

BOARD LETTER APPROVAL

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Ann M. Santilli (Jan 22, 2025 11:40 PST)

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DATE: January 22, 2025

SUBJECT: Authorization to Execute and Deliver Certain Amendments to the Standby Bond Purchase Agreements Relating to Power System Variable Rate Demand Revenue Bonds, Water System Variable Rate Demand Revenue Bonds, and the Second Amended and Restated Revolving Credit Agreement under Resolution No. 5068

SUMMARY

Proposed Resolution No. 5068 will authorize LADWP to enter into certain amendments to the Standby Bond Purchase Agreements (SBPAs) related to Power System Variable Rate Demand Revenue Bonds, Water System Variable Rate Demand Revenue Bonds (together, the “VRDBs”), and the Second Amended and Restated Revolving Credit Agreement related to Short Term Revenue Notes (RCA).

The bank liquidity/credit facilities, in the form of SBPAs and a RCA, supporting approximately \$1.92 billion of LADWP’s VRDBs and up to a \$500 million liquidity commitment, contain certain provisions that if triggered, may incur significant costs and risks if LADWP’s credit ratings fall below a certain threshold. On January 14, 2025, S&P Global Ratings (S&P) downgraded the Water and Power Systems to “AA-” and “A”, respectively, and placed each system on CreditWatch with negative implications. Any further downgrades below “A” may trigger events of termination and default.

The proposed Resolution No. 5068 will allow LADWP to expediently negotiate and execute amendments to such agreements with the current providers as necessary, in order to lower the threshold trigger to avoid the additional costs and risk of such provisions being activated. Additional risk mitigation measures may be brought to the Board of Water and Power Commissioners (Board) in the near future.

Resolution No. 5068, if adopted, also approves as applicable the execution and delivery of such amendments and related Reoffering Supplements. Resolution No. 5068 further authorizes Designated Officers (the General Manager/Chief Executive Officer and Chief Engineer, the Chief Financial Officer, and the Assistant Auditor) to do all things necessary to implement and carry out the actions authorized by the said Resolution.

City Council approval is not required.

RECOMMENDATION

It is recommended that the Board adopt Resolution No. 5068 authorizing LADWP to execute and deliver certain amendments to the Standby Bond Purchase Agreements related to Power System Variable Rate Demand Revenue Bonds, Water System Variable Rate Demand Revenue Bonds, and the Second Amended and Restated Revolving Credit Agreement related to Short Term Revenue Notes.

ALTERNATIVES CONSIDERED

If the recommended action to amend certain SBPAs is not taken, LADWP can wait and see if another rating action occurs and triggers an “Event of Termination”, which would require a mandatory tender of all outstanding VRDBs and incur substantial costs to LADWP in the form of much higher interest expense at the “Default Rate” that may incur costs in excess of \$200 million annually, in addition to removing LADWP’s flexibility in pursuing other risk mitigation actions.

For LADWP, a short-term liquidity program, like a revolving credit agreement, provides access to liquidity relatively quickly to fund working capital, capital improvements, and unexpected liquidity needs. If the recommended action to amend the RCA is not pursued, LADWP can wait and see if another rating action occurs and triggers an “Event of Default”, losing access to the revolving credit agreement.

FINANCIAL INFORMATION

Debt Management

As of January 20, 2025, the Water System has approximately \$6.6 billion in debt outstanding, with 91 percent consisting of fixed-rate debt (comprised of 80 percent LADWP revenue bonds and 11 percent loans) and 9 percent consisting of variable or floating-rate debt obligations (approximately \$582 million).

As of January 20, 2025, the Power System has approximately \$11.5 billion in debt outstanding, with 88 percent consisting of fixed-rate debt (comprised of 86 percent LADWP revenue bonds and 2 percent short-term notes) and 12 percent consisting of variable or floating-rate debt obligations (approximately \$1.34 billion).

Variable-rate debt has provided a very cost-effective means of borrowing for LADWP’s Water and Power Systems. All-in borrowing cost for LADWP’s VRDB program (Water and Power Systems), which includes SBPA fee, remarketing fee, and the VRDB rate, for the three years ending December 31, 2024, was 2.26 percent. Over the past three years, the average fixed rate borrowing cost for LADWP is estimated to be approximately 4 percent, which is 1.74 percent greater than the cost of the VRDB

program and translates to approximately \$33.4 million per year of \$100 million for the three-year period.

As of January 20, 2025, the RCA has no outstanding indebtedness, with a current commitment available to LADWP of \$300 million with the option to increase the total commitment to \$500 million.

Over the last three years, the RCA has been an invaluable tool for LADWP for providing liquidity, with the Water System utilizing \$100 million in June 2023 for working capital.

Current Standby Bond Purchase Agreement and Revolver

SBPA	Par	Provider
Water 2001 B, B1 to B3	126,200,000	PNC Bank, National Association
Water 2001 B, B4	56,100,000	Barclays Bank PLC
Water 2019 A, A-1 to A-2	200,000,000	Barclays Bank PLC
Water 2021 A, A-1 to A-2	200,000,000	TD Bank, N.A.
Total Water SBPAs	582,300,000	
Power 2001 B, B-1 to B-8	322,800,000	Barclays Bank PLC
Power 2002 A, A-1 to A-7	218,900,000	Bank of America, N.A.
Power 2021 A, A-1 to A-3	250,000,000	Royal Bank of Canada
Power 2003 C, C-1 to C-2	350,000,000	TD Bank, N.A.
Power 2023 F, F-1 to F-2	200,185,000	JPMorgan Chase Bank, National Association
Total Power SBPAs	1,341,885,000	
Total SBPAs	1,924,185,000	
Revolving Credit	Commitment	Provider
Second Amended RCA	\$300mm/\$500mm	Wells Fargo Bank, National Association

S&P Global Ratings Downgrade of Water and Power Systems

On January 14, 2025, S&P lowered the credit ratings of the Water and Power Systems by two notches. The Water System's bond rating was lowered to "AA-" from "AA+" and placed on CreditWatch with negative implications. The Power System's bond rating was lowered to "A" from "AA-" and placed on CreditWatch with negative implications.

The Water and Power Systems have maintained a "AA" category rating range since 2002.

CreditWatch with negative implications for both systems means that S&P within the next 90 days from January 14, 2025, may lower the ratings of each system again, potentially by multiple notches.

Events of Termination and Events of Default

Under the provisions of each of the SBPAs, there is a provision for “Events of Termination Not Resulting in Immediate Termination”. Under this provision, if any rating agency were to rate parity bonds of the Water and Power Systems below “A” (or its equivalent), meaning a rating of “A-” or lower, each respective system would trigger an “Event of Termination Not Resulting in Immediate Termination”.

If such event were triggered under the SBPAs, the result would be that all of each system’s VRDBs would be tendered immediately to the SBPAs and would be subject to a “Default Rate” and LADWP must “commercially reasonable efforts to convert all of the Tendered Bonds to a Fixed Rate in accordance with the terms of the Resolution”. Under this scenario, both systems would incur an interest carrying cost at a minimum of 10.5 percent or higher, currently at 11.5 percent, resulting in approximate annual interest in excess of \$200 million for both systems. This contrasts the historical performance of the VRDB portfolio over the last three years of 2.3 percent, or approximate annual costs of \$50 million. In addition to the additional carrying cost, LADWP would be required to fix out the obligations pursuant to the terms of each respective VRDB resolution, removing any future flexibility in managing the VRDB portfolio and foregoing the benefits of pursuing additional risk and cost mitigation measures available in capital markets.

Under the provisions of the RCA, there is a provision for “Events of Default”. Under this provision, if any rating agency were to rate parity bonds of the Water and Power Systems below “A” (or its equivalent), meaning a rating of “A-” or lower, each system would trigger a respective “Event of Default”.

If such event were triggered under the RCA, the result would be that each respective system would be required to pay any amounts due immediately and the commitment to lend to each respective system would be terminated. There currently are no outstanding amounts under the RCA, but if the commitment to lend were terminated, it would severely limit LADWP’s financial flexibility in the near term.

The rating action by S&P brings the Water System within three notches of such trigger and on the Power System within one notch of such trigger, absent any additional rating change within 90 days due to both systems being placed on CreditWatch with negative implications.

Under the proposed resolution, the “Events of Termination Not Resulting in Immediate Termination” and the “Events of Default” would be amended to allow a rating of “BBB” to be the lowest notch in each respective provision, with a trigger point of “BBB-”. This would mean the Water System would be within six notches and the Power System four notches from such trigger.

Authorization

LADWP is in contact with current SBPA and the RCA providers to agree to such amendments. The proposed Resolution No. 5068 would allow the Financial Services Organization (FSO) to negotiate and execute expediently such amendments and related actions as they are agreed to, within the parameters of the resolution, which specifically require the economic terms to not be “less favorable to the Department”. This will allow LADWP to mitigate the near-term risk of such triggers affecting the Water and Power Systems. FSO aims to have all providers accept such terms, however, if that cannot be accomplished, FSO will pursue other actions to address the SBPA and potential further credit rating downgrade risk. Additionally, the proposed Resolution No. 5068 would allow for LADWP to pay for the costs associated with such amendments and Reoffering Supplements, such as rating agency fees, bond and disclosure counsel, and fees to the credit providers for such amendments.

BACKGROUND

Variable Rate Demand Revenue Bonds and Standby Bond Purchase Agreements

VRDBs are long-dated bonds with a short-term interest rate reset feature that typically resets either on a daily or weekly basis. Remarketing Agents remarket and sell the VRDBs on each interest reset date to retail and institutional investors. The SBPA will provide cash liquidity/credit support in the event of failed remarketing. It will also allow the LADWP to pay back the principal over five years instead of all at once if the VRDBs could not be remarketed. The SBPA will ensure a stable cash flow and prevent each system from violating its bond covenants in the event that the VRDBs are tendered for payment and could not be remarketed. The SBPAs provide an important liquidity backstop for LADWP to manage its \$1.92 billion outstanding variable-rate debt portfolio.

On February 6, 2001, the Board adopted Resolution No. 4593, authorizing the issuance of the Water System Variable Rate Demand Revenue Bonds, 2001 Series B (Water 2001B VRDBs) for the purpose of providing funds to refund other Water System Bonds. The Water 2001B VRDBs use SBPAs as its form of credit support instrument to provide funds to pay the purchase price of bonds tendered for purchase and could not be remarketed. The Water 2001B VRDBs consist of Subseries B-1 to B-4. Subseries B-1 to B-3 are supported by a SPBA provided by PNC Bank, National Association and will expire on January 9, 2029. Subseries B-4 is supported by a SBPA provided by Barclays Bank PLC and will expire on January 23, 2026.

On June 18, 2019, the Board adopted Resolution No. 4959, authorizing the issuance of the Water System Variable Rate Demand Revenue Bonds, 2019 Series A (Water 2019A VRDBs) to partially fund the budgeted capital improvements to the Water System. The Water 2019A VRDBs use SBPAs as its form of credit support instrument in order to provide funds to pay the purchase price of bonds tendered for purchase and could not be remarketed. The Water 2019A VRDBs consist of Subseries A-1 and A-2.

Subseries A-1 and A-2 are supported by SBPAs provided by Barclays Bank PLC and will expire on January 23, 2026.

On November 17, 2020, the Board adopted Resolution No. 4984, authorizing the issuance of the Water System Variable Rate Demand Revenue Bonds, 2021 Series A (Water 2021A VRDBs) to partially fund the budgeted capital improvements to the Water System. The Water 2021A VRDBs use SBPAs as its form of credit support instrument to provide funds to pay the purchase price of bonds tendered for purchase and could not be remarketed. The Water 2021A VRDBs consist of Subseries A-1 and A-2. Subseries A-1 and A-2 are supported by a SBPA provided by TD Bank, N.A. and will expire on January 22, 2027.

On April 3, 2001, the Board adopted Resolution No. 4602, authorizing the issuance of the Power System Variable Rate Demand Revenue Bonds, 2001 Series B (Power 2001B VRDBs), for the purpose of providing funds to refund other Power System Bonds. The Power 2001B VRDBs use SBPAs as its form of credit support instrument in order to provide funds to pay the purchase price of bonds tendered for purchase and could not be remarketed. The Power 2001B VRDBs consist of Subseries B-1 to B-8. Subseries B-1 to B-8 are supported by a SBPA provided by Barclays Bank PLC and will expire on January 21, 2027.

On July 16, 2002, the Board adopted Resolution No. 4703 authorizing the issuance of the Power System Variable Rate Demand Revenue Bonds, 2002 Series A (Power 2002A VRDBs) for the purpose of providing funds to refund other Power System Bonds. The Power 2002A VRDBs use SBPAs as its form of credit support instrument in order to provide funds to pay the purchase price of bonds tendered for purchase and could not be remarketed. The Power 2002A VRDBs consist of Subseries A-1 to A-7. Subseries A-1 to A-7 are supported by a SBPA provided by Bank of America, N.A. and will expire on November 26, 2027.

On November 17, 2020, the Board adopted Resolution No. 4986, authorizing the issuance of the Power System Variable Rate Demand Revenue Bonds, 2021 Series A (Power 2021A VRDBs) to partially fund the budgeted capital improvements to the Power System. The Power 2021A VRDBs use a standby bond purchase agreement as its form of required credit support instrument. The Power 2021A VRDBs consist of Subseries A-1 to A-3. Subseries A-1 to A-3 are supported by a SBPA provided by Royal Bank of Canada and will expire on July 23, 2026.

On May 23, 2023, the Board adopted Resolution No. 5032, authorizing the issuance of the Power System Variable Rate Demand Revenue Bonds, 2023 Series C (Power 2023C VRDBs) to partially fund the budgeted capital improvements to the Power System. The Power 2023C VRDBs use a standby bond purchase agreement as its form of required credit support instrument. The Power 2023C VRDBs consist of Subseries C-1 and C-2. Subseries C-1 and C-2 are supported by a SBPA provided by TD Bank, N.A. and will expire on June 27, 2028.

On November 14, 2023, the Board adopted Resolution No. 5043, authorizing the issuance of the Power System Variable Rate Demand Revenue Bonds, 2023 Series F (Power 2023F VRDBs) to refinance the Power System 2014 Series A, Direct Placement. The Power 2023F VRDBs use a standby bond purchase agreement as its form of required credit support instrument. The Power 2023F VRDBs consist of Subseries F-1 and F-2. Subseries F-1 and F-2 are supported by SBPAs provided by JPMorgan Chase Bank, National Association and will expire on June 28, 2027.

Short-Liquidity Program – Revolving Credit Agreement

The establishment of an ongoing short-term liquidity program, such as a revolving line of credit, is an important risk management tool and is key to ensuring that ample liquidity is available to meet its growing need for working capital, capital investments, and unexpected liquidity needs while maintaining the financial metrics established by the Board. LADWP's financial planning reflects multiple sources of cash including revenues from customers, state loans and grants, and proceeds from bond sales going forward. In recent years, various conservation efforts, abnormal weather conditions adversely affecting sales, delayed grants and subsidies, combined with delayed revenue collections and unexpected events, have highlighted the need for a flexible source of liquidity. In the event that cash receipts are delayed, access to the capital markets becomes constrained, and/or if other planned sources of funds do not materialize in a timely manner, immediate access to funds is necessary in order to fill the revenue gap or fulfill an obligation on a short-term basis. For a liquidity program to provide these benefits, it is important that the funds can be accessed relatively quickly.

Upon each draw, a staff report will be submitted to the Board immediately providing information about the purpose of the draw, its amount and related costs, availability of budgeted funds for repayment of borrowed funds and interest and the anticipated timing of payment. Although not a bank requirement, LADWP intends to repay in full all draws from the RCA within 12 months from the draw date. Drawn down funds will be deposited directly into an account with the City Treasurer. Depending on its use, the City Treasurer will credit these funds into the Water and/or Power System Revenue and/or Construction Funds. To use these funds, the standard documentation will need to be in place (approved contract/vendor invoice/support that items or services were received) before any payment could be made.

On October 20, 2015, the Board adopted Resolution No. 4900, and subsequently approved by the City Council, which authorized the establishment and maintenance of a revolving line of credit of up to a combined maximum amount of \$500 million for both the Water and Power Systems. The maximum term for which any Note is to run shall be five years from the date of issuance of such Note. On May 9, 2023, the Board adopted Resolution No. 5029 which authorized the execution of a Second Amended and Restated Revolving Credit Agreement and related Second Amended and Restated Fee and Interest Rate Agreement with Wells Fargo Bank, National Association for a line of credit up to \$500 million and with a expiration date of May 22, 2026.

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 proposed amendments are not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved as to form and legality the attached Resolution No. 5068.

ATTACHMENTS

- Resolution