

---

**PUBLIC RESOURCES ADVISORY GROUP**

June 17, 2024

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

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. Our understanding is that LADWP is currently seeking authorization to issue up to \$1.8 billion of refunding bonds for the Water System.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants over the 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 impact the decision of 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 large amount (\$2.424 billion) of credit support for its variable rate debt and revolving line of credit;
  - By transacting negotiated underwriting business, LADWP receives very aggressive credit support fee offers 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 options, specified par amounts, non-traditional couponing and similar bond features);
- Refunding bonds issued on a negotiated basis provide LADWP 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;

June 17, 2024  
Ms. Ann Santilli

- Refunding outstanding debt frequently simultaneously 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;
- A negotiated 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;
- Volatile market conditions, including last year's demise of Silvergate, Signature, Silicon Valley, First Republic and Credit Suisse banks, resulting in rapid shifts in interest rates, changing supply and demand relationships for municipal bonds, political and geopolitical events causing instability in the fixed income markets, the Federal Reserve Bank increasing interest rates, inflation, and the narrowing and widening credit spreads;
- The closure of the municipal bond departments by UBS and Citi, two major dealers, reduces the number of bidders on competitive sales; and
- Negotiated bond sales provide increased flexibility in timing and structuring, including reducing maturities with limited investor demand and conversely adding to maturities with excess investor demand, which allows LADWP to navigate through challenging markets which is especially helpful in managing a growing Water System debt portfolio.

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 contact 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  
esoong@pragadvisors.com