

0220-04523-0011

**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 \$1.7 BILLION IN WATER SYSTEM REFUNDING  
REVENUE BONDS**

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

MAYOR

MWS:IR:10220024

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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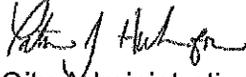
Date: October 8, 2021

CAO File No. 0220-04523-0011

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 August 23, 2021; referred by the Mayor for report on September 8, 2021

Subject: **LOS ANGELES DEPARTMENT OF WATER AND POWER REQUEST TO ISSUE \$1.7 BILLION IN WATER SYSTEM REFUNDING REVENUE BONDS**

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### RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Resolution authorizing the Los Angeles Department of Water and Power to issue up to \$1.7 billion in Water System Refunding Revenue Bonds to refinance or replace existing Water System Revenue Bonds in accordance with the provisions of City Charter Section 609 and Article 6.5 of the Los Angeles Administrative Code Sections 11.28.1 – 11.28.9; and,
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 \$1.7 billion in Water System Refunding Revenue Bonds to refinance or replace existing bonds with lower interest rates in order to reduce the overall cost of the debt. Approval of the proposed Resolution represents an 'initial resolution' of the 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 \$1.7 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.

Assuming the maximum issuance of \$1.7 billion in refunding or replacement of revenue bonds, the total estimated cost is up to \$1.707 billion, including debt issuance costs over 30 years. The proposed Resolution allows a maximum permissible interest rate that could be incurred

through the issuance of the bonds is 12 percent per annum consistent with California Code Section 53531. LADWP intends to only refinance or replace the existing bonds if the market presents a favorable opportunity at a lower rate than the existing coupon rates. At a future Board meeting, the LADWP intends to present a supplemental resolution with specific terms and conditions when the opportunity to issue the refunding bonds arises.

The proposed Resolution also provides for the private sale of the 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. The Supplementation Resolution does not require Council approval and will be considered approved if no further action is taken by the Council. Should Council wish to exert authority, Charter Section 245 will be applicable.

Lastly, 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 the use of subcontractors designated as "women owned," "minority owned," or "disabled" business enterprises as required annually.

### **Proposed Refinancing**

The LADWP has identified potential refunding candidates from their existing callable Water System Revenue Bonds and proposes to issue refunding bonds to refinance or replace these bonds with lower interest rates in order to reduce the total cost of debt. The \$1.7 billion bond issuance will be utilized to refund debt in the current and future fiscal years. The Water System utilizes various types of debt which have been identified for potential refinancing including:

- \$1.1 billion of outstanding Water System revenue bonds;
- \$582.3 million of variable rate bonds with interest rates that reset daily or weekly;

Essentially, approval of this request will provide LADWP authority to execute multiple refunding transactions (up to \$1.7 billion) in the future to maximize savings as opportunities are available.

### **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 Recommendations*

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 investors regarding potential concerns including, but not limited to, operations, developments, challenges, and mitigation efforts, which can be effective for ensuring appropriate borrowing rates.

Table One 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.

**Table One - Selected Underwriting Team**

<b>Senior Managers</b>	<b>Co-Managers</b>
Barclays Capital Inc.	Academy Securities, Inc.
BofA Securities, Inc.	Alamo Capital
Citigroup Global Markets Inc.	Backstrom McCarley Berry & Co., LLC
Goldman Sachs & Co. LLC	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
UBS Financial Services Inc.	Stern Brothers & Co.
Wells Fargo Bank, National Association	Stifel, Nicolaus & Company, Incorporated

The composition of the underwriting team includes participation by local business, women-owned, minority-owned, and disabled veteran business enterprises.

**LADWP Refunding Bond Policy**

The Refunding Bond Policy, states that refunding bonds are issued to retire all or a portion of an outstanding bond issue or any other debt of the Department. In determining which bonds should be refunded or replaced, staff will make a comparison of present value savings with the option value of the existing callable bonds. Candidates must provide a present value savings of at least three percent of the refunded par amount of each maturity. Candidates not meeting this benchmark, may be considered for other non-economic purposes, such as removing restrictive bond covenants or risk reduction. LADWP states over the past three fiscal years, the Department has meet or exceed the benchmark and achieved refunded savings in the range of three to 35 percent.

**Proposed Debt Issuance Costs**

LADWP estimates the total debt issuance cost is approximately \$7.59 million as detailed in the following Table Two:

**Table Two – Debt Issuance Costs**

<b>Service</b>	<b>Estimated Cost</b>
Rating Agencies	\$1,998,000
Municipal Advisor	420,000
Bond Counsel	570,000
Disclosure Counsel	300,000
Underwriter's Discount	4,250,000
Printing of Official Statement	18,000
Escrow and Other Fees	36,000
<b>Total</b>	<b>\$7,592,000</b>

**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 fixed rate bonds, \$582.3 million of variable rate bonds, and \$740.1 million in State loans. All debt service payments are payable from the Water Revenue Fund.

This Office concurs with the recommendation for a negotiated bond sale and the issuance of refunding bonds to refinance or replace existing debt with new bonds that have lower interest rates in order to reduce the total cost of debt. 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.

## **FISCAL IMPACT STATEMENT**

There is no General Fund impact. Approval of the proposed Resolution authorizes the issuance of up to \$1.7 billion in Water System Refunding Revenue Bonds to refinance or replace existing bonds with lower interest rates in order to reduce the cost of debt. The total fiscal impact is \$1.707 billion, which includes debt issuance costs over 30 years to repay the bonds. Approval will provide savings and impact the Water Revenue Fund in the future. The proposed request complies with LADWP's approved Financial Policies.

*MWS:IR:10220024*

*Attachments*