

BOARD LETTER APPROVAL

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Ann M. Santilli (Sep 26, 2024 13:40 PDT)

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DATE: September 30, 2024

SUBJECT: Authorization to Issue up to \$507.91 Million of Power System Revenue Bonds Under Resolution Nos. 5062 and 5063

SUMMARY

Proposed Resolution Nos. 5062 and 5063 will authorize the issuance of up to \$507.91 million of fixed-rate, tax-exempt Power System Revenue Bonds, 2024 Series E (Power 2024E Bonds) consisting of: new money to partially fund the Capital Improvements to the Power System and to refinance certain outstanding Power System Revenue Bonds, 2012 Series A (Power 2012A Bonds), 2014 Series B (Power 2014B Bonds), and 2015 Series A (Power 2015A Bonds) (together, the “Refunded Bonds”), and to pay the related costs of the debt issuance.

The debt service on the new money portion of the Power 2024E Bonds will be payable out of the Power Revenue Fund and will be covered by the currently approved rate level. The refunding portion of the Power 2024E Bonds will replace higher interest debt with lower debt service, which is estimated to provide aggregate debt service savings of approximately \$78.21 million over a period of 12 years (\$6.52 million annually) or approximately \$64.85 million in net present value terms to the Power System.

Resolution No. 5062 is a supplemental resolution to Resolution Nos. 5035, 4996, and 5056. Resolution No. 5035 is the Initial Authorization to Issue up to \$2.12 billion of Power System Revenue Bonds (new money), which was adopted by the Board of Water and Power Commissioners (Board) on September 26, 2023, and subsequently approved by the City Council. Resolution No. 4996 is the Initial Refunding Authorization to Issue up to \$2.20 billion of Power System Refunding Bonds, which was adopted by the Board on November 16, 2021, and subsequently approved by the City Council. Resolution No. 5056 is the Initial Refunding Authorization to Issue up to \$3.10 billion of Power System Refunding Bonds, which was adopted by the Board on September 24, 2024, and is currently pending approval by the City Council.

Resolution No. 5063, if adopted, approves certain actions in connection with the issuance of the Power 2024E Bonds.

City Council approval is not required.

RECOMMENDATION

It is recommended that the Board adopt Resolution Nos. 5062 and 5063 authorizing the issuance of up to a combined total of \$507.91 million of Power 2024E Bonds.

ALTERNATIVES CONSIDERED

For the new money portion, 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 a minimum of \$85 million by issuing Power 2024E Bonds (new money) pursuant to Section 609 of the Charter to finance a portion of the Power System's capital improvements.

For the approximately \$423 million refunding portion of the Power 2024E Bonds, LADWP can either continue to pay higher debt service and forego the opportunity of debt service savings of approximately \$78.21 million over a period of 12 years (\$6.52 million annually or approximately \$64.85 million in net present value terms) or wait for interest rates to potentially fall from current levels.

FINANCIAL INFORMATION

New Money Power 2024E Bonds

For the new money portion, as a fixed-rate issue, the total estimated debt service cost for the minimum of \$85 million new money, including principal and interest, is approximately \$176.77 million over 30 years based on interest rates for tax-exempt bonds as of September 21, 2024.

Refunding of the Refunded Bonds

As of September 21, 2024, the total estimated debt service cost of the refunding portion of the Power 2024E Bonds for the Refunded Bonds, including principal and interest, is estimated at \$495.13 million. This compares to the total currently outstanding principal and interest costs of \$573.34 million. This refunding is expected to provide

approximately \$78.21 million in debt service savings over a period of 12 years (\$6.52 million annually), which is approximately \$64.85 million on a net present value basis, as shown in the table below.

	Refunded Bonds⁽¹⁾ (\$ in million)	Power 2024E Refunding Portion⁽¹⁾ (\$ in million)
Principal	\$415.94	\$355.32
Interest	157.40	139.81
Total Cash Flows	573.34	495.13
Cash Flow Savings	n/a	78.21
Present Value Savings (\$)	n/a	64.85
Present Value Savings (%)	n/a	15.59%

⁽¹⁾ subject to change based on market conditions at time of pricing

The amount of the savings depends on market conditions and may vary up or down depending on interest rates as of the date of pricing tentatively slated in November 2024.

LADWP's Debt Management Policy for refunding stipulates a threshold of three percent net present value savings prior to the scheduled call date before a refunding transaction can be pursued. At this time, this refinancing is expected to produce present value savings of approximately \$64.85 million or 15.59 percent of the refunded par amount.

Power 2024E Bonds Debt Issuance Costs

Total debt issuance costs for the Power 2024E Bonds are estimated at \$1.60 million, equivalent to 0.36 percent of the \$438.18 million estimated par bond issue, which includes underwriters' discount, bond counsel, disclosure counsel, escrow, municipal advisor, and rating agencies fees.

CA Senate Bill 450

California Senate Bill 450, signed into law by Governor Brown on October 9, 2017, requires local issuers to obtain and disclose, prior to authorization of the bond issuance with a term greater than 13 months, good faith estimates of the following information as it relates to the Power 2024E Bonds:

1. True interest cost ^(a) 3.10%
2. Cost of Issuance ^(b) \$1,597,942
3. Bond proceeds ^(c) \$509,461,645
4. Total payment amount ^(d) \$672,403,889

^(a) the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received.

^(b) the sum of all fees and charges paid to third parties.

^(c) bond proceeds net of fees and charges paid to third parties.

^(d) the sum total of all debt service payments plus fees and charges paid to third parties not paid with bond proceeds.

BACKGROUND

Overview of Bond Funding Need

The Power System's current budget shows a need to borrow approximately \$1.12 billion for Fiscal Year 2024-25. The minimum new money portion of \$85 million will partially fund this need and allow for maximum flexibility in future new money borrowings.

The net proceeds from the Power 2024E Bonds (new money) will be deposited into the Construction Fund of the Power System and will be drawn down to fund a portion of its capital improvements program.

Refunded Bonds

Certain Power 2012A Bonds and Power 2014B Bonds are not currently candidates for refunding, but they are continuously callable and if economic conditions allow at the time of pricing, these bonds will be refunded. The Power 2015A Bonds are callable on January 1, 2025 and a refunding is expected to produce debt service savings of approximately \$78.21 million or \$64.85 million in present value savings.

The proceeds of the refunding portion of Power 2024E Bonds will be deposited into an Escrow Account to fund the debt service of the Refunded Bonds.

Initial Authorization and Initial Refunding Authorization

The Board adopted Resolution No. 5035, the Initial Authorization which authorizes the issuance of up to \$2.12 billion of Power System Revenue Bonds (new money) for FYs 2023-24 and 2024-25, on September 26, 2023 and subsequently approved by the City Council.

The Board adopted Resolution Nos. 4996 and 5056, the Initial Refunding Authorizations which authorize the issuance of a maximum of \$2.20 billion and \$3.10 billion, for a total of \$5.30 billion of Power System Refunding Revenue Bonds, on November 16, 2021 and September 24, 2024, respectively. Resolution No. 4996 was subsequently approved by the City Council and Resolution No. 5056 is currently pending approval by the City Council. It is anticipated that the City Council will approve Resolution No. 5056 before the planned pricing date in November 2024. Of the maximum issuance amount of \$5.30 billion, \$1.93 billion has been used to refund certain Power System Revenue Bonds, leaving a balance of \$3.37 billion. At this time, the Financial Services Organization (FSO) is recommending the use of up to \$423.06 million of the refunding authorization balance of \$3.37 billion to refinance the Refunded Bonds.

The Initial Refunding Authorization provides FSO with the flexibility to execute several and multiple refunding transactions for the Power System whenever it determines such to be necessary and/or market conditions become favorable for refinancing. When

issued, the Power 2024E Bonds will be payable from the Power Revenue Fund and will be issued under the Power System Master Bond Resolution.

Transaction Approval and Details

Resolution No. 5062, the Sixty-Fourth Supplemental Bond Resolution to the Power System Master Bond Resolution, if adopted, authorizes LADWP to issue up to \$507.91 million of fixed-rate, tax-exempt Power 2024E Bonds, outlines the terms and conditions for the Power 2024E Bonds and authorizes the payment of the related costs of issuance.

Resolution No. 5062 is a supplemental resolution to the Initial Authorization to issue up to \$2.12 billion of Power System Revenue Bonds (new money) for FYs 2023-24 and 2024-25 under Resolution No. 5035, which was adopted by the Board on September 26, 2023, and subsequently approved by the City Council.

Resolution No. 5062 is also a supplemental resolution to the Initial Refunding Authorization to issue up to \$2.20 billion of Power System Refunding Revenue Bonds under Resolution No. 4996 adopted by the Board on November 16, 2021, and subsequently approved by the City Council.

Resolution No. 5062 is also a supplemental resolution to the Initial Refunding Authorization to issue up to \$3.10 billion of Power System Refunding Revenue Bonds under Resolution No. 5056 adopted by the Board on September 24, 2024, and is currently pending approval by the City Council.

Resolution No. 5063, if adopted, approves certain actions and agreements in connection with the issuance of the Power 2024E Bonds, including the sale of the Power 2024E Bonds pursuant to the Contract of Purchase with the underwriters named therein which were selected from LADWP's investment banking team, the form of the Escrow Agreement relating to the period from the time of the issuance of the Power 2024E Bonds to the redemption date of the Refunded Bonds whereby U.S. Bank Trust Company, National Association may perform certain actions as Escrow Agent, and the form of the Preliminary Official Statement to be used in connection with the sale of the Power 2024E Bonds.

Wells Fargo Bank, National Association (Local Business Enterprise) has been selected as senior book-running manager and Samuel A. Ramirez & Co., Inc. (Minority Business Enterprise), as co-senior manager for the Power 2024E Bonds transaction. Academy Securities, Inc. (Minority Business Enterprise and Disabled Veteran Business Enterprise), Backstrom McCarley Berry & Co., LLC (Minority Business Enterprise), J.P. Morgan Securities LLC, Jefferies LLC (Local Business Enterprise), and Loop Capital Markets LLC (Minority Business Enterprise), as co-managers, will provide support to the senior managers for the Power 2024E Bonds transaction.

Senior and co-managers for bond transactions are selected from the current underwriting pool based on Request for Proposal (RFP) for investment banking services, past underwriting performance, continual coverage provided to LADWP, retail and institutional bond distribution capabilities, as well as bank credit extended to LADWP. The current underwriting pool was established through a RFP process and approved by the Board on July 20, 2021.

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 up to \$507.91 million of Power System Revenue Bonds is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved as to form and legality the attached Resolution Nos. 5062 and 5063, the Contract of Purchase, and the Escrow Agreement under the Power 2024E Bonds.

ATTACHMENTS

- Resolutions
- Contract of Purchase
- Escrow Agreement
- Preliminary Official Statement