

BOARD LETTER APPROVAL


ANN M. SANTILLI
Chief Financial Officer


MARTIN L. ADAMS
General Manager and Chief Engineer

DATE: August 9, 2021

SUBJECT: Initial Authorization to Issue up to \$2.552 Billion of Power System Revenue Bonds Under Resolution No. 4994

SUMMARY

Proposed Resolution No. 4994 will authorize the issuance of up to \$2.552 billion of tax-exempt Power System Revenue Bonds (Power Bonds) consisting of \$1.298 billion for Fiscal Year (FY) 2021-22 and \$1.254 billion for FY 2022-23 to finance a portion of the budgeted capital improvements, including the related costs of issuance. The debt service on the Power Bonds for FY 2021-22 will be covered by the currently approved rate level and the debt service on the Power Bonds for FY 2022-23 is subject to the approval of the next rate action. The debt service payments will be payable out of the Power Revenue Fund.

Resolution No. 4994 is an initial resolution. A supplemental resolution, which provides additional information about the proposed Power Bond issuance, will be introduced at subsequent Board meetings. Mayoral and City Council approvals are required pursuant to Section 609 of the Charter of the City of Los Angeles (Charter).

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners (Board) adopt Resolution No. 4994 authorizing the issuance of up to \$2.552 billion of Power Bonds per Charter Section 609.

ALTERNATIVES CONSIDERED

LADWP has two primary sources for funding its capital improvements program: (1) directly from rates collected from customers, and (2) borrowing from the capital market (which is repaid from customer rate collections over time).

Collections directly from rates do not provide sufficient funding for the entire capital budget. Accordingly, it has been determined that public interest and necessity demand

that LADWP borrow up to \$2.552 billion by issuing Power Bonds pursuant to Section 609 of the Charter for the purpose of financing a portion of the Power System's budgeted capital improvements for FYs 2021-22 and 2022-23.

FINANCIAL INFORMATION

The total estimated cost for the \$2.552 billion new money, including principal and interest, is approximately \$5.2 billion over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$10.9 million equivalent to 0.43 percent of the total bond issue which includes underwriters' discount, bond counsel, disclosure counsel, municipal advisor, and rating agencies fees.

The Board adopted financial metrics to use for Power System financial plans as follows:

1. maintain a minimum operating cash target of the equivalent of 170 days of operating expenses,
2. maintain full obligation coverage of at least 1.7 times, and
3. maintain a debt-to-capitalization ratio of less than 68 percent.

As of May 31, 2021, the Power System's liquidity is equivalent to approximately 281 days of operating expenses. The updated financial projection for FY 2021-22, anticipates the full obligation coverage to be at 1.8 times, and the debt to capitalization ratio to be at 66.1 percent. The financial projection for FY 2022-23 is subject to the next rate action and must meet the above financial metrics established by the Board. The Department expects to have a schedule for proposing to the Board by the end of the calendar year 2021. The proposed Power Bonds for FY 2022-23 will be issued when the next rate action is approved by the Board and the City Council. Attached is a historical financial overview of the Power System operating results and financial metrics.

BACKGROUND

Overview of Bond Funding Need

The Power System's FY 2021-22 Budget, approved by the Board on May 25, 2021, and transmitted to City Council in accordance with Charter Section 684, reflects a need to borrow approximately \$1.298 billion to support a portion of its planned \$1.881 billion capital improvements program over the same period. Additionally, the multi-year financial plan, which supports the budget, indicates a need of approximately \$1.254 billion external financing to support a portion of its planned \$2.05 billion capital improvements program for FY 2022-23.

Proposed Resolution No. 4994 will authorize the issuance of up to \$2.552 billion of tax-exempt Power Bonds to finance a portion of the budgeted capital improvements for FYs 2021-22 and 2022-23, including the related costs of issuance. The combined two-year issuance authorization will provide the Department the flexibility to better plan its issuances to meet the Power System's needs and mitigate interest costs given the rising interest rates environment.

The debt service on the \$1.298 billion Power Bonds for FY 2021-22 will be funded by the currently approved rate level and the debt service on the \$1.254 billion Power Bonds for FY 2022-23 is subject to the approval of the next rate action. The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Power System and would be drawn down to fund a portion of its capital improvements program.

Resolution No. 4994 is an “initial resolution” of the Board, setting forth the purpose for future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 4994 also provides for the private sale of the Power Bonds to one or more of the firms included in the team of underwriting firms approved by the Board in July 2021 pursuant to the Procedural Ordinance. At a future Board meeting, the Financial Services Organization will present a “supplemental resolution” that will authorize the specific terms and conditions for the Power Bonds, including the underwriting firms that will be selected from among LADWP’s investment banking team members and the principal financing documents related to the Power Bonds.

Both LADWP’s Chief Financial Officer (CFO) and its municipal advisor, the Public Resources Advisory Group (PRAG) recommend the Power Bonds be sold on a negotiated basis (i.e., private sale). The CFO’s Report in connection with the proposed private sale, as required by Charter Section 609, is attached. Also attached is the report setting forth PRAG’s opinion with respect to a private sale.

Ordinance No. 182138 requires investment banks to disclose their corporate citizenship which shall include their participation in charitable programs or scholarships within the City of Los Angeles (City of LA) and internal policies regarding utilization of subcontractors which are designated as “women owned,” “minority owned,” or “disabled business enterprises.” All of the twenty (20) investment banks that are in LADWP’s Pool of Underwriters are in compliance with Ordinance No. 182138.

In accordance with the Mayor’s Executive Directive No. 4, the City Administrative Officer’s (CAO) Report is attached.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, the issuance of Power System Revenue Bonds is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved Resolution No. 4994 as to form and legality.

ATTACHMENTS

- Resolution
- CFO Report
- PRAG's letter on Negotiated Bond Sale
- Power System Financial Overview
- CAO Report