

0220-05209-0006

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 TO ISSUE UP TO \$968 MILLION IN WATER SYSTEM REVENUE BONDS**

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

MAYOR

MWS:IR:10220015

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 1, 2021

CAO File No.: 0220-05209-0006

Council File No.:

Council District:

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



for

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 \$968 MILLION IN WATER 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 \$968 million in Water System Revenue Bonds to fund a portion of the Water 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 \$968 million in Water System Revenue Bonds to finance a portion of its Water System Capital Improvement Program (CIP) consisting of \$439 million for 2021-22, and \$529 million for 2022-23. The Water System Capital Program focuses on water infrastructure, water quality, and water supply including water recycling, storm-waste capture, ground water management, and conservation. 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 \$968 million;
- 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.

Assuming the maximum issuance of \$968 million in revenue bonds, the total estimated cost is \$1.982 billion over 30 years, including principal and interest for tax-exempt bonds. In addition, the debt issuance

cost is estimated at \$4.6 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 proposed 22-23 Water CIP is subject to the next rate action and must meet specific 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 2022-23 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 Water System CIP for 2021-22 and 2022-23. The total cost of the 2021-22 program is approved at \$892 million, which includes \$439 million of tax-exempt revenue bonds, \$274 million to be collected from the rate payers on a pay go basis, and \$179 million from available bond proceeds in the construction fund from prior bond issuance and additional loans and grants from the State. In addition, the total cost of the 2022-23 CIP program is proposed at \$959 million, which includes \$529 million in revenue bonds, \$306 million to be collected from the rate payers on a pay go basis, and \$124 million from additional loans and grants from the State. 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 Water System expenditures for FYs 2021-22 and 2022-23:

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

Various Capital Programs	FY 21-22 (Millions)	FY 22-23 (Millions)	TOTAL (Millions)
Water Quality Improvements			
WQIP Reservoir Improvements	\$ 5	\$ 2	\$ 7
WQIP Trunkline Improvements	59	10	69
Groundwater Remediation and Clean Up	180	209	389
Chlorination Station Installations	26	38	64
Water Treatment Improvements	22	30	52
Hyperion Reuse	10	15	25
Meter Replacement Program	21	22	43
Sub Total	\$ 323	\$ 326	\$ 649
Water Supply			
Water Recycling	\$ 8	\$ 8	\$ 16
Watershed – Stormwater Capture	25	18	43
Groundwater	9	10	19
LAA Aqueduct	30	26	56
Water Conservation	14	21	35
Sub Total	\$ 86	\$ 83	\$ 169
Water Infrastructure Programs			
Distribution Mains	\$ 140	\$ 154	\$ 294
Trunkline & Major System Connections	60	59	119
Infrastructure Reservoir Improvements	17	31	48
WSO Facilities	34	30	64
Services, Meters & Hydrants	65	70	135
Pump Stations	13	21	34
Water Systems Infrastructure Support	2	7	9
Regulator Stations & Seismic Improvements	13	14	27
Water Services Organization Information Technology	21	17	38
Other (WSO Capital Projects, Resource Tools & Equipment)	5	6	11
Sub Total	\$ 370	\$ 409	\$ 779
Regulatory Compliance – Owens Valley			
Owens Valley Dust Mitigation	\$ 15	\$ 18	\$ 33
Owens Lake Master Project	10	17	27
Sub Total	\$ 25	\$ 35	\$ 60
Operating Support			
Water System's share of Joint Capital including Customer Service	\$ 87	\$ 107	\$ 194
Sub Total	\$ 87	\$ 107	\$ 194
Grand Total (Billion)	\$ 891	\$ 960	\$1,851

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 20, 2014, the LADWP Board adopted the metrics in Table Two and on May 26, 2020, the Board approved and maintained the same metrics. As of May 31, 2021, the Water System's liquidity is equivalent to 470 days of operating expense. The financial projection for 2022-23 is subject to the next rate action and must meet the financial metrics established, and Board approval.

Table Two – Financial Planning Metrics

Financial Metrics	Approved 2020 Metrics	Actual 2020 Metrics
Minimum Debt Service Coverage	1.7 times	1.90 times
Minimum Operating Cash Flow	150 days	323 days
Capitalization Ratio	Less than 65 %	Less than 65 %

This Office concurs with the recommendation for a negotiated bond sale and the borrowing of funds to support a portion of the Water 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 pool of underwriters are in compliance with the RBO and disclosed the mandated information.

Table Three - LADWP Selected Underwriting Team

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

It is noted the composition of the underwriting team includes participation by local business, women-owned, minority-owned, and disabled veteran business enterprises. Nine of the ten Senior Managers and nine of ten Co-Managers (totaling 90 percent) are local women-owned, minority-owned, and/or disabled veteran business enterprises.

Proposed Debt Issuance Costs

LADWP estimates the total debt issuance cost is approximately \$4.6 million as detailed in the following Table Four:

Table Four – Debt Issuance Costs

Service	Estimated Cost (Millions)
Rating Agencies	\$ 1,332,000
Municipal Advisor	240,000
Bond Counsel	380,000
Disclosure Counsel	200,000
Underwriter's Discount	2,420,000
Printing of Official Statement	12,000
Total	\$4,584,000

Indebtedness

As of July 1, 2021, the Water System reported approximately \$6.06 billion in long-term debt obligations. Long-term debt obligations consist of approximately \$4.74 billion of variable rate debt and \$582.3 million of fixed rate revenue bonds. All debt service payments are payable from the Water Revenue Fund.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the proposed resolution authorizes the issuance of up to \$968 million in Water Revenue Bonds to finance a portion of the LADWP Water System CIP for FYs 2021-22 and 2022-23. The total fiscal impact is \$1.982 billion over 30 years to repay the bonds and \$4.6 million for debt issuance costs. Approval will impact the LADWP Water Revenue Fund. The proposed request complies with the LADWPs adopted Financial Policies.

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Attachments