

BOARD LETTER APPROVAL



ANN M. SANTILLI
Chief Financial Officer



MARTIN L. ADAMS
General Manager and Chief Engineer

DATE: September 7, 2021

SUBJECT: Initial Authorization to Issue up to \$968 Million of Water System Revenue Bonds Under Resolution No. 4995

SUMMARY

Proposed Resolution No. 4995 will authorize the issuance of up to \$968 million of tax-exempt Water System Revenue Bonds (Water Bonds) consisting of \$439 million for Fiscal Year (FY) 2021-22 and \$529 million for FY 2022-23 to finance a portion of the budgeted capital improvements, including the related costs of issuance. The debt service on the Water Bonds for FY 2021-22 will be covered by the currently approved rate level and the debt service on the Water 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 Water Revenue Fund.

Resolution No. 4995 is an initial resolution. A supplemental resolution, which provides additional information about the proposed Water 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. 4995 authorizing the issuance of up to \$968 million of Water 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 \$968 million by issuing Water Bonds pursuant to Section 609 of the Charter for the purpose of financing a portion of the Water System's budgeted capital improvements for FYs 2021-22 and 2022-23.

FINANCIAL INFORMATION

The total estimated cost for the \$968 million new money, including principal and interest, is approximately \$1.982 billion over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$4.6 million equivalent to 0.47 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 Water System financial plans as follows:

1. maintain a minimum debt service coverage at 1.7 times,
2. maintain a minimum operating cash target of the equivalent of 150 days of operating expenses, and
3. maintain a debt-to-capitalization ratio of less than 65 percent.

As of May 31, 2021, the Water System's liquidity is equivalent to approximately 470 days of operating expenses. The updated financial projection for FY 2021-22, anticipates the debt service coverage to be at 1.9 times, and the debt to capitalization ratio to be at 63.4 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 Water 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 Water System operating results and financial metrics.

BACKGROUND

Overview of Bond Funding Need

The Water 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 \$524 million to support a portion of its planned \$892 million capital improvements program over the same period. Additionally, the multi-year financial plan, which supports the budget, indicates a need of approximately \$537 million external financing to support a portion of its planned \$959 million capital improvements program for FY 2022-23.

Proposed Resolution No. 4995 will authorize the issuance of up to \$968 million of tax-exempt Water Bonds consisting of \$439 million for FY 2021-22 and \$529 million for FY 2022-23 to finance a portion of the budgeted capital improvements, including the related costs of issuance. The remaining \$93 million will be funded by available bond

proceeds in the construction fund from prior bond issuance and additional loans from the State Water Resources Control Board.

The debt service on the \$439 million Water Bonds for FY2021-22 will be funded by the currently approved rate level and the debt service on the \$529 million Water 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 Water System and would be drawn down to fund a portion of its capital improvements program.

Resolution No. 4995 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. 4995 also provides for the private sale of the Water 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 Water 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 Water Bonds.

Both LADWP's Chief Financial Officer (CFO) and its municipal advisor, the Public Resources Advisory Group (PRAG) recommend the Water 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 Water System Revenue Bonds is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved Resolution No. 4995 as to form and legality.

ATTACHMENTS

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