

BOARD LETTER APPROVAL

Ann M. Santilli

Ann M. Santilli (Oct 24, 2024 14:59 PDT)

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DATE: October 28, 2024

SUBJECT: Authorization to Issue up to \$413.00 Million of Water System Revenue Bonds Under Resolution Nos. 5064 and 5065

SUMMARY

Proposed Resolution Nos. 5064 and 5065 will authorize the issuance of up to \$413.00 million of fixed-rate, tax-exempt Water System Revenue Bonds, 2025 Series A (Water 2025A Bonds) new money to partially fund the budgeted Capital Improvements to the Water System for Fiscal Year (FY) 2024-25 and to pay the related costs of the debt issuance. The debt service of the Water 2025A Bonds will be payable out of the Water Revenue Fund and will be covered by the currently approved rate level.

Resolution No. 5064 is a supplemental resolution to Resolution No. 5036. Resolution No. 5036 is the Initial Authorization to Issue up to \$1.19 billion of Water 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. 5065, if adopted, approves certain actions in connection with the issuance of the Water 2025A Bonds.

City Council approval is not required.

RECOMMENDATION

It is recommended that the Board adopt Resolution Nos. 5064 and 5065 authorizing the issuance of up to \$413.00 million of Water 2025A Bonds.

ALTERNATIVES CONSIDERED

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 approximately \$413.00 million by issuing Water 2025A Bonds pursuant to Section 609 of the Charter to finance a portion of the Water System's budgeted capital improvements for FY 2024-25.

FINANCIAL INFORMATION

LADWP proposes the issuance of up to \$413.00 million in the form of fixed-rate, tax-exempt bonds. The total estimated debt service cost for the approximately \$413.00 million new money, including principal and interest, is approximately \$730 million over 30 years based on interest rates for tax-exempt bonds as of October 9, 2024.

Total debt issuance costs are estimated at \$1.35 million, equivalent to 0.37 percent of the \$413.00 million estimated bond issue, which includes underwriters' discount, bond counsel, disclosure counsel, 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 Water 2025A Bonds:

1. True interest cost ^(a)	3.97%
2. Cost of Issuance ^(b)	\$1,348,900
3. Bond proceeds ^(c)	\$413,000,000
4. Total payment amount ^(d)	\$729,828,076

^(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 Water System's FY 2024-25 Budget, approved by the Board of May 14, 2024, reflects a need to borrow approximately \$413 million to support a portion of the Water System's \$959 million capital improvements program for FY 2024-25.

The net proceeds from the Water 2025A Bonds will be deposited into the Construction Fund of the Water System and will be drawn down to fund a portion of its capital improvements program.

Transaction Approval and Details

Resolution No. 5064, the Forty-First Supplemental Bond Resolution to the Water System Master Bond Resolution, if adopted, authorizes LADWP to issue up to \$413.00 million of fixed-rate, tax-exempt bonds, outlines the terms and conditions for the Water 2025A Bonds, and authorizes the payment of the related costs of issuance.

Resolution No. 5064 is a supplemental resolution to the Initial Authorization to issue up to \$1.19 billion of Water System Revenue Bonds, new money, for FYs 2023-24 and 2024-25 under Resolution No. 5036, which was adopted by the Board on September 26, 2023, and subsequently approved by the City Council.

Resolution No. 5065, if adopted, approves certain actions and agreements in connection with the issuance of the Water 2025A Bonds, including the sale of the Bonds pursuant to the Contract of Purchase with the underwriters named therein which were selected from LADWP's investment banking team, and the form of the Preliminary Official Statement to be used in connection with the sale of the Water 2025A Bonds.

BofA Securities, Inc. (Local Business Enterprise) has been selected as senior book-running manager and Goldman Sachs & Co. LLC (Local Business Enterprise) as co-senior manager for the Water 2025A Bonds transaction. Morgan Stanley & Co. LLC (Local Business Enterprise), Siebert Williams Shank & Co., LLC (Minority Business Enterprise and Women Business Enterprise), Stern Brothers & Co. (Women Business Enterprise), and Stifel, Nicolaus & Company, Incorporated (Local Business Enterprise), as co-managers, will provide support to the senior managers for the Water 2025A 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 \$413.00 million of Water 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. 5064 and 5065, and the Contract of Purchase under the Water 2025A Bonds.

ATTACHMENTS

- Resolutions
- Contract of Purchase
- Preliminary Official Statement