will be funded by the multi-year rate increase approved by the City Council in March 2016, effective on April 15, 2016. The bonds will be Water Revenue Fund obligations and will not constitute an obligation of the City or the General Fund.

The City Attorney has approved the proposed resolution as to form and legality. In compliance with the Responsible Banking Ordinance No. 182138 (RBO), DWP's Pool of Underwriters have disclosed their involvement in charitable programs or scholarships within the City of Los Angeles and internal policies regarding use of subcontractors designated as small business and disabled veteran business enterprises. Background information relating to this request is provided in the attached Appendix.

FISCAL IMPACT STATEMENT

Approval of the proposed resolution will impact the DWP Water Revenue Fund. There is no fiscal impact to the City General Fund.

RHL:RR:10180039

Attachment

APPENDIX

The FY 2017-18 CIP is illustrated in the tables below:

	FY 2017-18
	(\$ Millions)
Water Quality Improvements	
WQIP Reservoir Improvements	\$127
WQIP Trunkline Improvements	36
Groundwater Remediation and Clean Up	56
Chloramination Station Installations	15
Water Treatment Improvements	22
Meter Replacement Program	13
Water Quality Improvements	\$269
Water Supply	
Recycling & Stormwater	\$77
Groundwater	14
LAA Aqueduct	32
Water Conservation	38
Water Supply	\$161
Water Infrastructure Programs	
Distribution Mains	\$112
Trunkline & Major System Connections	33
Infrastructure Reservoir Improvements	20
WSO Facilities	8
Services, Meters & Hydrants	43
Pump Stations	18
Water Services Organization Information Technology	15
Other (WSO Capital Projects, Resource Development, and Tools and Equipment)	20
Water Infrastructure Programs	\$269
Regulatory Compliance - Owens Valley	
Owens Valley Dust Mitigation & Lake Master Project	\$33
Supplemental Dust Control Development	49
Regulatory Compliance-Owens Valley	\$82
Operating Support	
Water System's share of Joint Capital including Customer Service	\$80
Operating Support	\$80
Total Water System Capital Improvements Budget for Fiscal Year 2017-18	\$861

Capital Program Financing

In order to support the Water System FY 2017-18 CIP Budget of \$861 million, a combination of internally generated funds and borrowings will be required including loans from State Water Resources Control Board; Rate Reduction Bonds through Southern California Public Water Authority, a Joint Powers Authority; and Water System Revenue Bonds. Approximately \$231 million of the Water System FY 2017-18 CIP Budget includes funding through the issuance of tax-exempt water revenue bonds.

The DWP Board establishes the financial planning criteria utilized by the Department. On May 21, 2009, the DWP Board adopted financial planning criteria to maintain:

- A minimum debt service coverage of 2.0 times;
- An operating cash target of \$200 million; and,
- A capitalization ratio of less than 60 percent.

On May 20, 2014, the Board revised the financial planning criteria to maintain:

- A minimum debt service coverage of 1.7 times;
- An operating cash target of 150 days; and,
- A capitalization ratio of less than 65 percent.

The following table illustrates the Water System's actual financial performance since 2010.

Financial Performance	2010	2011	2012	2013	2014	2015	2016
Debt Service Coverage	2.0	1.7	1.8	2.2	2.1	1.9	2.0
Operating Cash Target	\$203,365,000	\$240,546,000	\$329,803,000	\$448,945,000	\$369,809,000	187 days	172 days
Capitalization Ratio	54%	58%	57%	58%	60%	62%	64%

Financial data used for calculation is based on audited financial statements and official statements.

Charter Section 609 Compliance

Charter Section 609 requires approval by the Mayor and Council for the issuance of debt by the proprietary departments. The City's Debt Management Policy states the issuance of debt shall be through a competitive sale whenever feasible, however, Charter Section 609(d) allows the private sale of bonds subject to the following conditions:

- The DWP 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 DWP;
- 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 of the underwriting firm(s) for the private sale of bonds.

Pursuant to the Procedural Ordinance, the recommendations for private bond sale have been

made by both the CFO of DWP and by the Department's financial advisor, the Public Resources Advisory Group (PRAG). Accordingly, DWP requests authority to conduct private, negotiated sales of bonds to one or more investment banking firms. In 2015, the DWP Board selected the firms listed below to serve as the DWP's underwriting team for a three year duration expiring in May 2018. DWP will select from the team of underwriters for each individual bond issuance.

Department of Water and Power Selected Underwriting Team

SENIOR MANAGERS	CO-MANAGERS
Bank of America Merrill Lynch ^(A)	Cabrera Capital Markets, LLC
Barclays Capital Inc.	Fidelity Capital Markets
BMO Capital Markets GKST Inc.	Jefferies LLC
Citigroup Global Markets Inc.	J.P. Morgan Securities LLC
Goldman, Sachs & Co.	Loop Capital Markets LLC
Morgan Stanley & Co. LLC	Mischler Financial Group, Inc.
RBC Capital Markets, LLC	Raymond James & Associates, Inc.
Samuel A. Ramirez & Co., Inc.	Stern Brothers & Co.
Siebert Brandford Shank & Co., LLC	Stifel, Nicolaus & Co., Inc.
Wells Fargo Bank, N.A.	U.S. Bancorp Investments, Inc.

^(A) Legal name: Merrill Lynch, Pierce, Fenner & Smith Inc.

Competitive v. Negotiated Bond Sale

The DWP proposal for the use of a negotiated or private bond sale is based upon the determinations made by the CFO in consultation with its financial advisor. The rationale for recommending a negotiated sale is provided below.

- Allows for DWP to encourage significant involvement of local and regional firms in addition to retail investors who are less sensitive to price compared to institutional investors;
- Allows DWP to structure specialized bonds to meet specific investor needs; and,
- Provides DWP flexibility in timing the pricing of debt to respond to market volatility including shifts in interest rates and changes of investor demand.

Furthermore, a negotiated bond sale can provide DWP an opportunity to communicate directly with investment firms regarding potential concerns including, but not limited to, operations, developments, challenges, and mitigation efforts, to ensure appropriate borrowing rates.

Debt Issuance Costs

DWP estimates the total cost of this proposed debt issuance is approximately \$1.08 million. A list of the debt issuance services and estimated costs is provided in the following table.

Debt Issuance Costs \$231 million Water System Revenue Bonds	
Service	Estimated Cost
Rating Agencies	\$ 291,000
Financial Advisor	60,000
Bond Counsel	95,000
Disclosure Counsel	50,000
Underwriter's Discount	578,000
Printing of Official Statements	4,000
TOTAL	\$1,078,000

Source: DWP Financial Services Organization

Indebtedness

As of October 31, 2017, the Water System reported approximately \$5.244 billion in debt obligations. This consists of \$4.225 billion fixed rate bonds, \$325 million of variable rate bonds, approximately \$544 million loans from California Department of Water Resources, and \$150 million drawn from a revolving line of credit.