



BOARD LETTER APPROVAL

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DATE: July 20, 2018

SUBJECT: Initial Authorization to Issue up to \$1.5 Billion in Power System Refunding Revenue Bonds Under Resolution No. 4944

SUMMARY

Proposed Resolution No. 4944 seeks authorization to issue up to a maximum of \$1.5 billion of tax-exempt Power System Refunding Revenue Bonds (Refunding Bonds) payable from the Power Revenue Fund. The Bonds will be used primarily to refinance or replace existing Power System Revenue Bonds that have higher interest rates with new bonds that have lower rates thereby lowering the LADWP carrying cost of debt.

Mayoral and City Council approvals are required pursuant to Section 609 of the Charter of the City of Los Angeles (Charter). A subsequent resolution, to be introduced at a subsequent Board of Water and Power Commissioners' (Board) meeting, will provide additional details about specific proposed refunding issuances. The \$1.5 billion authorization will provide sufficient authority for particular transactions contemplated to take place in the current fiscal year, as well as capacity for future refinancing transactions.

RECOMMENDATION

It is requested that the Board adopt the attached Initial Resolution (Resolution No. 4944) recommending City Council's approval to issue up to \$1.5 billion of tax-exempt Power System Refunding Revenue Bonds as required in Charter Section 609.

ALTERNATIVES CONSIDERED

The LADWP could forego any refinancing opportunity to save millions of dollars on debt service costs and continue to pay the stated debt service on certain higher coupon Power System debt. LADWP also has the choice as to when to execute the refunding transactions, and could wait for interest rates to potentially fall further from current levels.

FINANCIAL INFORMATION

The debt issuance costs are estimated at \$5.64 million representing 0.38 percent of the total Refunding Bond issue of \$1.5 billion which include underwriter's discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees. As noted above, the \$1.5 billion authority may be utilized to refund certain debt in the current fiscal year and additional debt in the future.

BACKGROUND

Refunding or refinancing of debt primarily involves replacing outstanding bonds with refunding bonds that pay a lower rate of interest than the refunded bonds. The proceeds from the sale or issuance of the Refunding Bonds are used to pay off the refunded bonds. The savings realized from a refunding are derived mainly from the reduction in interest costs. The lower interest costs will help keep rates lower, improve the Power System's financial coverage ratios and enhance its borrowing capacity.

In each Bond transaction, two sets of Board Resolutions are required. The Authorizing (Initial) Resolution, which at a minimum, must specify the purpose of the proposed revenue bonds to be issued, the maximum limit as to principal amount, term, and interest costs, requires approval by the Mayor and the City Council pursuant to Section 609 of the Charter. The Supplemental Resolutions approve the principal financing documents, amendments to the Master Bond Resolution, and more specific information about the transaction including, term, costs, and the sale of the bonds pursuant to the Contract of Purchase with the underwriting team for the related revenue bonds. The Supplemental Resolutions are generally presented to the Board after the Initial Resolution is approved and when the opportunity or necessity to issue the refunding bonds arises.

Resolution No. 4944 is an initial resolution of the Board, for the purpose of refunding or refinancing higher interest rate bonds with lower interest rate bonds and/or rollover certain fixed rate notes or other short term debt obligations that resulted from draws made from the Revolving Line of Credit. It sets forth the maximum limit as to principal, interest costs, and term for future indebtedness. Resolution No. 4944 also provides for the private sale of each series of the Bonds to one or more of the firms included in LADWP's investment banking team members (Banking Team) selected by the Board at the time of the sale. At a future Board meeting, when a determination has been made that a refunding or refinancing would be beneficial to the Power System, the Financial Services Organization (FSO) will present a supplemental resolution that will authorize the specific terms and conditions for the Refunding Bonds, including the underwriting firms that will be selected from among the Banking Team and the principal financing documents related to the Refunding Bonds.

With the adoption of this resolution, LADWP will have the flexibility to maximize the opportunities for savings that are available in the current low-interest rate environment. The FSO, along with its financial advisors and Banking Team, is constantly monitoring the market and looking for ways to reduce the Power System's borrowing costs.

Recently, various financial institutions proposed unique ideas for responsibly restructuring some of the Power System's debt through a refunding. In accordance with the Board-approved Debt Management Policy, FSO's goal is to achieve a minimum of three percent present value savings of the refunded par amount for its current refundings. A current refunding is a refunding transaction that is executed 90 days before the call date of the refunded bonds.

Resolution No. 4944 is a standing authorization by the Board and would provide FSO with the flexibility to execute multiple refunding transactions (up to \$1.5 billion) in the future that will produce economic savings for the Power System when relative interest rate levels decline. LADWP may also refund bonds for other reasons, as outlined in the Debt Management Policy, such as removing restrictive bond covenants, reducing risk, debt restructuring, or to free up cash on a short-term basis by restructuring future principal payments.

At this time, approximately \$958.5 million of Power System revenue bonds outstanding are potential refinancing candidates over the next three years. In addition, LADWP intends to refinance a \$300 million short-term note that will mature on December 1, 2018, and is callable on September 1, 2018. The Power System also has approximately \$1.314 billion in variable rate debt bonds including \$200 million direct purchase loan with interest resets that reset daily or weekly and \$200 million Commercial Paper Notes with interest that resets anywhere from 1 to 270 days every time they are remarketed to investors. Current debt holders can choose not continue to hold such debt at the next reset date. In the event the investors no longer want to hold such debt, the most expeditious alternative is for LADWP to refinance them with long-term fixed rate debt. In anticipation of these refinancing opportunities, a \$1.5 billion refunding authorization is being requested.

Both the LADWP's Chief Financial Officer (CFO) and its financial advisor, the Public Resources Advisory Group (PRAG), recommend the Refunding 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.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's (CAO) Report is attached.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines 15060 (c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378 (b)(4) states that the creation of government funding mechanisms or other fiscal activities which do not involve any commitment to any specific project which may result in direct or indirect physical changes in the environment does not meet that definition. Therefore the issuance of an Initial Authorization for the issuance Power System Refunding Revenue Bonds is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved Resolution No. 4944 as to form and legality.

ATTACHMENTS

- Resolution
- CFO Report
- PRAG Report
- CAO Report