

0220-06224-0000

TRANSMITTAL

TO Janisse Quinones, General Manager Los Angeles Department of Water and Power	DATE 8/30/2024	COUNCIL FILE
FROM The Mayor	COUNCIL DISTRICT ALL	

LOS ANGELES DEPARTMENT OF WATER AND POWER PROPOSED INITIAL
RESOLUTION 5057 AND REQUEST TO AUTHORIZE THE ISSUANCE OF UP TO \$1.8
BILLION IN TAX-EXEMPT WATER SYSTEM REFUNDING REVENUE BONDS

Transmitted for further processing and Council consideration.
See the City Administrative Officer report attached.



MAYOR
(Carolyn Webb de Macias for)

Attachment
MWS:PJH:JVW/JCY:IR:10250010t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER


Date: August 2, 2024

CAO File No. 0220-06224-0000

Council File No.

Council District: ALL

To: The Mayor

From:  Matthew W. Szabo, City Administrative Officer

Reference: Correspondence from the Department of Water and Power dated June 24, 2024; referred by the Mayor for a report on June 28, 2024

Subject: **LOS ANGELES DEPARTMENT OF WATER AND POWER INITIAL AUTHORIZING RESOLUTION NO. 5057 AND REQUEST FOR APPROVAL TO ISSUE UP TO \$1.8 BILLION IN TAX-EXEMPT WATER SYSTEM REFUNDING REVENUE BONDS**

RECOMMENDATIONS

That the Mayor:

1. Approve the Initial Authorizing Resolution No. 5057 for the Los Angeles Department of Water and Power to issue up to \$1.8 billion of tax-exempt 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 LADWP for further processing, including Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP) June 24, 2024 report requests authority to issue up to a maximum of \$1.8 billion of tax-exempt Water System Refunding Revenue Bonds to refinance or replace existing bonds with lower interest rates to reduce the overall cost of the debt. In accordance with Charter Section 609, City Council approval and Mayoral concurrence are required following approval of the proposed Resolution 5057 by the Board of Water and Power Commissioners (Board) of the Initial Authorizing Resolution setting forth the purpose for future indebtedness and establishing the parameters of the issuance. The indebtedness and the maximum limits for this issuance are as follows:

- The maximum principal is \$1.8 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 \$1.8 billion in refunding or replacement of revenue bonds, the total estimated cost is up to \$1.81 billion, including debt issuance costs over 30 years of \$8.13 million. The Initial Authorizing proposed Resolution allows a maximum permissible interest rate that could be incurred through the issuance of the bonds of 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.

The Initial Authorizing 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.

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. Pursuant to LACC Section 11.28.5, the Supplemental Resolution or other action of the Board approving the related financing documents (if the financing documents were not included in the Initial Resolution) shall be subject to Council oversight pursuant to the provisions of Charter Section 245. In alignment with Charter Section 245, LADWP's standard practice when after presenting the Supplemental Resolution to the Board, is to wait for the next five meeting days during which the Council has convened in regular session before the Board's action is considered final, unless the Council acts within that time by two-thirds vote to bring the action before it or to waive review of the action.

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," "disabled veteran" or "local" 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 rate bonds and or rollover certain fixed rate notes or other short term debt, including draws made from the Revolving Line of Credit in order to reduce the total cost of debt. The \$1.8 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:

- (i) Up to \$1.2 billion of outstanding Water System revenue bonds;
- (ii) Up to \$582.3 million of variable rate bonds with short-term interest rates that reset daily or weekly.

Essentially, approval of this request will provide LADWP the necessary authority to execute multiple refunding transactions (up to \$1.8 billion) in the future to maximize savings as opportunities become 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 institutional 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 - LADWP Selected Underwriting Team

Senior Managers	Co-Managers
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

*Municipal Bond Department no longer in business.

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's Water System has met or exceeded the benchmark and achieved refunded savings in the average of fifteen percent.

Proposed Debt Issuance Costs and Indebtedness

LADWP estimates the total debt issuance cost is approximately \$8.13 million as detailed in Table Two below:

Table Two – Estimated Debt Issuance Cost

Service	Estimated Cost
Rating Agencies	\$2,367,000
Municipal Advisor	466,000
Bond Counsel	610,000
Disclosure Counsel	321,000
Underwriter's Discount	4,304,000
Printing of Official Statement	19,000
Escrow and Other Fees	39,000
Total	\$8,126,000

As of July 15, 2024, the Water System reported approximately \$6.65 billion in long-term debt obligations. Long-term debt obligations consist of approximately \$582.3 million of variable rate debt and \$6.07 billion of fixed rate revenue bonds. 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 from approval of the recommendations in this report. Approval of the proposed Resolution 5057 authorizes the issuance of up to \$1.8 billion in tax-exempt 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 \$1.81 billion, which includes debt issuance costs of \$8.13 million over 30 years to repay the bonds. This action will provide savings and impact the Water Revenue Fund in the future. The proposed request complies with LADWP's approved Financial Policies.

Attachments – June 24, 2024 Correspondence from LADWP, Proposed Resolution 5057, Chief Financial Officer Report and PRAG Report

MWS:PJH/JVW:JCY/IR:10250010

June 24, 2024

The Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall
Mail Stop 370

Attention: Ms. Heleen Ramirez, Legislative Coordinator

Dear Mayor Bass:

Subject: Initial Authorization to Issue up to \$1.8 Billion of Water System Refunding Revenue Bonds Under Resolution No. 5057

In accordance with Executive Directive No. 4, enclosed is a copy of a Board letter and supporting documents recommending approval and transmittal to the Los Angeles City Council authorizing issuance of up to \$1.8 billion of Water System Refunding Revenue Bonds to refinance or replace existing Water System Revenue Bonds mostly set with higher interest rates with lower rates thereby lowering the cost of debt for the Los Angeles Department of Water and Power.

It is respectfully requested that your office complete its review as soon as possible. Once the required City Administrative Officer report has been received, the matter will be scheduled for action by the Los Angeles Board of Water and Power Commissioners and forwarded to the Los Angeles City Council for final consideration.

Please contact Mr. Paul Habib, Director of Legislative and Intergovernmental Affairs, at (213) 367-3846 upon completion of the review, if the review will take longer than 30 days, or if there are any questions regarding this item.

Sincerely,



Janisse Quiñones
Chief Executive Officer and Chief Engineer

JE:cw

Enclosure

c/enc: Mr. Luis Gutierrez, Office of the Mayor
Dr. Frederick H. Pickel, Office of Public Accountability
Board of Water and Power Commissioners
Mr. Paul Habib



Los Angeles
Department of
Water & Power

RESOLUTION NO. 5057

BOARD LETTER APPROVAL


ANN M. SANTILLI
Chief Financial Officer


JANISSE QUIÑONES
Chief Executive Officer and Chief Engineer

DATE: June 20, 2024

SUBJECT: Initial Authorizing Resolution to Issue up to \$1.8 Billion in Water System Refunding Revenue Bonds Under Resolution No. 5057

SUMMARY

Proposed Resolution No. 5057 seeks authorization to issue up to a maximum of \$1.8 billion of tax-exempt Water System Refunding Revenue Bonds (Refunding Bonds) payable from the Water Revenue Fund. The Refunding Bonds will be used primarily to refinance or replace existing Water System Revenue Bonds that have higher interest rates with new bonds that have lower rates thereby lowering the LADWP carrying cost of debt.

Resolution No. 5057 is an initial authorizing resolution. Mayoral and City Council approvals are required pursuant to Section 609 of the Charter of the City of Los Angeles (Charter). A supplemental resolution, to be introduced at subsequent Board of Water and Power Commissioners' (Board) meetings, will provide additional details about specific proposed refunding issuances. The \$1.8 billion authorization will provide sufficient authority for particular transactions contemplated to take place in the current fiscal year, as well as capacity for future refinancing transactions.

RECOMMENDATION

It is recommended that the Board adopt Resolution No. 5057 authorizing the issuance of up to \$1.8 billion of tax-exempt Water System Refunding Bonds per Charter Section 609.

ALTERNATIVES CONSIDERED

The LADWP could forego any refinancing opportunity to save millions of dollars on debt service costs and continue to pay the stated debt service on certain higher coupon Water System debt. LADWP also has the choice as to when to execute the refunding transactions, and could wait for interest rates to potentially fall further from current levels.

FINANCIAL INFORMATION

The debt issuance costs are estimated at \$8.13 million representing 0.47 percent of the total Refunding Bond issue of \$1.8 billion which include underwriter's discount, bond counsel, disclosure counsel, municipal advisor, escrow fees, verification agent, and rating agencies fees. As noted above, the \$1.8 billion authority may be utilized to refund certain debt in the current and future fiscal years.

BACKGROUND

Refunding or refinancing of debt primarily involves replacing outstanding bonds with refunding bonds that pay a lower rate of interest than the refunded bonds. The proceeds from the sale or issuance of the refunding bonds are used to pay off the refunded bonds. The savings realized from a refunding are derived mainly from the reduction in interest costs. The lower interest costs will help keep water rates lower, improve the Water System's financial coverage ratios and enhance its borrowing capacity.

In each bond transaction, two sets of Board Resolutions are required. The initial authorizing resolution, which at a minimum, must specify the purpose of the proposed revenue bonds to be issued, the maximum limit as to principal amount, term, and interest costs, requires approval by the Mayor and the City Council pursuant to Section 609 of the Charter. The Supplemental Resolutions approve the principal financing documents, amendments to the Master Bond Resolution, and more specific information about the transaction including, term, costs, and the sale of the bonds pursuant to the Contract of Purchase with the underwriting team for the related revenue bonds. The Supplemental Resolutions are generally presented to the Board after the Initial Authorizing Resolution is approved and when the opportunity or necessity to issue the refunding bonds arises.

Resolution No. 5057 is an initial authorizing resolution of the Board, for the purpose of refunding or refinancing higher interest rate bonds with lower interest rate bonds and/or rollover certain fixed rate notes or other short-term debt, including obligations that resulted from draws made from the Revolving Line of Credit. It sets forth the maximum limit as to principal, interest costs, and term for future indebtedness. Resolution No. 5057 also provides for the private sale of each series of the Bonds to one or more of the firms included in LADWP's investment banking team members (Banking Team) approved by the Board in July 2021 pursuant to Procedural Ordinance. At future Board meetings, when a determination has been made that a refunding or refinancing would be beneficial to the Water System, the Financial Services Organization (FSO) will present the supplemental resolutions that will authorize the specific terms and conditions for the Refunding Bonds, including the underwriting firms that will be selected from among the Banking Team and the principal financing documents related to the Refunding Bonds.

With the adoption of this resolution, LADWP will have the flexibility to maximize the opportunities for savings that are available in the current unstable and volatile market.

The FSO, along with its municipal advisors and Banking Team, is constantly monitoring the market and looking for ways to reduce the Water System's borrowing costs. Recently, various financial institutions proposed unique ideas for responsibly restructuring some of the Water System's debt through refundings. In accordance with the Board-approved Debt Management Policy, FSO's goal is to achieve a minimum of three percent present value savings of the refunded par amount for its current refundings. A current refunding is a refunding transaction that is executed within 90 days before the call date of the refunded bonds.

Resolution No. 5057 is a standing authorization by the Board and would provide the FSO with the flexibility to execute multiple refunding transactions (up to \$1.8 billion) in the future that will produce economic savings for the Water System when relative interest rate levels decline. LADWP may also refund bonds for other reasons, as outlined in the Debt Management Policy, such as removing restrictive bond covenants, reducing risk, debt restructuring, or to free up cash on a short-term basis by restructuring future principal payments.

At this time, approximately \$1.2 billion of Water System revenue bonds outstanding are potential refinancing candidates over the next two years. The Water System also has approximately \$582.3 million in variable-rate debt bonds outstanding which are long dated bonds with short-term interest rates that reset daily or weekly. Current holders of variable-rate bonds can choose to not continue to hold such debt at the next reset date. In the event that the investors no longer want to hold such debt, the most expeditious alternative is for LADWP to refinance them with long-term fixed-rate debt. In anticipation of these refinancing opportunities, a \$1.8 billion refunding authorization is being requested.

Both the LADWP's Chief Financial Officer (CFO) and its municipal advisor, the Public Resources Advisory Group (PRAG), recommend the Refunding Bonds be sold on a negotiated basis (i.e., private sale). The CFO's Report in connection with the proposed private sale, as required by Charter Section 609, is attached. Also attached is the report setting forth PRAG's opinion with respect to a private sale.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's (CAO) Report has been requested.

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 Water System Refunding Revenue Bonds is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved Resolution No. 5057 as to form and legality.

ATTACHMENTS

- Resolution
- CFO Report
- PRAG Report

**INITIAL RESOLUTION
OF THE BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES**

**Authorizing the Borrowing of Up to \$1,800,000,000 Pursuant to Section 609 of
The Charter of The City of Los Angeles Through the Issuance of
Revenue Bonds Payable from the Water Revenue Fund**

Resolution No. 5057

**BE IT RESOLVED BY THE BOARD OF WATER AND POWER COMMISSIONERS OF
THE CITY OF LOS ANGELES:**

Section 1. This Board of Water and Power Commissioners of the City of Los Angeles (the "Board") hereby determines that the public interest and necessity demand that the Department of Water and Power of the City Los Angeles (the "Department") should borrow money pursuant to Section 609 of The Charter of The City of Los Angeles (the "Charter") for the purposes specified in Section 3 of this Resolution, and should issue and sell revenue bonds as herein provided (the "Bonds") payable from the Water Revenue Fund to evidence the indebtedness created by such borrowing.

Section 2. The Board hereby authorizes the issuance of the Bonds pursuant to the provisions of Section 609 of the Charter for the purposes specified in Section 3 of this Resolution.

Section 3. The Bonds are to be issued for the purpose of purchasing, redeeming, refunding or defeasing bonds, notes, revenue certificates or other obligations of the Department payable from the Water Revenue Fund.

Section 4. The maximum principal amount of the Bonds authorized by this Resolution is

ONE BILLION EIGHT HUNDRED MILLION DOLLARS (\$1,800,000,000)

and said Bonds are to be issued in one or more series or subseries at such time or times as the Board may determine.

Section 5. The maximum term of which any Bond is to run shall be forty-five years from the date of issuance of such Bond.

Section 6. The maximum interest rate on any Bond shall be twelve percent (12%) per annum. For this purpose, the interest rate shall be the rate at which the sum of the present values of all payments of principal and interest on such Bond equals the sale proceeds of such Bond received by the Department. Present values shall be calculated using a year of twelve, 30-day months with semi-annual compounding.

Section 7. This Board has received a report (the “Report”) of the Chief Financial Officer of the Department stating that such officer has determined that a private sale of the Bonds will be of benefit to, and in the financial interests of, the Department and providing the reasons therefor. As authorized by subsection (d) of Section 609 of the Charter and Section 11.28.4 of Ordinance No. 127,353 of the City of Los Angeles (the “City”), as amended, constituting Article 6.5 of Chapter 1 of Division 11 of the Los Angeles Administrative Code (the “Procedural Ordinance”), the Board hereby authorizes the private sale of each series and subseries of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to Section 11.28.4(b) of the Procedural Ordinance as such team is composed at the time of the sale of such series or subseries; provided, however, that underwriters’ discount (exclusive of initial issue discount) with respect to the Bonds shall not exceed one percent of the principal amount of the Bonds and any initial issue discount with respect to the Bonds shall not exceed ten percent of the principal amount of the Bonds to which such initial issue discount shall apply.

Section 8. As provided in Section 11.28.5 of the Procedural Ordinance, in connection with, or incidental to, the issuance or carrying of the Bonds, the Department may enter into one or more credit enhancement or liquidity agreements (each for purposes of this Resolution and Resolution No. 4591 (the “Master Bond Resolution”) adopted by the Board on February 6, 2001, a “Credit Support Agreement”) with one or more banks, insurance companies or other financial institutions approved by the Board which shall contain such payment, interest rate, security, default, remedy and other terms and conditions as shall be approved by the Board. Notwithstanding Section 6 of this Resolution, the maximum stated interest rate payable by the Department in any year on amounts due under such Credit Support Agreement, including the interest rate on Credit Provider Bonds (as defined in the Master Bond Resolution), shall be twenty percent (20%).

Section 9. The authorization of the issuance of the Bonds made by this Resolution is in addition to any and all other authorizations of the issuance of bonds on account of the Water System heretofore made by resolution of this Board.

Section 10. The Secretary of this Board shall forthwith transmit certified copies of this Resolution, together with the Report of the Department’s Chief Financial Officer, to the offices of the Mayor, the City Clerk and the City Administrative Officer (previously the Director of the Office of Administrative Research Services) pursuant to Subsections (a) and (d) of Section 609 of the Charter and Sections 11.28.2 and 11.28.4 of the Procedural Ordinance.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Water and Power of Commissioners of the City of Los Angeles at its meeting held _____, 2024.

Secretary

APPROVED AS TO FORM AND LEGALITY
HYDEE FELDSTEIN SOTO, CITY ATTORNEY

BY  JUN 20 2024
BITIA BONDARIAN
DEPUTY CITY ATTORNEY

CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power, Water System Refunding Revenue Bonds


This report is being delivered in connection with the proposed private sale of the Los Angeles Department of Water and Power (LADWP), Water System Refunding Revenue Bonds (Water Bonds), pursuant to Charter Section 609.

The Financial Services Organization (FSO), along with its municipal advisor and banking team members, is constantly monitoring the market looking for ways to reduce the Water System's borrowing costs. The current financial environment has offered the Water System an opportunity to refund and restructure a substantial portion of its outstanding debt to reduce annual interest costs and generate significant savings to the Water System. Recently, various financial institutions have proposed ideas for responsibly restructuring some of the Water System's debt through refundings. In accordance with the Board-approved Debt Management Policy, FSO's goal is to achieve at least three percent present value savings of the refunded par amount for its current refundings. A current refunding is a refunding transaction that is executed within 90 days before the call date of the refunded bonds.

Resolution No. 5057 will provide FSO with the flexibility to execute multiple refunding transactions (up to \$1.8 billion) that produce savings for the Water System.

I have determined that a private sale of the Water Bonds would be of benefit to and in the financial interests of LADWP and recommend the private sale of the Water Bonds as provided in the attached Resolution No. 5057, for reasons including the following:

- the size of the proposed bond issue and efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Water Bonds consistent with the goals set forth in LADWP's Outreach Program,
- the desire to coordinate the timing of what continues to be a volatile interest rate environment,
- the desire to implement a retail order period aimed at reducing borrowing costs,
- the benefits of a motivated and incentivized underwriting pool that will bring LADWP cost-effective ideas and financing proposals for debt service savings,
- the benefits of banks offering low cost credit facilities given the opportunities to receive negotiated underwriting opportunities, and
- the flexibility in timing and structuring of the bonds to meet investor demand.



ANN M. SANTILLI
Chief Financial Officer
June 20, 2024

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