

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 17, 2016

CAO File No. 0670-00012-0000

Council File No. 15-1190

Council District: ALL

To: The Mayor
The City Council

From: Miguel A. Santana, City Administrative Officer



Reference: LED and High Voltage Conversion Programs (C.F. 15-1190)

Subject: **REQUEST FOR AUTHORITY TO FINANCE AND REFINANCE A LOAN FOR THE ACQUISITION AND INSTALLATION OF VARIOUS STREETLIGHT IMPROVEMENTS IN AN AMOUNT NOT TO EXCEED \$29 MILLION THROUGH THE MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES**

SUMMARY

The City Administrative Officer (CAO) requests authority to finance and refinance a loan for the acquisition and installation of approximately 28,750 streetlights with light-emitting diode (LED), high voltage conversions, and other related improvements (the Project). The proposed refinancing of approximately \$3 million of an existing loan to the Bureau of Street Lighting (BSL) from the Department of Water and Power (DWP) is anticipated to generate \$360,000 in present value savings, or 11.1 percent, of the refunded amount. In addition to the refinancing component, the CAO is requesting authority to borrow approximately \$24 million to provide future funding for the Project. The new-money component will be borrowed at a tax-exempt interest rate of 1.89 percent compared to the 4.97 percent offered by DWP. In total, the use of the requested financing rather than the DWP loan will result in approximately \$3.4 million of present value savings. The debt service will be paid by the Street Lighting Maintenance Assessment Fund (SLMAF).

A Request for Proposals was issued for the direct purchase (a loan) of lease obligations on November 20, 2015. The CAO received responses from three firms, Banc of America Public Capital Corporation (BOA), JP Morgan Chase Bank, and Mitsubishi UFJ Financial Group. The CAO, with the assistance of the financial advisor, KNN Public Finance, reviewed the proposals and is recommending the selection of BOA as the best responsive bidder.

The refinancing and new money components (together, the Financing) will be structured as a lease/sublease agreement between the City and the Municipal Improvement Corporation of Los Angeles (MICLA). The lease will be secured solely by the streetlights. SLMAF will repay BOA over eight years beginning in October of 2016. The estimated cost of issuance for the transaction will not exceed \$130,000, which will be paid from the loan proceeds upon a successful closing.

In accordance with the City's Financial Policies, Debt Management Section, the maximum debt service payable in any given year may not exceed six percent of General Fund revenues for non-voted approved debt. The proposed bond issuance will not cause debt service to exceed this limit, as shown in the debt chart outlining the City's projected debt ratio (Attachment A).

The financing team consists of KNN Public Finance, as financial advisor, previously approved by the Mayor and Council (C.F. 14-0412) and Orrick Herrington and Sutcliffe LLP, as Bond Counsel, previously approved by the Mayor and Council (C.F. 12-0817-S2).

To proceed with the transaction, the Mayor and City Council will need to approve the Authorizing Resolution (Attachment B), the lease and sublease agreements between the City and MICLA (Attachments C and D), and the purchase and assignment agreement between the City, MICLA, and BOA (Attachment E).

Additionally, the Mayor and City Council will need to approve a Lease/Leaseback Ordinance and a Fund Ordinance, which will be submitted by the City Attorney under a separate report.

The MICLA Board is scheduled to consider this financing in March 2016.

The financing is anticipated to close the week of April 4, 2016.

These recommendations are in compliance with the City's Financial Policies.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. **ADOPT** the Authorizing Resolution, including various documents required for the execution of the financing, which authorizes the execution and delivery of the lease, sublease, and purchase and assignment agreements;
2. **ADOPT** a Fund Ordinance to create two new special funds to 1) receive and expend the new money received and 2) record accounting transactions for funds received from and used for the refunding component of the financing;
3. **ADOPT** a Lease/Leaseback Ordinance to enter into a lease and sublease between the City and the Municipal Improvement Corporation of Los Angeles of real property in connection with the Financing;
4. **INSTRUCT** the Controller to create Account No. 000352 entitled "MICLA 2016 Street Lighting" in the Capital Finance Administration Fund (Fund 100/Department 53) that will be used to pay for future lease payments; and
5. **AUTHORIZE** the City Administrative Officer to make adjustments as necessary to those

transactions included in this report to implement Mayor and City Council intentions.

FISCAL IMPACT STATEMENT

There is no fiscal impact on the General Fund as a result of this Financing as the annual lease payments will be paid from the Street Lighting Maintenance Assessment Fund.

DEBT IMPACT STATEMENT

The Financing will not cause the City's debt service payments to exceed six percent of General Fund revenues for non-voted approved debt as established in the City's Financial Policies, Debt Management Section. The average annual debt service will be approximately \$3.59 million over eight years and will be paid from the Street Lights Maintenance Assessment Fund.

FINDINGS

1. Background - Municipal Improvement Corporation of Los Angeles (MICLA)

MICLA is a non-profit financing corporation established by the City in 1984 to assist in the financing of capital projects and equipment. MICLA is directed by a five-person board whose members are self-appointed and confirmed by the City Council. In accordance with the City's Financial Policies, Debt Management Section, all items financed through MICLA must be a capital asset and have a useful life of at least six years. Debt obligations financed through MICLA are obligations of the City's General Fund; however lease payments related to this financing will be repaid from the Street Lighting Maintenance Assessment Fund (SLMAF).

2. Background – Light Emitting Diode (LED) Conversion Program Phase II

Since 2009, the Bureau of Street Lighting (BSL) has been replacing lighting equipment (high intensity discharge technology) that is outdated, energy inefficient and maintenance intensive. The new LED lighting is modern, efficient, provides better illumination, and is virtually maintenance free. The City has approximately 215,000 streetlights that provide illumination for approximately two-thirds of the City. Phase I of the LED Conversion Program originally started in Fiscal Year 2009-10 and successfully converted 140,000 streetlights over a four year period. This financing will provide funding that will enable BSL to continue to convert existing streetlights to a more energy efficient system that will reduce energy consumption, eliminate hazardous waste (mercury) from the City's street lighting system, and reduce associated carbon emissions. Once Phase II is fully completed, the program is anticipated to reduce energy consumption by 20,015,768 KWH and save the City approximately \$3 million annually. This financing is anticipated to cover program expenditures through Fiscal Year 2016-17, funding beyond that will be addressed in a future financing.

3. Background – High Voltage Conversion Program

Over 25,000 of the City's approximate 215,000 streetlights are high voltage (HV) lights, which operate on obsolete, high voltage-amperage circuits requiring high maintenance, making them extremely inefficient and potentially dangerous to staff and public. Existing HV systems were installed in the early 1900's and are fed from specialty transformers supplied by the Department of Water and Power (DWP). These transformers are no longer available for purchase and are either rebuilt by DWP or special ordered when a replacement is needed. These circuits have voltages up to 5000V and require a certified electrician trained on HV to work on them. The nature of these circuits is such that a protective device, such as a circuit breaker or fuse, cannot be used when the conduit or wires are compromised. BSL has been systematically converting these circuits due to their dangerous nature, high maintenance, and energy costs through various projects including those in close proximity to fire hydrants. Starting in Fiscal Year 2015-16, this project was originally scheduled to convert 25,000 HV streetlights to energy efficient, low

voltage streetlights over a 10 year period. BSL, at the request of the Mayor's Office, now plans to accelerate this project to completely convert all 25,000 HV streetlights by Fiscal Year 2020-21. This financing is anticipated to cover program expenditures through Fiscal Year 2016-17, funding beyond that will be addressed in a future financing.

4. Background – Department of Water and Power (DWP) Loan

In December of 2013, BSL executed a Memorandum of Understanding (MOU) with the Department of Water and Power (DWP) for the lighting retrofit project to install 30,000 LED street lights throughout the City. Under the terms of the MOU, DWP would provide \$21 million in an Energy Efficiency Loan consisting of four annual installments of \$5.25 million. Each installment of the DWP loan is scheduled to be repaid over eight years at an interest rate of 4.97 percent. Repayments are funded through annual assessments for the maintenance and improvement of street lighting through the Street Lighting Maintenance Assessment Fund (SLMAF). The DWP loan will be refinanced with \$3.27 million in loan proceeds. Additionally, approximately \$1.2 million in cash from SLMAF will be applied to the prepayment of the loan to reduce the size of the borrowing.

The City Council approved a Reimbursement Resolution on October 14, 2015, declaring the City's intent to reimburse itself with proceeds from a future financing for expenditures related to the Project. The Reimbursement Resolution allows the City to reimburse itself with tax-exempt proceeds for expenditures occurring no earlier than 60 days prior to the adoption of the Reimbursement Resolution, dating back to August 15, 2015. Expenditures occurring in this period of time will be refinanced at a tax-exempt rate of 1.89 percent. Expenditures occurring prior to August 15, 2015 will be refinanced at a taxable rate of 2.1 percent, as no Reimbursement Resolution was in place.

5. Sources and Uses of MICLA 2016 Streetlights Proceeds

The CAO expects to borrow approximately \$26.4 million; however, requests the authority to borrow up to \$29 million to allow for any funding and program changes before closing. Below is a table showing the sources and uses for the MICLA 2016 Streetlights Proceeds:

Sources of Funds

Taxable Loan Proceeds	\$ 2,543,922
Tax-Exempt Loan Proceeds	23,821,078
Subtotal Loan Proceeds	26,365,000
SLMAF funds on hand	1,194,833
	\$ 27,559,833

Uses of Funds

Pre-pay DWP Loan	\$ 4,465,233
Reimburse SLMAF for LED advances	3,077,821
New money for LED conversions*	7,198,136
New money for High Voltage conversions*	12,700,272
Costs of transaction	118,371
	\$ 27,559,833

*New money expenses consist of labor, vehicles, materials, and contractual services related to both projects.

6. Required Documents for the MICLA 2016 Streetlights Financing

To proceed with this financing, the Mayor and City Council will need to adopt a Resolution (Attachment B) which authorizes the execution and delivery of various related documents, including:

- The Lease and Sublease Agreements (Attachments C and D), which are agreements between the City and MICLA indicating that the City will lease approximately 2,800 streetlights to MICLA, and subsequently MICLA will sublease it back to the City.
- A Purchase and Assignment Agreement (Attachment E) between the City, MICLA, and BOA assigning certain rights to BOA, namely the right to receive Base Rental Payments to be paid by the City.

MAS:DMP:09160141

Attachments

- Attachment A – Non-Voted Approved Debt Chart
- Attachment B – Authorizing Resolution
- Attachment C – Lease Agreement
- Attachment D – Sublease Agreement
- Attachment E – Purchase and Assignment Agreement