

BOARD LETTER APPROVAL

Ann M. Santilli
Ann M. Santilli (Aug 20, 2024 11:15 PDT)

ANN M. SANTILLI
Chief Financial Officer

J. Quiñones

JANISSE QUIÑONES
Chief Executive Officer and Chief Engineer

DATE: August 19, 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, or 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 maintain low water rates, 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 is attached.

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
- CAO Report