


0220-05209-0002

TRANSMITTAL

TO David H. Wright, General Manager Department of Water and Power	DATE 7/12/18	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

AUTHORITY TO ISSUE \$1.5 BILLION IN POWER SYSTEM REFUNDING REVENUE BONDS

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


 (Ana Guerrero) for
MAYOR

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 10, 2018

CAO File No. 0220-05209-0002

Council File No. --

Council District: --

To: The Mayor

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

Reference: Communication from the Department of Water and Power dated June 20, 2018

Subject: **AUTHORITY TO ISSUE \$1.5 BILLION IN POWER SYSTEM REFUNDING REVENUE BONDS**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Resolution 4944 authorizing the Department of Water and Power (DWP) to issue up to \$1.5 billion in Power System Refunding Revenue Bonds to refinance or replace existing Power System Revenue Bonds in accordance with the provisions of City Charter Section 609 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 proposes to issue refunding bonds to refinance or replace existing Power System Revenue Bonds that have higher interest rates with new bonds that have lower interest rates in order to reduce the cost of debt. The Power System utilizes various types of debt which have been identified for potential refinancing including:

- \$958.5 million of outstanding Power System revenue bonds;
- \$300 million of short-term notes maturing on December 1, 2018, and which are callable on September 1, 2018;
- \$1.314 billion of variable rate bonds with interest rates that reset daily or weekly;
- \$200 million Commercial Paper Notes with interest rates that reset from 1 to 270 days;

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 \$1.5 billion;
- 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 provides for 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 (Procedural Ordinance) governing proprietary department bond resolutions.

The \$1.5 billion refunding bond issuance will be funded by the multi-year rate increase that was approved by the City Council in March 2016 and became effective on April 15, 2016. The bonds will be Power 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, or are in the process of disclosing, 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 Power Revenue Fund. There is no fiscal impact to the City General Fund.

RHL:RR:10180108

Attachment

APPENDIX

Board Approved Financial Metrics

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 2.25 times;
- An operating cash target of \$300 million; and,
- A capitalization ratio of less than 60 percent.

On September 12, 2012, the Board revised the financial planning criteria to maintain:

- A minimum debt service coverage of 2.25 times;
- An operating cash target of \$300 million; and,
- A capitalization ratio of less than 68 percent.

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

- A minimum debt service coverage of 2.25 times;
- A minimum full obligation coverage of 1.70 times;
- A minimum operating cash target of 170 days; and,
- A capitalization ratio of less than 68 percent.

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

Financial Performance	2010	2011	2012	2013	2014	2015	2016	2017
Debt Service Coverage	3.49	2.42	2.91	2.44	2.47	2.31	2.68	2.37
Full Obligation Coverage	2.2	1.7	1.9	1.7	1.7	1.6	1.9	1.7
Oper Cash Target (\$,000)	\$ 423,855	\$ 561,414	\$ 417,895	\$ 597,525	\$ 775,890	\$1,106,651	269 days	249 days
Capitalization Ratio	55%	57%	57%	60%	61%	62%	62%	62%

Charter Section 609 Compliance

City Charter Section 609 requires that the City Council and Mayor approve the issuance of debt for the proprietary departments. The City's Debt Management Policy states that the issuance of debt shall be through a competitive sale whenever feasible. However, 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 by a department of the underwriting firm(s) for the private sale of bonds.

Pursuant to the Procedural Ordinance, the recommendations for private bond sale (Attachments) have been made by both the DWP's CFO and by its 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. The table below lists the firms approved by the DWP Board on June 26, 2018, to serve as the DWP's underwriting team for a three year duration expiring in June 2021. DWP will select from the approved 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)	Academy Securities, Inc.
Barclays Capital Inc.	Cabrera Capital Markets, LLC
Citigroup Global Markets Inc.	FTN Financial Capital Markets
Goldman, Sachs & Co.	J.P. Morgan Securities LLC
RBC Capital Markets, LLC	Jefferies LLC
Samuel A. Ramirez & Co., Inc.	Loop Capital Markets LLC
Siebert Cisneros Shank & Co., LLC	Morgan Stanley & Co. LLC
Wells Fargo Bank, N.A.	Piper Jaffray & Co.
	Raymond James & Associates, Inc.
	Stern Brothers & Co.
	Stifel, Nicolaus & Co., Inc.
	USB Financial Services Inc.

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

It is noted the composition of the underwriting team includes participation by local business, women-owned, minority-owned, and disabled veteran business enterprises. Two of the eight Senior Managers and four of the twelve Co-Managers (totaling 30 percent) are women-owned, minority-owned, and/or disabled veteran business enterprises.

Competitive v. Negotiated Bond Sale

The DWP proposed request 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 includes the following:

- Allows for DWP to encourage 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 increased flexibility in timing the pricing of debt to attempt to respond to volatility in the public capital markets resulting from wide shifts in interest rates and 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, which can be effective for ensuring appropriate borrowing rates.

Debt Issuance Costs

Debt issuance costs are estimated by the DWP at approximately \$5.64 million for the total \$1.5 billion refunding bond issuance. A detail of the services provided and the estimated debt issuance costs are included in the following chart.

Debt Issuance Costs	
Service	Estimated Cost
Rating Agencies	\$ 1,212,000
Financial Advisor	204,000
Bond Counsel	285,000
Disclosure Counsel	150,000
Underwriter's Discount	3,750,000
Printing of Official Statements	9,000
Escrow and Other Fees	30,000
TOTAL	\$ 5,640,000

Source: Department of Water & Power - Financial Services Organization

Indebtedness

As of April 30, 2018, the Power System reported a total of approximately \$8.81 billion in long-term debt obligations and \$0.20 billion of commercial paper program. Long-term debt obligations consist of approximately \$1.11 billion of variable rate debt and \$7.70 billion of fixed rate revenue bonds. All debt service payments are payable from the Power Revenue Fund.