

BOARD LETTER APPROVAL

Ann M. Santilli

Ann M. Santilli (Dec 21, 2023 17:39 PST)

ANN M. SANTILLI
Chief Financial Officer



MARTIN L. ADAMS
General Manager and Chief Engineer

DATE: December 21, 2023

SUBJECT: Reassignment of Remarketing Agents for Power System Variable Rate Demand Revenue Bonds, 2001 Series B, Subseries B-6 and Power System Variable Rate Demand Revenue Bonds, 2002 Series A, Subseries A-3 and Subseries A-7 Under Resolution No. 5048

SUMMARY

Proposed Resolution No. 5048 will authorize LADWP to reassign the existing remarketing agents for the \$45.2 million Power System Variable Rate Demand Revenue Bonds, 2001 Series B, Subseries B-6 (Power 2001B VRDBs) from UBS Financial Services Inc. (UBS) to RBC Capital Markets, LLC (RBC) and the \$67.9 million of Power System Variable Rate Demand Revenue Bonds, 2002 Series A, Subseries A-3 and Subseries A-7 (Power 2002A VRDBs), from Citigroup Global Markets Inc. (Citi) to TD Securities (USA) LLC (TD). The terms and conditions of the new remarketing agreements are substantially the same as the other current remarketing agreements. Additionally, remarketing fees will be reduced by 0.5 basis points on the Power 2001B VRDBs, so no additional costs are incurred from this reassignment. The reassignments are due to the going concern of UBS and Citi being able to provide remarketing services in the near future.

Resolution No. 5048, if adopted, also approves the form of the Reoffering Memorandum Supplements for the Power 2001B VRDBs and Power 2002A VRDBs, to be provided to the remarketing agents. Resolution No. 5048 further authorizes Designated Officers (the General Manager, 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.5048 authorizing the reassignment of remarketing agents and the execution of the Remarketing Agreements with RBC and TD.

ALTERNATIVES CONSIDERED

Reassignment of Remarketing Agents

An integral part of any Variable Rate Demand Revenue Bond (VRDB) program is the periodic remarketing of the variable rate bonds. Remarketing agents are hired to initially sell and then continuously remarket the VRDBs on each interest reset date (weekly or daily) to retail and institutional investors.

The proposed reassignment is needed to proactively address the going concern and risks related to UBS and Citi being able to provide remarketing services in the near future. UBS recently announced a reduction of municipal investment banking services and Citi announced a complete cessation of all municipal investment banking services, including remarketing. The proposed reassignment intends to eliminate the risks involved in continuing remarketing agreements with UBS and Citi at the time of terminating their remarketing services. In addition, the reassignment of remarketing services is intended to realign current remarketing assignments with banks that provide competitively-priced liquidity facilities for LADWP's VRDB Program. The realignment of remarketing assignments demonstrates to potential credit provider banks that LADWP recognizes firms that provide credit facility support of its VRDB Program. By doing so, LADWP encourages potential credit providers to provide competitive fees in LADWP's future solicitations of bank credit facilities. This approach, combined with leveraging LADWP's banking relationships, has afforded LADWP's VRDB Program to pay the most competitive, if not the lowest, credit facility fees in the entire nation.

Alternatively, LADWP could continue to keep the current remarketing agents for the Power 2001B VRDBs and Power 2002A VRDBs until their remarketing services end. At that time, LADWP would be forced to quickly reassign new remarketing agents or the VRDBs could be "put" on to the Standby Bond Purchase Agreements (SBPAs) supporting the VRDBs. SBPA provisions typically include a Bank Rate that is higher than interest rate resets and could trigger a term loan provision, allowing for LADWP to pay back the "put" over five years instead of all at once, requiring retroactive action related to remarketing assignments or refinancing the "put" VRDBs. In the event that this alternative was taken, the difference in the cost of remarketing with reassigned remarketing agents and the SBPA stepping in for "put" VRDBs, is approximately eight percent. The history of LADWP not requiring SBPAs to provide liquidity is a credit strength and contributes to LADWP's strong credit ratings and competitive credit facility fees.

FINANCIAL INFORMATION

Remarketing Fee

The remarketing reassignment of the \$45.2 million Power 2001B VRDBs from UBS to RBC, will not cause any increase in cost as there is a reduction of 0.5 basis points in the remarketing fees, from 7.5 basis points to 7.0 basis points. The remarketing assignment of the \$67.9 million of Power 2002A VRDBs from Citi to TD will not cause an increase in cost as the remarketing fees are the same as the current agreement at 7.0 basis points. Additionally, substantially the same terms and conditions of current remarketing agreements will apply to the proposed Remarketing Agreements with RBC and TD.

BACKGROUND

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. SBPAs provide cash liquidity/credit support in the event of failed remarketing. SBPAs also allow LADWP to repay tendered bonds over five years instead of all at once if remarketing fails. SBPAs ensure a stable cash flow and prevent LADWP from violating its bond covenants in the event that the VRDBs are tendered for payment and cannot be remarketed. As of December 28, 2023, LADWP's VRDB Program supported by SPBAs will be \$1.92 billion.

SBPAs utilize a Liquidity Advance to step in for tendered bonds. The interest payable on a Liquidity Advance is determined by the Bank Rate, as defined in each respective SBPA. Currently, the Bank Rate for the Power 2001B VRDBs and Power 2002A VRDBs, would be 10.5 percent and 11.5 percent, respectively. For the 12 months ending November 2023, the Power 2001B VRDBs and Power 2002A VRDBs had average interest rate resets of 2.14 percent and 2.11 percent, respectively.

In October 2023, UBS announced that it was closing certain municipal investment banking services, primarily negotiated underwriting. Following the announcement, many key bankers were laid off and UBS communicated a repositioning of resources where there is "increasing client and advisor demand." In December 2023, UBS provided official notice to clients that they were resigning from all negotiated underwriting pools, including the investment banking pool serving LADWP. In 2008, UBS previously exited all municipal investment banking services as a result of the financial crisis. UBS has now resigned from LADWP's investment banking pool and only serves as remarketing agent for the Power 2001B VRDBs. LADWP's proposed reassignment of UBS's current remarketing assignment is to proactively manage the risks related to UBS continuing to restructure and potentially cease remarketing in the near future.

In December 2023, Citi announced that it was ceasing all municipal investment banking services, including remarketing. The winding down of all municipal investment banking

services is expected to be completed by the end of the first quarter of 2024. Citi has advised LADWP that it will stop service as remarketing agent by February 1, 2024. Citi currently serves in LADWP's underwriting pool and will inevitably resign, and only serves as remarketing agent for the Power 2002A VRDBs. LADWP's proposed reassignment of Citi's current remarketing assignment is to timely address the risks and complications related to the Power 2002A VRDBs not having a remarketing agent before the ending of operations by February 1, 2024.

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 for the purpose of providing funds to refund other Power System Bonds. The bonds 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. Originally, the bonds consisted of Subseries B-1 to B-8; Subseries B-4 has been redeemed so that only Subseries B-1 to B-3 and Subseries B-5 to B-8 remain outstanding in the amount of \$322.8 million and are currently supported by a SBPA from Barclays Bank PLC.

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 for the purpose of providing funds to refund other Power System Bonds. The bonds 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 bonds consist of Subseries A-1 to A-7 and are currently outstanding in the amount of \$218.9 million and are currently supported by a SBPA from Bank of America, N.A.

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 Remarketing Agreements 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. 5048 and the Remarketing Agreements.

ATTACHMENTS

- Resolution
- Remarketing Agreements
- Reoffering Memorandum Supplements