

0220-05261-0001

TRANSMITTAL

TO David H. Wright, General Manager Department of Water and Power	DATE MAR 01 2017	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

AUTHORITY TO SUBMIT AN APPLICATION TO THE SOUTHERN CALIFORNIA PUBLIC WATER AUTHORITY TO ISSUE \$772M IN RATE REDUCTION BONDS

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.



Ana Guerrero

MAYOR

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 28, 2017

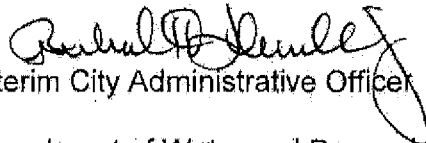
CAO File No. 0220-05261-0001

Council File No. --

Council District: --

To: The Mayor

From: Richard H. Llewellyn, Jr., Interim City Administrative Officer



Reference: Communication from the Department of Water and Power dated February 1, 2017

Subject: **AUTHORITY TO SUBMIT AN APPLICATION TO THE SOUTHERN CALIFORNIA PUBLIC WATER AUTHORITY TO ISSUE \$772M IN RATE REDUCTION BONDS**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution authorizing the Department of Water and Power to submit an application to the Southern California Public Water Authority to issue up to \$772 million in rate reduction bonds to fund qualifying water utility projects in accordance with the provisions of City Charter Section 609 and Ordinance 184369; and,
2. Return the proposed resolution to the Department for further processing, including Council consideration.

SUMMARY

Approval of the proposed resolution will authorize the Department of Water and Power (DWP) to submit an application to the Southern California Public Water Authority (SCPWA), a Water Joint Powers Authority (JPA), authorized by Ordinance 184369 in June 2016, for the issuance of up to \$772 million in rate reduction bonds (RRB), with a maximum term of up to 45 years, and a maximum interest cost of 12 percent. DWP intends to use the RRBs to (i) reimburse approximately \$400 million to the Water Revenue Fund and/or repay the interim financing through the revolving line of credit for prior capital expenditures funded in the fiscal year 2016-17 and (ii) to fund new qualified water utility projects during fiscal year 2017-18.

DWP anticipates the RRBs will provide cost savings and the least impact to its customers by allowing a higher capitalization rate (100 percent compared to the Water Rate Ordinance limit of 65 percent), obtaining higher credit ratings (AAA compared to the Water Systems ratings of AA+/AA+/Aa2), and a lower debt service coverage ratio of 1.0 times the annual debt service amount versus 1.7 times the annual debt service amount. In summary, DWP forecasts the use of RRBs will reduce its costs to the customers by approximately \$390 million, including \$256 million

in the first year and \$134 million over the 30 year term of the bonds. The use of RRBs is consistent with the DWP's five year financial plan and it is included in the approved water rates.

As an alternative to RRBs, DWP could directly finance projects by issuing Water Revenue Bonds. However, as a result of the Water Rate Ordinance limiting the capitalization ratio to 65 percent, DWP would need to immediately collect an additional \$270 million from customer rates and issue \$502 million of Water Revenue Bonds to finance the same projects. Over a 30 year period, this alternative will increase customer bills by approximately \$390 million consisting of \$256 million collected in the first year and \$134 million collected over the 30 year term of the bonds.

Pursuant to California Government Code § 6588.7(c), parameters to consider prior to submitting an application for issuing RRBs through a Water JPA include all of the following:

- The projects to be funded through the Water JPA are a qualified water utility project to be used for conservation, reclamation purposes, or in compliance with a mandate;
- The cost of projects including the financing charges are to be paid from the water utility project property; and,
- The customer utility rates with the project charges financed through the Water JPA are expected to be lower than the utility rates if the project was financed with DWP Water Revenue Bonds.

The Office of Public Accountability (OPA) states it is reviewing the DWP proposal and preparing its own report for consideration by the Mayor and City Council.

The City Attorney has approved the proposed resolution as to form and legality.

FISCAL IMPACT STATEMENT

There is no fiscal impact to the City General Fund. Approval of the proposed resolution will authorize the DWP to submit an application to the Southern California Public Water Authority to issue Rate Reduction Bonds up to \$772 million to finance qualified water utility projects. The bonds will be an obligation of the Southern California Public Water Authority payable through customer billings.

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