

Los Angeles  Department of Water & Power

ERIC GARCETTI
Mayor

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MARCIE L. EDWARDS
General Manager

August 20, 2014

The Honorable City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Honorable Members:

Subject: Authorizes the Issuance up to a Maximum of \$679 Million Power System Revenue Bond

Pursuant to Charter Section 609, enclosed for approval by your Honorable Body is Resolution No. 4880, adopted by the Board of Water and Power Commissioners on August 19, 2014, approved as to form and legality by the City Attorney, which authorizes the issuance up to a maximum of \$679 million in Power System Revenue Bonds.

If additional information is required, please contact Ms. Winifred Yancy, Director of Intergovernmental Affairs and Community Relations, at (213) 367-0025.

Sincerely,



Barbara E. Moschos
Board Secretary

BEM:oja

Enclosures: LADWP Resolution
Board Letter
CAO Report
Chief Financial Officer's Report
Public Resources Advisory Group Letter
Summary of Statements Received from LADWP's Pool of
Underwriters Providing Investment Banking Services as Required
by Ordinance No. 182138, the Responsible Banking Ordinance

Los Angeles Aqueduct Centennial Celebrating 100 Years of Water 1913-2013

111 N. Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles, CA 90051-5700
Telephone: (213) 367-4211 www.LADWP.com

BY M.V. DEPUTY

CITY CLERK

2014 AUG 22 AM 10: 11

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CITY CLERK'S OFFICE

c/enc: Mayor Eric Garcetti

Councilmember Felipe Fuentes, Chair, Energy and the Environment Committee

Gerry F. Miller, Chief Legislative Analyst

Miguel A. Santana, City Administrative Officer

Rafael Prieto, Legislative Analyst, CLA

William R. Koenig, Chief Administrative Analyst

Winifred Yancy

**INITIAL RESOLUTION
OF THE BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES**

**Authorizing the Borrowing of Up to \$679,000,000 Pursuant to Section 609 of
The Charter of The City of Los Angeles Through the Issuance of
Revenue Bonds Payable from the Power Revenue Fund**

Resolution No. 4880

**BE IT RESOLVED BY THE BOARD OF WATER AND POWER COMMISSIONERS OF
THE CITY OF LOS ANGELES:**

Section 1. This Board of Water and Power Commissioners of the City of Los Angeles (the "Board") hereby determines that the public interest and necessity demand that the Department of Water and Power of the City of Los Angeles (the "Department") should borrow money pursuant to Section 609 of The Charter of The City of Los Angeles (the "Charter") for the purposes specified in Section 3 of this Resolution, and should issue and sell revenue bonds as herein provided (the "Bonds") payable from the Power Revenue Fund to evidence the indebtedness created by such borrowing.

Section 2. The Board hereby authorizes the issuance of the Bonds pursuant to the provisions of Section 609 of the Charter for the purposes specified in Section 3 of this Resolution.

Section 3. The Bonds are to be issued for the purpose of financing one or more Capital Improvements to the Power System (as such terms are defined in Resolution No. 4596 (the "Master Bond Resolution") adopted by the Board on February 6, 2001).

Section 4. The maximum principal amount of the Bonds authorized by this Resolution is

SIX HUNDRED SEVENTY-NINE MILLION DOLLARS (\$679,000,000)

and said Bonds are to be issued in one or more series or subseries at such time or times as the Board may determine.

Section 5. The maximum term for which any Bond is to run shall be forty-five years from the date of issuance of such Bond.

Section 6. The maximum interest rate on any Bond shall be twelve percent (12%) per annum. For this purpose, the interest rate shall be the rate at which the sum of the present values of all payments of principal and interest on such Bond equals the sale proceeds of such Bond received by the Department. Present values shall be calculated using a year of twelve, 30-day months with semi-annual compounding.

Section 7. This Board has received a report (the "Report") of the Chief Financial Officer of the Department stating that such officer has determined that a private sale of the Bonds will be of benefit to, and in the financial interests of, the Department and providing the reasons therefor. As authorized by subsection (d) of Section 609 of the Charter and Section 11.28.4 of Ordinance

No. 172,353 of the City of Los Angeles (the "City"), as amended, constituting Article 6.5 of Chapter 1 of Division 11 of the Los Angeles Administrative Code (the "Procedural Ordinance"), this Board hereby authorizes the private sale of each series and subseries of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to Section 11.28.4(b) of the Procedural Ordinance as such team is composed at the time of the sale of such series or subseries; provided, however, that underwriters' discount (exclusive of initial issue discount) with respect to the Bonds shall not exceed one percent of the principal amount of the Bonds and any initial issue discount with respect to the Bonds shall not exceed ten percent of the principal amount of the Bonds to which such initial issue discount shall apply.

Section 8. As provided in Section 11.28.5 of the Procedural Ordinance, in connection with, or incidental to, the issuance or carrying of the Bonds, the Department may enter into one or more credit enhancement or liquidity agreements (each for purposes of this Resolution and the Master Bond Resolution, a "Credit Support Agreement") with one or more banks, insurance companies or other financial institutions approved by the Board which shall contain such payment, interest rate, security, default, remedy and other terms and conditions as shall be approved by the Board. Notwithstanding Section 6 of this Resolution, the maximum stated interest rate payable by the Department in any year on amounts due under such Credit Support Agreement, including the interest rate on Credit Provider Bonds (as defined in the Master Bond Resolution), shall be twenty percent (20%).

Section 9. The authorization of the issuance of the Bonds made by this Resolution is in addition to any and all other authorizations of the issuance of bonds on account of the Power System heretofore made by resolution of this Board.


Section 10. The Secretary of this Board shall forthwith transmit certified copies of this Resolution, together with the Report of the Department's Chief Financial Officer, to the offices of the Mayor, the City Clerk and the City Administrative Officer (previously the Director of the Office of Administrative and Research Services) pursuant to Subsections (a) and (d) of Section 609 of the Charter and Sections 11.28.2 and 11.28.4 of the Procedural Ordinance.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held

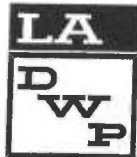
AUG 19 2014


Secretary

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY

JUL 31 2014
BY 
PRISCILA CASTILLO KASHA
DEPUTY CITY ATTORNEY





Los Angeles
Department of
Water & Power

RESOLUTION NO. 4880

BOARD LETTER APPROVAL

Handwritten signature of Philip Leiber in blue ink.

PHILIP LEIBER
Chief Financial Officer

Handwritten signature of Marcie L. Edwards in blue ink.

MARCIE L. EDWARDS
General Manager

DATE: August 7, 2014

SUBJECT: Initial Authorization to Issue up to \$679 Million in Power System Revenue Bonds

SUMMARY

Proposed Resolution No. 4880 seeks authorization to issue up to a maximum of \$679 million of tax-exempt Power System Revenue Bonds (Bonds) payable from the Power Revenue Fund. The Bonds will be used to finance a portion of the Power System's budgeted capital improvements for Fiscal Year (FY) 2014-15. The bond funding was contemplated in the financial plan for the year, and the debt service that will be required to repay the debt is covered by the currently approved rate level. The bonds will fund a variety of capital work for the Power System including system reliability and power supply replacement including energy efficiency and solar programs.

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 meeting, will provide additional details (such as the underwriter, key bond related documents, etc.) about the proposed issuance as the transaction progresses further.

A companion item (a Reimbursement Resolution) to be discussed at this Board meeting will allow bond proceeds to be used to fund capital expenditures 60 days prior to the adoption of that Resolution.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners (Board) adopt the attached Initial Resolution (Resolution No. 4880) recommending City Council's approval to issue up to \$679 million of tax-exempt Power System Revenue Bonds per Charter Section 609.

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 21, 2014

CAO File No. 0220-04523-0005

Council File No. --

Council District: --

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Water and Power dated June 13, 2014; referred by the Mayor for report on June 19, 2014

Subject: **AUTHORITY TO ISSUE \$679 MILLION IN POWER SYSTEM REVENUE BONDS**

SUMMARY

The Department of Water and Power (DWP) requests approval of the Board of Water and Power Commissioners Resolution No. 4880 (Resolution) which authorizes the issuance of \$679 million in Power System Revenue Bonds, in order to finance a portion of the Power System's Fiscal Year 2014-15 Capital Improvements Program. The DWP Power System multi-year capital program focuses on an integrated strategy which includes Power Supply Replacement Program, Power Reliability Program, and Infrastructure Improvements Program. The Department states that the Resolution is an 'initial resolution' of the Board of Water and Power Commissioners (Board), which sets forth the purpose for future indebtedness and establishes the maximum limit as to principal, interest costs, and term. The Resolution also provides for the private or negotiated sale of the bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609 (d) and Los Angeles Administrative Code Section 11.28.4 (the Procedural Ordinance). The bonds will be Power System Revenue Fund obligations and will not constitute an obligation of the City or the General Fund.

BACKGROUND

The DWP Power System Capital Program's strategic priority is to transform its energy resources and power generation to meet various state and federal mandates; replace aging infrastructure to ensure a reliable distribution system; and, facilitate customer control of their energy options by offering solar incentives and energy efficiency program funding while maintaining regionally competitive rates for its customers. Funding for the Fiscal Year 2014-15 Capital Improvements Program consists of a number of major components illustrated in the following tables.

2014-15 Power System Capital Improvements Program

Power Supply Replacement Program		\$ in millions
<i>Repowering</i> : Rebuilding Local Power Plants - Castaic Modernization and Continue Repower Scattergood Unit 3		\$ 279
<i>Renewable Portfolio Standard</i> : Renewable Resources - SB1 Solar Incentive, Beacon Solar Projects, Utility Built Solar, Owens Valley Electric System-Gorge Upgrade, and Barren Ridge Renewable Transmission Project		349
<i>Energy Conservation</i>		101
<i>Natural Gas Drilling</i> Capital Investments		5
Power Supply Replacement Program		\$ 735
Power System Reliability Program		
<i>Power System Reliability Program</i> : Distribution system reliability, substation reliability improvements and expansion, and substation automation		\$ 364
Power System Reliability Program		\$ 364
Infrastructure Reliability Program		
<i>Infrastructure Reliability</i> : Additions and improvements in various generating stations; investments in Automatic Meter Reading; and fleet acquisitions		\$ 303
Infrastructure Reliability Program		\$ 303
Operating Support		
<i>Operating Support and Adjustments</i>		\$ 74
Operating Support		\$ 74
 Total Power System Capital Improvements Program		 \$ 1,476

Note: Detail may not sum to total due to rounding.

Capital Program Financing

In order to support an overall planned \$1.476 billion capital improvements program during this period, a combination of borrowings and internally generated funds will be required. The Power System's Fiscal Year 2014-15 Budget adopted by the Board on May 20, 2014, and transmitted to Council in accordance with Charter Section 684, includes the need to borrow approximately \$679 million of tax-exempt revenue bonds. The maximum interest cost to be incurred through the issuance of the bonds is 12 percent¹ per annum consistent with California Code Section 53531; the maximum

¹ Setting a maximum interest rate or cost is a requirement of Section 11.28.1 of the Procedural Ordinance. The 12 percent figure reflects the guidance set forth on a State level through California Government Code Section 53531 that sets forth a statutory maximum bond rate of 12 percent. The requested initial resolution is meant to be a general authorization to be used over an unspecified period for issuing bonds. In this regard the 12 percent provides a way to react to changing market conditions during this unspecified period. The Supplemental Resolutions, which are adopted closer to the time of bond issuance, and typically provide for a much narrower anticipated interest cost. For example, in the Twenty-Seventh Supplemental Bond Resolution authorizing the issuance of the 2014 Series C Power System Bonds, a proviso is included that states "provided, however, that the true interest cost to be incurred through the issuance of the 2014 Series C Bonds shall not exceed 6 percent per annum; and provided further that the stated interest rate so specified for any 2014 Series C Bond shall not exceed 12 percent per annum."

term for any bond to run is 45 years from the date of issuance. Based on the current market conditions, the interest cost is expected to be in the range of 4.5 percent to 5.5 percent.

This bond issue is already funded as part of the approved Fiscal Year 2014-15 Budget, which contemplated interest rates of 5.20 percent. In October 2012, a two-year rate increase for Fiscal Years 2012-13 and 2013-14 was approved by the Board of Water and Power Commissioners and City Council. Revenues from the approved increase are sufficient to support these debt service payments.

The chart below illustrates the Power System's debt service amount, Net Available Revenue Coverage (NAR) and Net Operating Cash Flow (NOCF) Coverage over the last decade. The NOCF coverage has declined, from 3 times coverage in 2004 to 1.8 times in 2013 while the 10-year average is 2.25. The Power System achieved a Debt Service Coverage Ratio (NAR) of 2.5 times while the 10-year average is 3.08. Pursuant to the DWP Board action taken on May 21, 2009 as amended on September 12, 2012 and May 20, 2014, the Department policy is to generally use the following financial planning criteria: 1) maintain a minimum debt service coverage of 2.25 times; 2) maintain a minimum full obligation coverage rate of 1.70 times, 3) maintain operating cash target of 170 days; and, 4) maintain a capitalization ratio of less than 68 percent.

**Power Revenue Fund Revenue Bonds and Notes
Pledged- Revenue Coverage
Last Ten Fiscal Years
(Dollar amounts expressed in thousands)**

Fiscal Year	Operating Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service (3)	Net Available Revenue Coverage	Net Operating Cash Flow	Net Operating Cash Flow Coverage (4)
2004	2,437,461	1,771,230	666,231	170,466	3.9	505,187	3.0
2005	2,401,458	1,835,594	565,864	189,105	3.0	611,579	3.2
2006	2,665,535	2,016,080	649,455	223,678	2.9	559,157	2.5
2007	2,799,140	1,996,649	802,491	267,144	3.0	507,934	1.9
2008	2,989,725	2,176,056	813,669	250,484	3.2	469,188	1.9
2009	2,924,155	2,043,192	880,963	270,357	3.3	427,647	1.6
2010	3,387,361	2,287,434	1,099,927	309,349	3.6	741,881	2.4
2011	3,288,476	2,308,188	980,288	400,846	2.4	666,711	1.7
2012	3,267,679	2,235,522	1,032,157	343,093	3.0	851,613	2.5
2013	3,342,586	2,266,249	1,076,337	426,825	2.5	761,079	1.8

(1) Operating revenues include capital contributions, net non-operating revenues and allowance for funds used during construction.
 (2) Operating expenses do not include depreciation and amortization expenses.
 (3) Debt service includes principal and interest payments on bonds and commercial paper notes.
 (4) Net operating cash flow coverage is presented to show the Funds' ability to generate sufficient cash flow to cover debt service costs.

Source: Office of the Controller, City of Los Angeles, FY 2013 Comprehensive Annual Financial Report; February 2014.

In addition, according to the 2013 edition of the *U.S. Public Power Peer Study* published by Fitch Ratings, the financial performance of the DWP, compared to other utilities in the same AA- senior debt rating category, appears to be in line with the median of these utilities. The *Study* is based on several Financial Ratios that measure operating cash coverage, liquidity, and debt burden. A comparison of the DWP Financial Ratios with other Fitch-rated public power utilities is provided in the Attachments.

Charter Section 609 Compliance

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

- The Board has authorized the sale of bonds pursuant to private sale after written recommendation of the Chief Financial Officer stating the reasons why a private sale will benefit the Department;
- 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).

In developing a method of financing the Capital Program, DWP has requested authority to conduct private, negotiated sales of bonds to one or more investment banking firms. Pursuant to the Procedural Ordinance, listed below are the firms selected by the Board in the first quarter of 2012 to serve as the Department's underwriting team for a duration of three years expiring in approximately March 2015. The Department will select from the team of underwriters for each individual bond issuance.

Department of Water and Power Selected Underwriting Team	
<ul style="list-style-type: none">• Bank of America Merrill Lynch• Barclays Capital Inc.• De La Rosa & Co.• Goldman Sachs & Co.• JP Morgan Securities LLC• Morgan Stanley & Co., LLC• RBC Capital Markets, LLC• Siebert Branford Shank & Co., LLC• Wells Fargo Securities	<ul style="list-style-type: none">• BMO Capital Markets Inc.• Cabrera Capital Markets, LLC• Citigroup Global Markets Inc.• Fidelity Capital Markets• Loop Capital Markets, LLC• Mitsubishi UFJ Securities (USA) Inc.• Ramirez & Co., Inc.• The Williams Capital Group, L.P.• U.S. Bancorp