

0220-04523-0010

TRANSMITTAL

TO Martin L. Adams, General Manager Los Angeles Department of Water and Power	DATE	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT All

**LOS ANGELES DEPARTMENT OF WATER AND POWER REQUEST ISSUANCE REQUEST
UP TO \$2.552 BILLION IN POWER SYSTEM REVENUE BONDS**

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

MAYOR

MWS:IR:10220014

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 5, 2021

CAO File No.: 0220-04523-0010

Council File No.:

Council District:

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



Reference: Communication from the Department of Water and Power dated July 7, 2021; referred by the Mayor for report on July 12, 2021

Subject: **LOS ANGELES DEPARTMENT OF WATER AND POWER ISSUANCE REQUEST UP TO \$2.552 BILLION IN POWER SYSTEM REVENUE BONDS**

RECOMMENDATION

That the Mayor:

1. Approve the proposed Resolution authorizing the Los Angeles Department of Water and Power to issue up to \$2.552 billion in Power System Revenue Bonds to fund a portion of the Power System Capital Improvement Program for Fiscal Years 2021-22 and 2022-23.
2. Return the proposed Resolution to the Department for further processing, including Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP) requests authority to issue up to \$2.552 billion in Power System Revenue Bonds to finance a portion of its Power System Capital Improvement Program (CIP) consisting of \$1.298 billion for 2021-22, and \$1.254 billion for 2022-23. The Power System Capital Program focuses on power system reliability, infrastructure, energy efficiency, operational support and the development of renewable energy. Approval of the proposed Resolution represents an 'initial resolution' of the LADWP Board of Water and Power Commissioners (Board) setting forth the purpose for future indebtedness and establishes the maximum limits for this issuance as follows:

- The maximum principal is \$2.552 billion;
- The maximum term of the debt is 45 years from the date of issuance; and,
- The maximum interest rate to be incurred through the issuance of bonds is 12 percent.

The combined two year issuance authority will provide LADWP flexibility to better plan its issuance to meet the Power System's needs. Assuming the maximum issuance of \$2.552 billion in revenue bonds, the total estimated cost is \$5.2 billion over 30 years, including principal and interest for tax-exempt bonds.

In addition, the debt issuance cost is estimated at \$10.9 million. The proposed Resolution allows a maximum permissible interest rate that could be incurred through the issuance of the bonds at 12 percent per annum consistent with California Code Section 53531. It should be noted that LADWP assumptions for the total cost estimate is based on current market conditions with an interest rate in the range of three to five percent. The financial projection for 2022-23 is subject to the next rate action and must meet LADWP's 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 will not be issued until the next rate action is approved by the Board and the City Council. At a future Board meeting, the LADWP intends to present a supplemental resolution with specific terms and conditions.

In compliance with the Responsible Banking Ordinance No. 182138 (RBO), LADWP's Pool of Underwriters have disclosed, their corporate citizenship, and involvement in charitable programs or scholarships within the City of Los Angeles and internal policies regarding use of subcontractors designated as "women owned," "minority owned," or "disabled business enterprises" as required annually.

The proposed Resolution also provides for the private sale of bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609(d), the Los Angeles Administrative Code (LAAC) Section 11.28.4, and the Procedural Ordinance No. 172353 governing proprietary department bond resolutions. The Procedural Ordinance requires that a resolution of the Board authorize the issuance of Revenue Bonds and thereafter will be transmitted to the Council and Mayor for their approval or disapproval in the manner set forth in the Ordinance. The City Attorney has approved the proposed Resolution as to form and legality.

Capital Program Financing

The LADWP proposes a mix of external bond financing and internal funds to support the Power System CIP for 2021-22 and 2022-23. The total cost of the 2021-22 program is approved at \$1.881 billion, which includes \$1.298 billion of tax-exempt revenue bonds and \$582 million to be collected from the rate payers on a pay go basis. In addition, the total cost of the 2022-23 CIP program is proposed at \$2.05 billion, which includes \$1.254 billion in revenue bonds and \$796 million also to be collected from the rate payers on a pay go basis. The actual amount of the bond issuance may be reduced should the amount of revenue collected be more than anticipated; operational expenses are lower than budgeted; and actual capital expenditures are less than projected. Table One details the proposed CIP Power System expenditures for FYs 2021-22 and 2022-23:

**Table One – Summary of Proposed
FYs 2021-22 and 2022-23 Power System CIP**

Various Capital Programs	FY 21-22 (Millions)	FY 22-23 (Millions)	TOTAL (Millions)
Power Supply Replacement Program			
Repowering: Haynes & Scattergood Demo/Modernization, Castaic Modernization	\$ 9	\$ 5	\$ 14
Renewal Portfolio Standard			
Renewable Resources: Energy Imbalance Market, Community Solar, Owens Valley Solar, Energy Storage, Barren Ridge Renewable Transmission Project, and Long-term Transmission Development.	318	351	669
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	582	1,187
Power Supply Support/General			
Improvements at generating stations, distribution system, and general facilities. Investments in automation meter reading and smart grid.	529	578	1,107
Energy Efficiency			
Energy Conservation and Incentive Program	170	180	350
IT Infrastructure	-	144	144
Operating Support	250	209	459
Grand Total (Billion)	\$1,881	\$2,050	\$3,931

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 LADWP 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 LADWP;
- 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.

LADWP Private Bond Sale Recommendation

The LADWP proposes the use of a negotiated or private bond sale to one or more investment banking firms based upon the determinations made by the CFO in consultation with its municipal advisor, the Public Resources Advisory Group (PRAG). The rationale for recommending a negotiated sale includes the following:

- Allows for the LADWP to encourage involvement of local and regional firms in addition to retail investors who are less sensitive to price compared to institution investors;
- Allows LADWP to structure specialized bonds to meet specific investor needs; and,
- Provides LADWP 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, LADWP indicates a negotiated bond sale can provide 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.

LADWP Financial Planning Metrics

The LADWP Board adopted financial planning criteria in 2009 in preparing the LADWP's Five Year Financial Plan. The criteria are designed to ensure stability of LADWP's finances, and ability to pay debt service when due and are the basis for ratings assigned by credit rating agencies. On May 26, 2020, the LADWP Board maintained the metric in Table Two, however it was determined that the need to maintain the 2.25 times Debt Service Coverage is no longer necessary.

Table Two – Financial Planning Metrics

Financial Metrics	Approved 2020 Metrics	Actual 2020 Metrics
Minimum Debt Service Coverage	1.7 times	1.85 times
Minimum Operating Cash Flow	170 days	232 days
Capitalization Ratio	Less than 68 %	Less than 68 %

Per LADWP, as of July 31, 2021, the Power System's liquidity is equivalent to approximately 281 days of operating expense, anticipates full obligation coverage to be at 1.8 times, and the debt to capitalization rate to be at 66.1 percent. Any proposed rate actions for FY 2022-23 must meet the financial metrics established by the Board and are subject to approval by the Board and the City Council. The proposed Bonds for 2022-23 will not be issued until such approvals occur.

This Office concurs with the recommendation for a negotiated bond sale and the borrowing of funds to support a portion of the Power System Capital Program for FYs 2021-22 and 2022-23. A negotiated sale can be structured to meet specific investor needs, provides flexibility on behalf of LADWP's needs, and would meet the financial interest of LADWP.

Table Three lists the firms approved by the LADWP Board on July 20, 2021, to serve as the LADWP's underwriting team for a five year duration expiring in July 2026. LADWP intends to select from the approved team of underwriters for each individual bond issuance. The composition of the underwriting team includes participation by local business, women-owned, minority-owned, and disabled veteran business enterprises.

Table Three - LADWP Selected Underwriting Team

Senior Managers	Co-Managers
Barclays Capital Inc. (1)	Academy Securities, Inc. (2)(4)
BofA Securities, Inc. (1)	Alamo Capital (3)
Citigroup Global Markets Inc. (1)	Backstrom McCarley Berry & Co., LLC (2)
Goldman, Sachs & Co. (1)	Cabrera Capital Markets, LLC (2)
RBC Capital Markets, LLC (1)	J.P. Morgan Securities LLC
Samuel A Ramirez & Co., Inc. (2)	Jefferies LLC (1)
Siebert Williams Shank & Co., LLC (2) (3)	Loop Capital Markets LLC (2)
TD Securities (USA) LLC	Morgan Stanley & Co. LLC (1)
USB Financial Services Inc. (1)	Stern Brothers & Co. (3)
Wells Fargo Bank, National Association (1)	Stifel, Nicolaus & Co., Inc. (1)

(1) Local Business Enterprise
(2) Minority Business Enterprise
(3) Women Business Enterprise
(4) Disabled Veteran Business Enterprise

Proposed Debt Issuance Costs

LADWP estimates the total debt issuance cost is approximately \$10.9 million as detailed in the following Table Four:

Table Four – Debt Issuance Costs

Service	Estimated Cost (Millions)
Rating Agencies	\$ 2,874,000
Municipal Advisor	480,000
Bond Counsel	760,000
Disclosure Counsel	400,000
Underwriter's Discount	6,380,000
Printing of Official Statement	24,000
Total	\$10,918,000

Indebtedness

As of July 1, 2021, the Power System reported approximately \$9.96 billion in long-term debt obligations. Long-term debt obligations consist of approximately \$991.7 million of variable rate debt and \$8.97 billion of fixed rate revenue bonds. All debt service payments are payable from the Power Revenue Fund.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the proposed initial resolution authorizes the issuance of up to \$2.552 billion in Power Revenue Bonds to finance a portion of the LADWP Power System CIP for FYs 2021-22 and 2022-23. At a future Board meeting, the LADWP intends to present a supplemental resolution with specific terms and conditions, including any potential rate actions for approval. The total fiscal impact is \$5.2 billion over 30 years to repay the bonds and \$10.9 million for debt issuance costs. Approval will impact the LADWP Power Revenue Fund. The proposed request complies with the LADWPs adopted Financial Policies.

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Attachments