


0220-05209-0003

TRANSMITTAL

TO David H. Wright, General Manager Department of Water and Power	DATE 7/12/18	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

AUTHORITY TO ISSUE \$1.435 BILLION IN POWER SYSTEM REVENUE BONDS

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


(Ana Guerrero) for
MAYOR

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 10, 2018

CAO File No. 0220-05209-0003

Council File No. --

Council District: --

To: The Mayor

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

Reference: Communication from the Department of Water and Power dated June 20, 2018

Subject: **AUTHORITY TO ISSUE \$1.435 BILLION IN POWER SYSTEM REVENUE BONDS**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Resolution 4942 authorizing the Department of Water and Power (DWP) to issue up to \$1.435 billion in Power System Revenue Bonds to fund a portion of the Power System Capital Improvements Program for Fiscal Years 2018-19 and 2019-20 in accordance with the provisions of City Charter Section 609 and Article 6.5 of the Los Angeles Administrative Code Sections 11.28.1 – 11.28.9; and,
2. Return the proposed resolution to the Department for further processing, including Council consideration.

SUMMARY

DWP intends to issue bonds to finance a portion of its Power System Capital Improvements Program (CIP) which is \$1.532 billion in Fiscal Year (FY) 2018-19 and \$1.678 billion in FY 2019-20. Approval of the proposed resolution is intended by DWP to represent an 'initial resolution' of the Board, which sets forth the purpose for future indebtedness and establishes the maximum limits for this issuance as follows:

- The maximum principal is \$1.435 billion;
- The maximum term of the debt is 30 years from the date of issuance;
- The maximum interest cost to be incurred through the issuance of bonds is 12 percent.

The maximum legally permissible interest cost that could be incurred through the issuance of the bonds is 12 percent per annum consistent with California Code Section 53531. DWP expects that the current market conditions will provide an interest cost in the range of 4.0 to 5.5 percent.

The proposed resolution also provides for the private sale of the bonds to one or more underwriting firms selected by the DWP Board of Commissioners (Board) pursuant to City Charter Section 609(d) and Los Angeles Administrative Code (LAAC) Section 11.28.4 (Procedural Ordinance) governing proprietary department bond resolutions.

The \$1.435 billion bond issuance will be funded by the multi-year rate increase that was approved by the City Council in March 2016 and became effective on April 15, 2016. The bonds will be Power 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. In compliance with the Responsible Banking Ordinance No. 182138 (RBO), DWP's Pool of Underwriters have disclosed, or are in the process of disclosing, their involvement in charitable programs or scholarships within the City of Los Angeles and internal policies regarding use of subcontractors designated as small business and disabled veteran business enterprises.

Background information relating to this request is provided in the attached Appendix.

FISCAL IMPACT STATEMENT

Approval of the proposed resolution will impact the DWP Power Revenue Fund. There is no fiscal impact to the City General Fund.

RHL:RR:10180101

Attachment

APPENDIX

In order to support the CIP for FY 2018-19 and 2019-20, DWP proposes the use of external financing with bonds and internally generated funds. The Power System FY 2018-19 CIP includes approximately \$705 million of tax-exempt revenue bonds to support a portion of the \$1.532 billion program. Additionally, the multi-year financial plan for FY 2019-20 CIP includes approximately \$730 million of external financing to support a portion of the \$1.678 billion program.

The CIP for FY 2018-19 and FY 2019-20 is illustrated in the table below:

	FY 2018-19 (\$millions)	FY 2019-20 (\$millions)	Total (\$millions)
Power Supply Replacement Program			
Repowering: Power Plants – Scattergood, Haynes Units 1&2, & Castaic	\$32	\$43	\$75
Renewable Resources - Beacon Solar, Community Solar, Owens Valley Solar, Energy Storage, Barren Ridge Renewable Transmission Project, and Long-term Transmission Development.	\$110	\$208	\$318
Power Supply Replacement Program	\$142	\$251	\$393
Power System Reliability Program			
Replace poles, transformers, cables, and overhead circuits. Improve distribution system including the expansion and automation of substations. Integrate smart grid technology.	\$605	\$624	\$1,229
Power System Reliability Program	\$605	\$624	\$1,229
Power Supply Support/General			
Improvements at generating stations, distribution system, and general facilities. Investments in automatic meter reading and smart grid.	\$331	\$367	\$698
Power Supply Support/General	\$331	\$367	\$698
Energy Efficiency			
Energy Conservation and Incentive Programs	\$147	\$139	\$286
Energy Efficiency Program	\$147	\$139	\$286
Operating Support			
Operating Support	\$307	\$297	\$604
Operating Support	\$307	\$297	\$604
Total Power System CIP	\$1,532	\$1,678	\$3,210
Proposed External Financing with Power Revenue Bonds	\$705	\$730	\$1,435

Capital Program Financing

The DWP Board establishes the financial planning criteria utilized by the Department. On May 21, 2009, the DWP Board adopted financial planning criteria to maintain:

- A minimum debt service coverage of 2.25 times;
- An operating cash target of \$300 million; and,
- A capitalization ratio of less than 60 percent.

On September 12, 2012, the Board revised the financial planning criteria to maintain:

- A minimum debt service coverage of 2.25 times;
- An operating cash target of \$300 million; and,
- A capitalization ratio of less than 68 percent.

On May 20, 2014, the Board further revised the financial planning criteria to maintain:

- A minimum debt service coverage of 2.25 times;
- A minimum full obligation coverage of 1.70 times;
- A minimum operating cash target of 170 days; and,
- A capitalization ratio of less than 68 percent.

The following table illustrates the Power System's actual financial performance since 2010.

Financial Performance	2010	2011	2012	2013	2014	2015	2016	2017
Debt Service Coverage	3.49	2.42	2.91	2.44	2.47	2.31	2.68	2.37
Full Obligation Coverage	2.2	1.7	1.9	1.7	1.7	1.6	1.9	1.7
Oper Cash Target (\$,000)	\$ 423,855	\$ 561,414	\$ 417,895	\$ 597,525	\$ 775,890	\$1,106,651	289 days	249 days
Capitalization Ratio	55%	57%	57%	60%	61%	62%	62%	62%

Charter Section 609 Compliance

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

- The DWP Board has authorized the sale of bonds pursuant to private sale after written recommendation of the Chief Financial Officer (CFO) stating the reasons why a private sale will benefit DWP;
- 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). Accordingly, DWP requests authority to conduct private, negotiated sales of bonds to one or more investment banking firms. The table below lists the firms approved by the DWP Board on June 26, 2018, to serve as the DWP's underwriting team for a three year duration expiring in June 2021. DWP will select from the approved team of underwriters for each individual bond issuance.

Department of Water and Power Selected Underwriting Team

Senior Managers	Co-Managers
Bank of America Merrill Lynch ^(A)	Academy Securities, Inc.
Barclays Capital Inc.	Cabrera Capital Markets, LLC
Citigroup Global Markets Inc.	FTN Financial Capital Markets
Goldman, Sachs & Co.	J.P. Morgan Securities LLC
RBC Capital Markets, LLC	Jefferies LLC
Samuel A. Ramirez & Co., Inc.	Loop Capital Markets LLC
Siebert Cisneros Shank & Co., LLC	Morgan Stanley & Co. LLC
Wells Fargo Bank, N.A.	Piper Jaffray & Co.
	Raymond James & Associates, Inc.
	Stern Brothers & Co.
	Stifel, Nicolaus & Co., Inc.
	USB Financial Services Inc.

^(A) Legal name: Merrill Lynch, Pierce, Fenner & Smith Inc.

It is noted the composition of the underwriting team includes participation by local business, women-owned, minority-owned, and disabled veteran business enterprises. Two of the eight Senior Managers and four of the twelve Co-Managers (totaling 30 percent) are women-owned, minority-owned, and/or disabled veteran business enterprises.

Competitive v. Negotiated Bond Sale

The DWP proposed request for the use of a negotiated or private bond sale is based upon the determinations made by the CFO in consultation with its financial advisor. The rationale for recommending a negotiated sale includes the following:

- Allows for DWP to encourage involvement of local and regional firms in addition to retail investors who are less sensitive to price compared to institutional investors;
- Allows DWP to structure specialized bonds to meet specific investor needs; and,
- Provides DWP increased flexibility in timing the pricing of debt to attempt to respond to volatility in the public capital markets resulting from wide shifts in interest rates and investor demand.

Furthermore, a negotiated bond sale can provide DWP an opportunity to communicate directly with investment firms regarding potential concerns including, but not limited to, operations, developments, challenges, and mitigation efforts, which can be effective for ensuring appropriate borrowing rates.

Debt Issuance Costs

Debt issuance costs are estimated by the DWP at approximately \$5.812 million for the total \$1.435 billion new bond issuance. A detail of the services provided and the estimated debt issuance costs are included in the following chart.

Debt Issuance Costs \$1.435 billion Power System Revenue Bonds	
<i>Service</i>	<i>Estimated Cost</i>
Rating Agencies	\$ 1,388,000
Financial Advisor	240,000
Bond Counsel	380,000
Disclosure Counsel	200,000
Underwriter's Discount	3,588,000
Printing of Official Statements	16,000
TOTAL	\$ 5,812,000

Source: Department of Water & Power - Financial Services Organization

Indebtedness

As of April 30, 2018, the Power System reported approximately \$8.81 billion in long-term debt obligations and \$0.20 billion of commercial paper program. Long-term debt obligations consist of approximately \$1.11 billion of variable rate debt and \$7.70 billion of fixed rate revenue bonds. All debt service payments are payable from the Power Revenue Fund.