



Water System
AB 850 Securitization
Energy and Environment Committee
Presentation
May 18, 2016

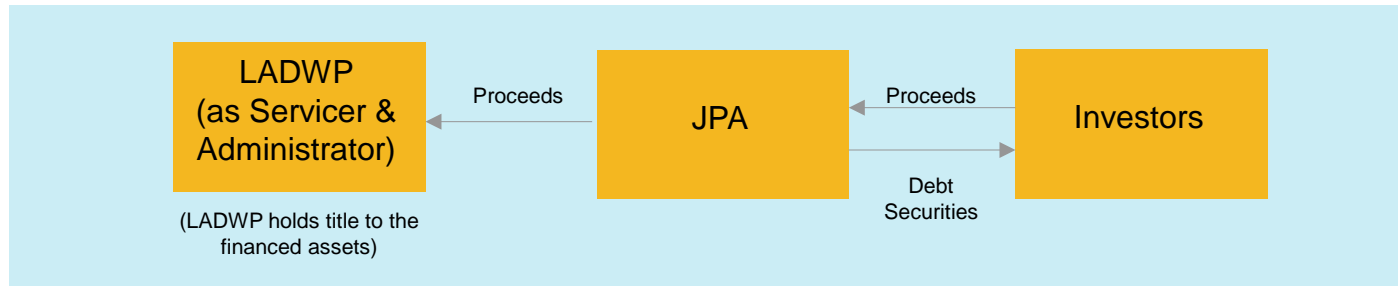


- Beginning in the late 1990s, several states enacted statutes permitting IOUs to issue bonds secured by a dedicated tariff on customers' electric bills. [California was the first state to authorize these financings.](#)
- The utility securitization structure is well tested and understood by the credit rating agencies and investors in the taxable bond markets (\$40+ billion issued to date, all of it triple-A rated)
- The City of Los Angeles sponsored AB 850 (Nazarian), which was approved by the Legislature and signed by the Governor on October 8, 2013
- It amended the Joint Exercise of Powers Act of the California Gov't Code allowing Joint Powers Authorities (JPAs) to issue rate reduction (securitized) bonds to fund certain capital investments of municipally-owned California water utilities
- Legislation sunsets on December 31, 2020

- Securitization Bonds require a JPA

- The JPA is merely a financing vehicle, as bond proceeds are provided to and spent by LADWP

- Investors face the JPA, not the Department (non-recourse to LADWP)



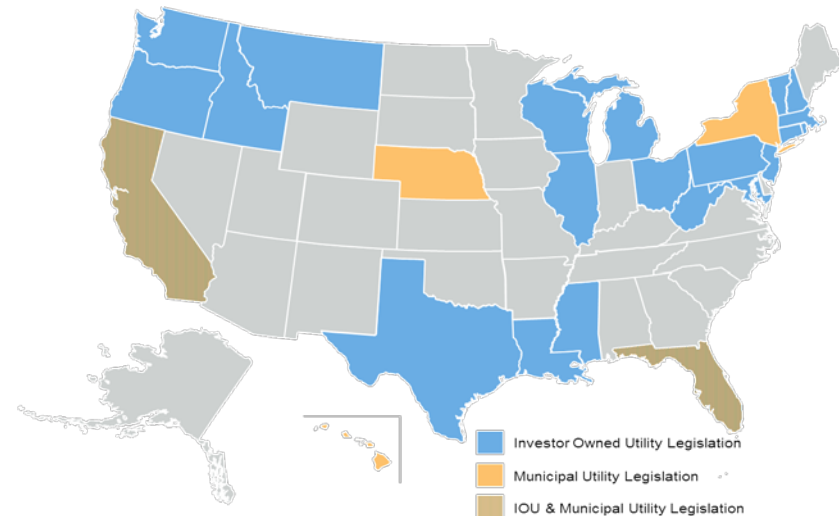
- A JPA can be established by agreement between two or more “public entities” as defined in the JPA Act (includes a city, county, district, or another JPA); LADWP is a member of the JPA and exercises control along with other JPA member(s)
- **The financing is legally isolated from the LADWP’s bond credit and can obtain triple-A ratings (non-recourse obligation)**
- The proceeds of the bonds are provided to and spent by the LADWP on the capital projects; those projects are owned and controlled by the LADWP, not the JPA
- LADWP does not establish/alter rates for the JPA bonds after the bond sale (the revenues are the JPA’s), other than as a calculation agent ensuring that the billing is adequate to meet debt service (a “true up” mechanism)



- Lower water rates for customers
 - Separate charge allows for greater transparency and tracking of expenses and revenues
 - Enhanced security of bonds allows the LADWP to fund certain projects with debt rather than from customer rates
 - Reduced exposure to direct obligations
- Lower rate impact for needed capital projects
 - 1.0x debt service coverage vs. current 1.7x requirement for Water System debt
 - Anticipated AAA credit ratings provide lower interest rate costs
 - Reduce water bills for customers
 - Lowers water system revenues by **approximately \$194 million or 13.5% by 2020**
 - By FY 2019-20, typical customer monthly bill will be lower by \$10.56 or 15% (reduced from \$78.80 to \$68.24)
 - Preserves the Water System's maximum 65% debt-to-total capitalization ratio
 - Allows JPA to finance with debt up to 100% of capital projects that qualify under AB850

Municipal Securitizations

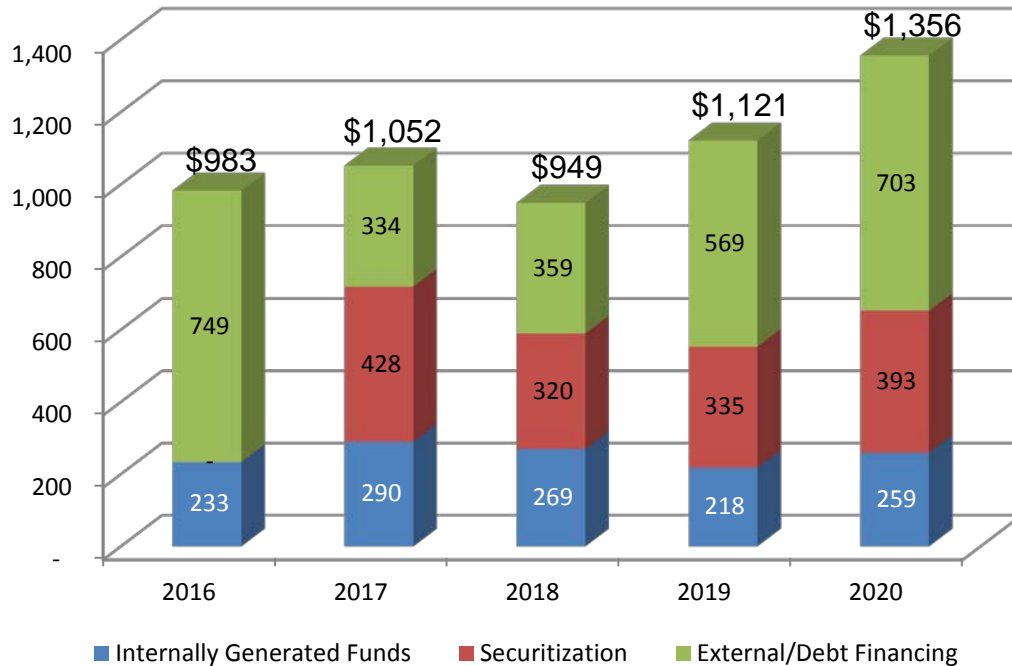
- Municipal Users of Securitization Bonds
 - [California Department of Water Resources](#) issued over \$6B bonds from 1997-99 to purchase out-of money long-term power supply contracts by IOUs
 - [Long Island Power Authority \(LIPA\)](#) issued approximately \$3.7B bonds to refinance lower rated bonds from Baa1 to AAA from 2013-2016
 - [Hawaii](#) issued \$150M bonds to fund loan program for renewables in 2014
- In 2015, the Nebraska Legislature passed the Mandated Project Charges Act to closely resemble CA AB850
- Florida legislators passed securitization bond bill HB347 in March 2016
- 25 states have at least some form of legislation in place while several others have discussed the potential for securitizations over the years (particularly during utility de-regulation)





Summary of 5-Year Capital Program (\$5,461 million)

(\$ in millions)



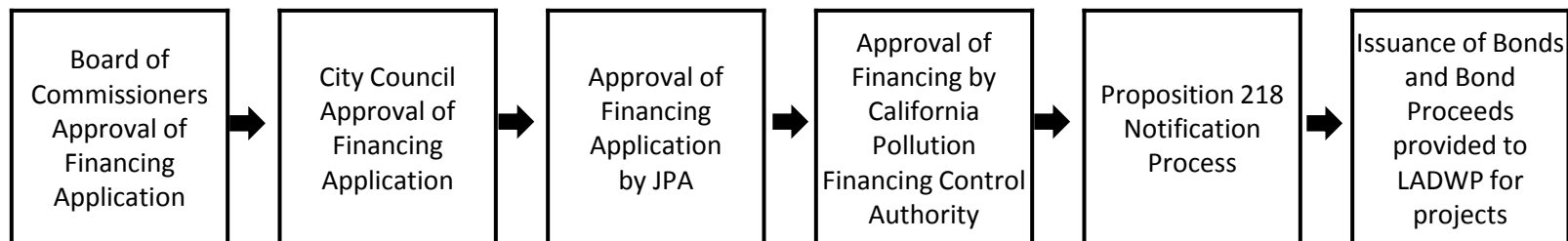
5-Year Capital Investments	Total	Water System	JPA
Infrastructure Replacement	\$2,396	\$2,396	
Supply Transition	1,342	877	465
Water Quality	903	519	385
Owens Valley	819	192	627
Total	\$5,461	\$3,984	\$1,477

Percentage of Securitization

27%

Significant amount of potential projects are slated for securitization financing, including cleanup or treatment of groundwater contamination in the San Fernando Valley and Water System improvements for regulatory compliance and conservation.

- **February 3, 2015** – LADWP Board of Water and Power Commissioners adopted resolution authorizing the Joint Power Agreement and formation of a JPA (Southern California Public Water Authority or SCPWA)
- **February 5, 2015** – Burbank Water and Power Board approved Joint Power Agreement with LADWP and the formation of JPA
- **March 17, 2015** – LADWP Board amended ordinance requiring LA City Council approval of each JPA financing as requested by the E&E Committee during its meeting on March 4, 2015
- **Next Steps (estimated 6-9 months):**
 - Energy & Environment Committee and LA City Council as well as Burbank City Council approval of the formation of JPA
 - Organization and execution of JPA formation documents including filing with State
 - JPA enters into various agreements with rating agencies, bankers, financial advisors, counsel, external auditor, trustee banks, and other required entities
 - Continuous dialogue with rating agencies providing them with historical and extensive data necessary for their stress tests and credit analysis to ensure AAA ratings and bankruptcy remote status of the JPA structure
- **Approval process** (below) prior to any issuance of Rate Reduction Bonds (estimated 4-6 months):





State Legislation	- State legislation creates an irrevocable pledge of a cash flows as a special tariff through the collection of a non-bypassable project charge from all utility customers residing in LADWP service area to secure the timely payment of cost of securitized bonds
JPA requirement	Financing must be done through a Joint Powers Authority
Credit and Size requirements	- Utility must have an investment grade (not less than Baa3) senior lien unenhanced revenue bonds - Utility must furnish water service to at least 25,000 retail customers
Water Project Type requirement	- Eligible projects must be for conservation or reclamation purposes or must be necessary to respond to or comply with a mandates
State Application and Approval requirement	- The California Pollution Control Financing Authority (CPCFA) reviews and determines whether the proposed bond issue is qualified as prescribed
Savings requirement	- Must show to CPCFA that utility project charge (UPC) is lower than LADWP's water rates if the utility project was financed with bonds payable directly from revenues of LADWP - Savings amount included in the preliminary notice and final report submitted to the California Debt and Investment Advisory Commission (CDIAC)
Maximum Percentage in Customer Bill	- Securitization charges can not exceed 20% of the total water bill