

ENERGY AND ENVIRONMENT COMMITTEE REPORT relative to authorization to issue up to \$522 million in Power System Revenue Bonds pursuant to Charter Section 609.

Recommendation for Council action:

CONCUR with the Board of Water and Power Commissioners' (Board) action of February 18, 2014, Resolution No. 4871, authorizing the issuance of up to \$522 million of Power System Revenue Bonds to finance a portion of its capital improvements program for Fiscal Year (FY) 2013-14.

Fiscal Impact Statement: The City Administrative Officer (CAO) reports that there is no direct impact on the City's General Fund. Approval for the recommended action will authorize the Los Angeles Department of Water and Power (LADWP) to finance a portion of its capital improvements program for FY 2013-14. The LADWP estimates the net impact of this issuance will be to increase debt service costs of the Power System Revenue Fund by approximately \$33.5 million annually for 30 years. One-time costs of issuance from the Power System Revenue Fund are estimated at approximately \$2.49 million. One-time costs consist of underwriter's discount; bond and disclosure counsels, financial advisor, and ratings agencies fees.

Summary:

On February 5, 2014, your Committee considered a February 19, 2014 Board and CAO reports and Resolution No. 4871 relative to authorizing the LADWP to issue up to \$522 million in Power System Revenue Bonds pursuant to Charter Section 609. According to the CAO, the LADWP Power System's multi-year capital program is focused on an integrated strategy which includes the Power Supply Replacement Program, Power Reliability Program, and Infrastructure Improvements Program. The LADWP states that the Resolution is an initial resolution of the 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. The City Attorney has approved the proposed resolution as to form and legality. Approval of the proposed resolution by the City Council and the Mayor is required by Charter Section 609(a).

The LADWP 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 ensuring a robust and reliable distribution system; and promote customer control of their energy future; while maintaining regionally competitive rates for its customers. Funding for the 2013-14 Capital Improvements Program consists of a number of major components which are detailed in the February 19, 2014 Board report and attached to the Council file.

In order to support an overall planned \$1.565 billion capital improvements program during this period, a combination of borrowings and internally generated funds will be required. The Power System's fiscal year 2013-14 Budget adopted by the Board on May 24, 2013 and transmitted to Council as required by Charter Section 684, includes the need to borrow approximately \$456 million of tax-exempt revenue bonds. However, subsequent adjustments were made to the updated financial plan which resulted in an increase to the borrowing by \$66 million to a total of \$522 million. The increase is primarily due to a reduction in the estimated value of the anticipated coal project divestiture as well

as the anticipated prepayment of high-interest-cost debt outstanding related to certain capital projects of the Hoover Dam Project and changes in estimates for cash proceeds related to the disposition of other departmental assets.

The maximum interest cost to be incurred through the issuance of the bonds is 12 percent per annum consistent with California Government Code Section 5353; the maximum term for any bond is 45 years from the date of issuance. Although the Board Resolution sets a maximum rate of 12 percent, based on the current market conditions, the interest cost is expected to be in the range of 4.5 - 5.5 percent. This bond issue is already included as part of the approved FY 2013-14 Budget. In October 2012, a two-year rate increase for FY 2012-13 and 2013-14 was approved by the Board, the Mayor and the City Council. Revenues from the approved increase will support these debt service payments.

After consideration and having provided an opportunity for public comment, the Committee moved to recommend concurring with the Board as detailed in the above recommendation. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

ENERGY AND ENVIRONMENT COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
FUENTES:	YES
BLUMENFIELD:	ABSENT
LABONGE:	YES
HUIZAR:	YES
KORETZ:	ABSENT

ARL
3/5/14

-NOT OFFICIAL UNTIL COUNCIL ACTS-