

August 10, 2021

Ms. Ann Santilli
Chief Financial Officer
Department of Water and Power of the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Re: Water System Negotiated Refunding Bond Sales

Dear Ms. Santilli:

The Department of Water and Power of the City of Los Angeles ("LADWP") has requested that Public Resources Advisory Group ("PRAG"), as municipal advisor to LADWP, discuss the merits of negotiated bond transactions for the issuance of refunding debt related to the Water System. We understand that LADWP is currently seeking authorization to issue up to \$1.7 billion of refunding bonds for the Water System.

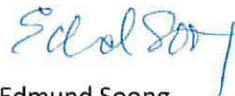
The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer, same credit, same amounts, and same maturities. In general, PRAG believes, that all things being equal, a competitive sale will provide an issuer with the lowest cost of funds for the majority of issuances, but not necessarily in all cases. There are other important factors and market circumstances that have an impact on the decision for issuers to negotiate bond sales. The following are some of the factors that LADWP faces with its upcoming refunding issuances of Water System Revenue Bonds that support the reasoning for issuing on a negotiated basis:

- A negotiated sale will allow LADWP to provide meaningful roles for smaller local and regional firms;
- Retail investors can be an important source of demand in the municipal bond market, as the retail buyer can be less sensitive to price compared to the institutional investor and retail orders in significant volume can only be achieved through a negotiated sale;
- LADWP relies on commercial banks to provide a significant amount of credit support for its \$2.074 billion of variable rate debt and revolving line of credit;
 - By offering negotiated underwriting business, LADWP receives more aggressive credit support fee bids and, very importantly, will often secure bids from banks that have received negotiated underwriting business during periods of time when other banks refuse to offer credit;
- Negotiated sales allow LADWP to structure specific portions of an issuance to meet investor demand (such as bifurcated coupons, callable premium bonds, non-traditional call features, specified par amounts, non-traditional couponing and similar features);
- Refunding bonds issued on a negotiated basis provide LADWP with maximum flexibility to refund as many bonds as possible that meet LADWP's savings objectives while competitive sales limit the ability to upsize or downsize a refunding with changes in market conditions;

- Not being able to upsize a refunding could result in the loss opportunity to replace higher cost outstanding debt with lower cost debt and
- Not being able to downsize a refunding could result in LADWP refunding debt that generates savings lower than LADWP's savings targets;
- Refunding outstanding debt frequently requires the establishment of defeasance escrows that are typically funded by U.S. Treasury security purchases which adds a level of complexity to the issuance process;
- An underwriter is the party that can best assist LADWP with comprehensive investor outreach (e.g. investor road shows, meetings, conference calls, etc.) as they have direct relationships with investors; and
- Negotiated bond sales provide increased flexibility in timing and structuring, including shifting maturities to meet investor demand, which will allow LADWP to navigate through difficult market conditions;
 - Recent market conditions, including unavailable public capital markets as a result of the COVID-19 outbreak in this country, volatile and rapid shifts in interest rates, changing supply and demand relationships for municipal bonds, changes in tax rates and deductions impacting the benefit of municipal bonds, political and geopolitical events causing volatility in the fixed income markets, and the narrowing and widening credit spreads and
 - Negotiated issuers, including LADWP, have been able to respond to then current market conditions by modifying the timing and structure of their bonds to better meet investor demands.

In our opinion, the factors above should be considered by LADWP when making the decision to issue refunding bonds for the Water System on a negotiated sale basis. I hope the foregoing meets your needs. Please call me at 310-477-1453 or Michelle Issa, Senior Managing Director, at 310-477-2786 if you have any questions on this matter.

Sincerely,



Edmund Soong
Executive Vice President