

WHEREAS, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (Act), commencing with Section 6500, provides that two or more public agencies by agreement may jointly exercise any power common to the contracting parties; and

WHEREAS, the City of Los Angeles (City) supported the California Assembly Bill 850 (Nazarian) (AB 850) that amended the Act to permit water utilities to utilize rate reduction bonds (securitization) issued through a Joint Powers Authority (JPA); and

WHEREAS, AB 850 was signed into law by the Governor of the State of California on October 8, 2013; and

WHEREAS, AB 850 permits securitized financing of utility water projects for conservation or reclamation purposes or in response to a mandate; and

WHEREAS, the Department of Water and Power of the City of Los Angeles (LADWP) seeks to maximize local groundwater supplies including opportunities to sustain and augment the long-term reliability of the City's groundwater supply in the San Fernando Basin; enhance storm water capture, expand the use of recycled water, and promote enhanced water conservation; and

WHEREAS, the LADWP faces mandates related to water quality that will involve substantial costs to cover reservoirs, remove reservoirs from service, re-route water transmission as a result, change how water is treated, among other mandates; and

WHEREAS, the LADWP's capital project financing needs could be funded at lower cost to ratepayers through a JPA, including through the use of securitization; and

WHEREAS, the LADWP has determined that financing through a JPA could save LADWP customers approximately three percent in avoided rate increases over the course of the next five years and provide for increased transparency of charges for costs related to specific project work; and

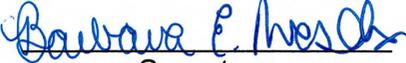
WHEREAS, in December 2013, through adoption of Resolution 014 127, the Board of Water and Power Commissioners (Board) directed the General Manager to take such steps as are necessary in the further development of the JPA; and

WHEREAS, consistent with the above direction, the LADWP has negotiated with Burbank Water and Power for the establishment, governance and operation of a JPA to be entitled the "Southern California Public Water Authority" (SCPWA), and

NOW, THEREFORE, BE IT RESOLVED that the Board hereby authorizes, approves, and recommends adoption of the attached JPA Agreement by the City of Los Angeles, by and through the LADWP, and authorizes and directs the General Manager, or her designee, on behalf of the LADWP, to take such steps as are necessary to form and further the development of the JPA, in accordance with the applicable City Charter and California Government Code Sections.

BE IT FURTHER RESOLVED that upon approval of the JPA Agreement by the City Council of the City of Los Angeles, the President or Vice President of the Board or the General Manager of LADWP and Secretary or Assistant Secretary of the Board are hereby authorized to execute and deliver said JPA Agreement, together with such changes as the executing President, Vice President or General Manager shall approve upon the advice of counsel, such approval to be conclusively evidenced by the execution thereof.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a Resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held FEB 03 2015


Secretary

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY

JAN 28 2015
BY 
RICHARD TOM
ASSISTANT GENERAL COUNSEL





Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

Handwritten signature of Philip Leiber in cursive.

PHILIP LEIBER
Chief Financial Officer

Handwritten signature of David H. Wiggs in cursive.

DAVID H. WIGGS
Chief Administrative Officer

Handwritten signature of Martin L. Adams in cursive.

MARTIN L. ADAMS
Senior Assistant General Manager
Water System

Handwritten signature of Marcie L. Edwards in cursive.

MARCIE L. EDWARDS
General Manager

DATE: January 23, 2015

SUBJECT: Authorization to Establish a Joint Powers Authority for Water Financing

SUMMARY

At the December 2013 Los Angeles Board of Water and Power Commissioners (Board) meeting, the Board adopted a resolution to authorize such steps as were necessary to further the establishment of a Joint Powers Authority (JPA) for Water financing. The Resolution also further directed the General Manager to return to this Board with the recommended proposals to be transmitted to the Los Angeles City Council (City Council) to establish the proposed JPA by ordinance in accordance with the applicable City Charter and California Government Code Sections.

This Board letter and attachments describe in further detail the proposed JPA, and if the Resolution is adopted, the matter would be referred to the City Council for the enabling legislation to form the JPA, which would be called the "*Southern California Public Water Authority*". The two initial members of the JPA would be the City of Los Angeles and the City of Burbank. Additional water agencies may join later.

The JPA would be used, starting in the fall of 2015, to finance certain water capital projects for the Los Angeles Department of Water and Power (LADWP), specifically projects related to local water supply, and mandated projects such as those that address water quality. The JPA could finance such projects for LADWP at a lower cost to LADWP's customers, including through a financing approach called "securitization" (also known as "rate reduction bonds").

RECOMMENDATION

It is recommended that your Honorable Board adopt the attached Resolution.

ALTERNATIVES CONSIDERED

LADWP has significant capital needs in the coming years to fund necessary investments in infrastructure, regulatory mandates and increase the use of local water supply to lessen dependence on imported water. LADWP will aim to finance this work at the lowest overall long-term cost to customers. Funding sources include: (1) collections directly from rates; (2) traditional tax-exempt debt issued by LADWP; (3) State loan funds; (4) rate reduction bonds/securitization through a JPA; and (5) State grants. These funding sources are listed in order of rate impact to customers, from high to low. If a JPA is not formed, the LADWP would not be able to take advantage of the lower cost financing mechanism that is available through the issuance of securitized bonds through a JPA. If traditional tax-exempt financing is used instead, the higher cost of interest and the requirement for debt service coverage mean that over five years, rates would have to be about three percent higher than through the use of securitized bonds issued through a JPA.

BACKGROUND

The attached previous Board letters provide discussion regarding the value of forming a JPA to finance certain Water system capital projects. The objective of this effort is to provide another method to finance important capital projects at a lower rate impact to customers. LADWP has been working on this effort since 2012, in a three-step process. With the approval of the Resolution, step two would be completed and staff efforts can move to step three.

1. Enactment of legislation to allow a JPA to issue securitized bonds. Completed in October 2013 with the signing of AB 850 by Governor Brown.
2. Discussions with other water agencies with a potential interest in forming a JPA with Los Angeles/LADWP, and negotiation and adoption of a JPA agreement with such agencies.
3. Executing the initial financing transaction to fund a portion of LADWP's Water System capital budget for Fiscal Year (FY) 2015/16.

In the past year, LADWP has discussed the formation of a JPA with various Southern California water agencies. Such discussions with the City of Burbank/Burbank Water and Power have been productive, and have resulted in the development of the JPA Agreement attached to this Board letter. The execution of this Agreement would allow for the formation of the JPA, and would allow LADWP to begin focusing on the planned bond issuance through the JPA. The Agreement reflects the efforts of LADWP's outside counsel, the Los Angeles City Attorney, and the JPA counterparty, City of Burbank. A brief summary of the elements of the Agreement include:

- Section 1: Defines key terms.
- Section 2: Purpose of the Agreement joint exercise of powers common to public agencies.

- Section 3: Term remains in force until terminated by members.
- Section 4(A): Provides for the formation of the entity, to be entitled the “Southern California Public Water Authority”.
- Section 4(A): Liabilities of the JPA are obligations of the JPA, not the member agencies.
- Section 4(A): The JPA will be formed through appropriate filings with the Secretary of State, Controller, and County Clerks.
- Section 4(B): The Governing Board of the JPA will consist of the General Managers of each member, who will serve without compensation as Directors.
- Section 4(C): Meetings shall be held at least twice annually, with minutes, and subject to the Brown Act. Bylaws to address other governance matters may be adopted.
- Section 4(D): The JPA shall have an appointed Treasurer, Auditor, Attorney, and other such officers and employees as may be deemed necessary by the Board.
- Section 5: Sets forth the powers of the JPA, including the ability to issue bonds and perform other necessary actions.
- Section 6: Indicates that each project undertaken by the JPA will be through a special purpose entity to provide for separation of obligations.
- Section 7: Establishes fiscal year of July 1-June 30.
- Section 8: Indicates how assets are to be disposed of (back to member agencies) if the JPA is dissolved.
- Section 9: Discussion of contributions and advances towards JPA purposes.
- Section 10: JPA Agreement does not amend or alter other agreements between the members.
- Section 11: Specifies that funds shall be maintained with appropriate internal controls and that regular quarterly reports shall be produced.
- Section 12: Specifies that an annual audit shall be conducted.
- Section 13: The JPA shall adopt a conflict of interest code.
- Section 14: Members shall be required to fulfill their obligations under financing agreements regardless of another member’s defaults.
- Section 15: Specifies terms for withdrawal and additions of other members.
- Sections 16-22: Various standard contractual provisions such as severability, successors, amendments, approvals, governing law.
- Section 23: Indemnification provision that each member holds other members harmless for liabilities arising from its acts.

The JPA Agreement provides the basis for the formation of the JPA. It is comparable to the agreement that was used nearly 35 years ago in the formation of the Southern California Public Power Authority (SCPPA) which has served LADWP’s interests effectively on the power side. Other terms and provisions of the operation of the JPA will be specified in later documents such as bylaws and other operating agreements that may specify the allocation of JPA costs among members.

Pursuing this tool for financing now by forming the JPA does not commit the Board or City Council to any project, financing or rate. The LADWP Board will be required to approve each financing application through the JPA. If the JPA is formed, we would expect to request authorization for the first financing (for approximately \$400 million) sometime during the summer of 2015, with a targeted closing date in the fall of 2015.

The remaining steps to be conducted that will culminate in the financing through the JPA are listed in an attachment to this letter.

This matter has been discussed with City offices including the City Administrative Officer (CAO), Chief Legislative Analyst and Office of Public Accountability. The CAO's analysis of this matter is also attached.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Remaining Steps Toward Executing a Securitized Debt Transaction Through the JPA in FY 2015/16
- Draft JPA Agreement dated January 26, 2015
- Draft Ordinance dated December 29, 2014
- October 28, 2013 Board Letter describing benefits of a JPA
- December 11, 2013 Board Letter directing further actions to establish a JPA
- CAO Report

**Remaining Steps Toward Executing a Securitized
Debt Transaction Through the JPA in FY15/16**

1. LADWP Board approves Joint Powers Agreement.
2. Los Angeles City Council approves Joint Powers Agreement via ordinance.
3. City Council of JPA partner approves Joint Powers Agreement (timing could occur before or after #2).
4. Execution of formation documents, file with State.
5. In connection with the formation of the JPA, LADWP would enter into an Interim Support and Operating Agreement with the JPA pursuant to which LADWP:
 - (a) would advance the costs of the JPA (rating agencies, financial advisors, consultants, legal, etc.) subject to reimbursement from the first financing.
 - (b) act as agent of the JPA to provide interim operational services, including:
 - (i) providing staff support, and
 - (ii) acting as agent in conducting Proposition 218 hearing.
6. Initial organizational meeting of the JPA, formation of the Limited Liability Company, filing of LLC documents with the State.
7. LADWP Board approves financing request, including appropriate findings (e.g., the financing will result in lower water bills than if the LADWP issued debt on its own), size, term, maximum interest rate, etc.
8. If required, Los Angeles City Council approves financing request, including appropriate findings, size of debt issuance, term, maximum interest rate, etc.
9. LADWP submits financing request to JPA.
10. JPA enters into agreements/arrangements with (a) rating agencies, (b) investment bankers, (c) financial advisor, (d) lawyers, and (e) other required entities.
11. JPA submits application to issue rate reduction bonds to California Pollution Control Financing Authority (CPFCA) for review and determination whether the issue is qualified under AB 850. AB 850 provides that the review and qualification by CPCFA may be concurrent with a JPA's processing of an application for financing so as to allow for the issuance of rate reduction bonds as quickly as feasible.

12. LADWP, as agent of JPA, notices Prop 218 protest hearing, distributes notification to affected property owners.
13. JPA holds Prop 218 protest hearing at LADWP Boardroom, LADWP staff presents item.
14. JPA adopts or authorizes LLC to adopt financing resolution, including Utility Charge and true-up formula, and other necessary conditions such as the basis upon which the charge is calculated, consistent with Proposition 218.
15. JPA and/or LLC and LADWP enter into a Servicing Agreement as required by Government Code Section 6588.7(d)(1)(D) for the collection of the utility project charge pursuant to which LADWP acts as a servicing agent for purposes of collecting the utility project charge as long as the Servicing Agreement remains in effect.

LADWP will agree in the Servicing Agreement, among other things, to:

- (i) apply the proceeds of the rate reduction bonds made available to LADWP for the utility project, as required by Government Code Section 6588.7(e)(1),
 - (ii) continue to operate its publicly owned utility system that includes the financed utility project to provide service to its customers, as required by Government Code Section 6588.7(e)(4),
 - (iii) collect amounts, as servicer, in respect of the utility project charge for the benefit and account of the JPA/LLC and the beneficiaries of the pledge of the utility project charge and account for and remit these amounts to, or for the account of, the JPA/LLC, as required by Government Code Section 6588.7(e)(4),
 - (iv) provide notice and conduct all required Proposition 218 hearings and proceedings as permitted by § Government Code Section 53755 and ensure the proceeds of the rate reduction bonds are applied in a manner consistent with the requirements of Section 6(b) of Article XIID of the California Constitution.
16. JPA approves resolution authorizing issuance of rate reduction bonds, including approval of disclosure document, continuing disclosure agreement, bond purchase agreement, etc.
 17. Issue debt.

ORDINANCE NO. _____

WHEREAS the Board of Water and Power Commissioners by Resolution No. ___ adopted _____, 2015 has requested this Council to authorize and approve the Southern California Public Water Authority Joint Powers Agreement, a copy of which is in the hands of the City Clerk, and to authorize the Department of Water and Power to execute said Agreement on behalf of the City and that said Department be delegated the power, authority and duty to administer said Agreement on behalf of the City. NOW THEREFORE,

THE PEOPLE OF THE CITY OF LOS ANGELES DO ORDAIN AS FOLLOWS:

Section 1. A Joint Powers Agreement, creating a separate public entity to be known as the "Southern California Public Water Authority" (the "Authority") pursuant to the provisions of Chapter 5, Division 7, Title 1, of the Government Code of the State of California, as amended, is hereby submitted to the City Council of The City of Los Angeles, and said Council hereby finds and determines that the terms and conditions of said Agreement be, and the same hereby are, approved; provided however, that all costs or expenditures in connection with the membership of the City in said Authority and the administration of said Agreement shall be from the Water Revenue Fund of the Department of Water and Power.

Section 2. The President or Vice President of the Board of Water and Power Commissioners or the General Manager of the Department of Water and Power and Secretary or Assistant Secretary of said Board are hereby authorized to execute and deliver said Agreement for, and on behalf of The City of Los Angeles.

Section 3. The Board of Water and Power Commissioners is hereby delegated the power, authority and duty to enter into and administer said Agreement on behalf of the City.

Section 4. The Board of Water and Power Commissioners is hereby authorized to apply to the Authority for financing of utility projects pursuant to Government Code Section 6588.7(c) without further approval of the City Council of The City of Los Angeles, except as otherwise provided in Section 245 of The City of Los Angeles Charter.

Section 5. This ordinance constitutes approval of all utility project charges imposed pursuant to Government Code Section 6588.7, including for the purposes of Section 676 (a) of the Charter. Utility project charges imposed pursuant to Government Code Section 6588.7 shall not be subject to further approval of the City Council of The City of Los Angeles.

Section 6. The City Clerk shall certify to the passage of this ordinance and cause the same to be published in some daily newspaper printed and published in the City of Los Angeles.

I hereby certify that the foregoing ordinance was passed by the Council of The City of Los Angeles, at its meeting of _____, 2015.

_____, City Clerk

By _____
Deputy

Approved _____

By _____
Mayor

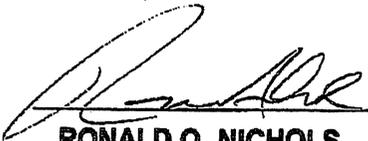
Approved as to Form and Legality

_____, City Attorney

By _____

Council File No. _____

LOS ANGELES DEPARTMENT OF WATER AND POWER (LADWP)
INFORMATIONAL BOARD LETTER

TO: BOARD OF WATER AND POWER COMMISSIONERS		DATE: October 28, 2013
 PHILIP LEIBER Chief Financial Officer		SUBJECT: Pre-Decisional Informational Letter on the Establishment of Joint Powers Authority with another California Water Agency to Finance Certain Water Projects
 RONALD O. NICHOLS General Manager		
		FOR COMMISSION OFFICE USE: RESOLUTION NO. _____
CITY COUNCIL APPROVAL REQUIRED: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	IF YES, BY WHICH CITY CHARTER SECTION:	

PURPOSE

This Board letter provides background information related to the proposed formation of a Joint Powers Authority ("JPA") between LADWP and another Southern California water agency to provide mutual benefits to both agencies. The JPA would be used to finance certain water capital projects for LADWP, specifically projects related to local water supply, and mandated projects such as those that address water quality. The JPA could finance such projects for LADWP at a lower cost to LADWP's customers, including through a financing approach called "securitization" (also known as "rate reduction bonds"). The issuance of such bonds by a JPA is now permitted under State law given recent legislation signed by the Governor, AB850 (Nazarian). LADWP will come back to the Board at a subsequent meeting to request authorization to form the JPA, and subsequently to take steps towards financing projects through the JPA.

COST AND DURATION

The costs of establishing a JPA are minimal for LADWP. The LADWP has incurred up-front legal and staff costs in the preparation of this concept. Ongoing associated administrative costs of the JPA would be shared as mutually agreed upon by the participants of the JPA. Such direct costs are expected to be in the low six figure range on an annual basis. Projects financed through the JPA would be funded through issuance of bonds by the JPA, and repaid from collections from customers, as described further in this letter. Savings due to lower costs of financing are expected to far exceed these administrative costs.

BACKGROUND

This section describes: (1) LADWP's Water System's financing needs, (2) financing alternatives; (3) securitization; and (4) the steps necessary to establish the JPA.

1. Financing Need

LADWP's Water System faces increasing capital project needs in the years ahead. Estimated capital spending over the next five years, of approximately \$4.1 billion, is approximately 113 percent higher than the capital spending over the preceding five-year period of about \$1.9 billion. Major drivers for this spending increase include the development of an enhanced local water supply program and the impact of state and federal mandates (including funding for the Safe Drinking Water Program). The five-year capital forecast summarized below includes funding for the following programs:

• Local Water Supply	\$ 766 million
• Safe Drinking Water Program	\$1.357 billion
• Water Supply Reliability/Other	<u>\$1.990 billion</u>
Total	\$4.113 billion

The Local Water Supply program involves investments in water conservation, stormwater capture, recycled water and groundwater cleanup. Local groundwater provides approximately 11 percent of the total water supply for Los Angeles, and historically nearly 30 percent of the total supply in dry years. However, 50 percent of the City's wells are inactive due to contamination, and the City will likely lose the ability to use any of its San Fernando Basin groundwater in six to ten years if groundwater contamination issues are not addressed and eliminated. The loss of these supplies has increased the pressure to import water through the Bay Delta and from the Colorado River.

LADWP is working on a project that will treat water in the San Fernando Valley Groundwater Basin, restoring pumping of LADWP's existing 87,000 acre-feet annual pumping right. Current capital costs for the treatment project are estimated to range from \$600 to 800 million (in 2012 dollars). This and other local water supply projects will improve reliability, ensure local resources are utilized as effectively as possible, and help LADWP achieve the goal of doubling the amount of local water supply from about one-eighth of LADWP's total water supply to about one-quarter of total supply in the next decade. These projects are expected to offer substantial benefits and long-term payback, but will require substantial investment.

The Safe Drinking Water Program addresses several federal and state environmental mandates that require the covering or removal from service of open reservoirs, and changes in how drinking water is treated. While much progress has been made on this effort thus far, major work remains including continued trunkline replacement as LADWP configures its water conveyance system within the City in light of changes to reservoir availability.

LADWP forecasts the need for external financing (borrowed funds) for about 77 percent of capital spending over the next five years. External financing allows the costs of the financed projects to be spread over the useful life of the projects, enables the recovery of costs from those customers that benefit from the projects, and mitigates the rate impacts that would result if this work was directly funded in full from customer rates. However, given the substantial increase in capital spending levels that is anticipated, even with borrowing, rate increases will be required.

2. Financing Alternatives and New Possible Approach: Securitization Under AB850

Given the size of LADWP's anticipated capital budgets, LADWP has a strong interest in financing capital projects at the lowest cost of capital and to mitigate the rate impacts to customers of completing this work. Traditionally, LADWP has issued tax-exempt revenue bonds for the majority of its external funding needs. LADWP has also applied for grant funding, and zero/low-interest cost loans from the State where available, and would continue to aggressively pursue such opportunities; however these funds are limited. Over the past 18 months, LADWP has explored alternatives other than directly issuing tax-exempt bonds. Rate reduction bonds, a type of securitization, could help reduce future water rate increases by funding certain capital projects on a more cost-effective basis. LADWP is afforded this opportunity through recently enacted legislation, Assembly Bill 850 (Nazarian). AB 850 was sponsored by the City of Los Angeles, and was signed by the Governor on October 8, 2013. AB 850 amended the Joint Exercise of Powers Act of the California Government Code to allow a JPA whose financing activities are limited to financing utility projects for (1) conservation or reclamation purposes or in response to a mandate and (2) projects for the use or benefit of public water agencies to finance utility projects through the issuance of rate reduction bonds for governmental retail water utilities that meet certain minimum requirements. Such financings would require State approval through the California Pollution Control Financing Authority. Securitization has been used in the utility industry in the past, for the California Investor Owned electric utilities, and is also underway at a publically owned utility—the Long Island Power Authority.

3. Securitization Overview and Benefits

Securitization would involve the issuance of bonds by the newly formed JPA, and the levying of charges sufficient for the repayment of the bonds directly by the JPA on LADWP's customers. LADWP would bill the charges to customers, and remit the proceeds to the JPA for the repayment of the bonds. Securitization offers numerous benefits to LADWP and its customers, which include:

- a. **Lower water rates for customers.** The enhanced security and structural features of rate reduction bonds allows the water utility to lower the required margin of revenues over bond payments. The rates or amounts charged to customers for the repayment of these securitized bonds do not include a "debt service coverage" factor that is needed when LADWP directly issues water revenue bonds (currently, LADWP sets rates to collect \$1.85 from customers for every \$1.00 in debt service

due, with the additional \$0.85 available to cover capital projects). In addition to the lower required margin, the rate reduction bonds are expected to obtain triple-A ratings; "AAA" rated bonds bear lower ongoing interest costs of 0.10-0.20 percent compared to bonds bearing LADWP's current Aa2/AA/AA ratings.

- b. **Greater transparency.** Ratepayers will be able to easily track the costs of mandated projects financed through the JPA (since there will be a separate charge on the customer's bill reflecting the cost of debt service associated with the rate reduction bonds).
- c. **Strengthening water utilities' credit rating.** The rate reduction bonds are not treated as a debt of the utility for rating purposes, which assists in maintaining bond credit ratings to fund other water capital projects.

LADWP anticipates using securitization to finance \$1.7 billion of capital projects out of \$3.1 in total borrowing requirements over the next five fiscal years. Doing so is anticipated to reduce required rate increases by approximately 3 percent compared to financing such projects entirely with directly issued LADWP debt. This differential would continue to grow with each such financing. The steps involved in a securitization financing are shown in Appendix 1.

4. Formation of the JPA Between LADWP and Another Agency

LADWP proposes partnering with another Southern California water agency to form a new JPA. LADWP has been in discussion with two such agencies during 2013, and the staff of both entities see value in such an undertaking. Approval by the governing board of at least one of the agencies would be needed to move forward with the actual JPA formation.

The JPA would provide benefits to LADWP's ratepayers in the form of helping finance local resource and mandated projects at a lower cost as described above. A JPA partner may have similar interests in taking advantage of the benefits of AB850, interests in partnering on specific projects, or an interest in the broader benefits a JPA would provide to Southern California's water supply, quality and reliability. Given the interconnected and limited supply of available water in the region, improvements in LADWP's water security benefit reliability for the entire Southern California region. Shared interest in the coordinated development of local water supply projects is also recognized in the Integrated Resources Plans of potential partners.

Two or more public agencies, by agreement, may jointly exercise any power common to the contracting parties if authorized by their governing bodies. Even prior to AB 850, JPAs have successfully allowed public agencies to finance the construction of capital projects by issuing tax-exempt revenue bonds, helping participants band together to enjoy economies of scale and reduced costs through the construction, repair and maintenance of public capital improvements. AB 850 supplements the ability of certain JPAs to finance capital projects with the issuance of rate reduction bonds.

The high-level steps involved in forming a JPA are show in the following table:

Step	Description
1. Develop JPA Agreement	LADWP and prospective partner develop a JPA agreement that specifies the purpose, governance structure and operation of the JPA. LADWP has such a draft agreement.
2. Execute JPA Agreement	<p>Execution of the JPA Agreement for LADWP involves approval by the Board of Water and Power Commissioners (Board) and the City Council/Mayor. The JPA agreement would be approved by the City Council for the City of Los Angeles through the LADWP.</p> <p>Execution of the JPA Agreement by LADWP's partner agency would require approval of that agency's governing authority.</p> <p>Upon approval by the governing bodies of both entities, the General Manager would be authorized to execute the Agreement and associated enabling documents.</p>
3. Legally Form JPA	<p>(a) File notice of JPA Agreement with Secretary of State 30 days after effective date of JPA Agreement as required by California Government Code Section 6503.5.</p> <p>(b) File JPA Agreement with Controller as required by California Government Code Section 6503.6.</p> <p>(c) File notice with Secretary of State and clerk of each county in which the JPA maintains an office within 70 days of commencement of the JPA's existence as required by California Government Code Section 63051.</p>
4. Establish JPA Infrastructure	JPA infrastructure is anticipated to be minimal. No dedicated permanent staff is anticipated at this time. Instead, "for contract" professional services would provide any necessary services, including legal counsel, accounting, financial advisory services, trustee and banking services, and independent manager services for sub-entities of the JPA that may be formed related to each financing.

There are several key considerations in the formation and operation of the proposed JPA:

- Transactions undertaken by the JPA will be structured so that JPA members do not bear any financial obligation or other liabilities for projects other than as may be separately incurred under off-take or other agreements.
- LADWP has significant experience working with JPAs for our Power System. For over 33 years, LADWP has participated in the Southern California Public Power Authority with 11 other municipal utilities for several power projects. LADWP has not had a comparable JPA for water projects.

October 28, 2013

- The membership of the JPA could also be expanded, with the consent of the existing members, and subsequent revisions to the JPA Agreement.
- The Board and City Council retain existing authority as to whether or not to proceed with constructing particular projects, and how to finance such projects.

Subsequent to the formation of the JPA, LADWP anticipates applying for securitized financing for water projects included in the Fiscal Year 2014/15 budget. LADWP staff would follow the steps in the Appendix 1 to issue debt through the JPA. The execution of these steps would likely entail a six- to nine-month process. The Board will be requested to authorize various steps in this process. At a subsequent meeting, Management will request Board authorization for the first of these steps, to form the JPA. This request will include a proposed resolution that would authorize the General Manager to enter into agreements, contracts, and execute other documents as necessary to establish the JPA. Mayoral and City Council approval would also be required.

MCI/PL:gw/en

Attachments

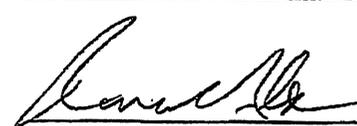
e-c/att: Ronald O. Nichols
Richard M. Brown
Aram Benyamin
James B. McDaniel
Gary Wong
Philip Leiber
Mario C. Ignacio
Peter Huynh
David Pettijohn

Appendix 1:

Steps Involved in a Securitization Financing Through the Proposed JPA

1. LADWP identifies the funding needs.
2. LADWP identifies the preferred financing source—grant funds, state revolving funds, financing through the JPA, or LADWP issued tax-exempt revenue bonds.
3. In order to finance through the JPA, LADWP obtains authorization of both the Board of Water and Power Commissioners (Board) and the City Council to apply for financing through the JPA.
4. The Board shall make certain determinations required by AB 850 that the project is a utility project as defined in AB 850, the source of payment for the rate reduction bonds will be the utility project property and the use of rate reduction bonds is expected to result in lower rates.
5. LADWP applies for financing through the JPA.
6. The California Pollution Control Financing Authority reviews the rate reduction bonds and determines whether the issue is qualified under AB 850.
7. JPA Governing Board approves the financing.
8. JPA provides notification to affected customers of rate to be levied for repayment of bonds (Proposition 218 notice), and holds a public hearing. If not more than 50 percent of customers object through return of notification cards, the financing advances.
9. JPA issues the rate reduction bonds.
10. JPA remits the bond proceeds to LADWP.
11. LADWP utilizes the bond proceeds to pay for the local resource or mandated capital projects.
12. The bonds would be repaid by a dedicated rate or charge on LADWP customers' bills. LADWP, as the servicing agent, issues the bills, collects the charge and remits it to the JPA to pay for debt service on the JPA bonds.
13. The investors in rate reduction bonds are repaid from funds derived from the charge remitted to the JPA.

LOS ANGELES DEPARTMENT OF WATER AND POWER (LADWP) BOARD APPROVAL LETTER

TO: BOARD OF WATER AND POWER COMMISSIONERS		DATE: December 11, 2013
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  PHILIP LEIBER Chief Financial Officer </div> <div style="text-align: center;">  RONALD O. NICHOLS General Manager </div> </div>		SUBJECT: Authorization for the General Manager to Take Necessary Step to Further the Development of a Joint Powers Authority with One or More Southern California Water Agencies to Finance Certain Water Projects
_____ _____		FOR COMMISSION OFFICE USE: RESOLUTION NO. _____
CITY COUNCIL APPROVAL REQUIRED: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	IF YES, BY WHICH CITY CHARTER SECTION:	

PURPOSE

At the November 19, 2013 Board meeting, the Board was provided with an informational briefing which described in detail the opportunities provided to LADWP resulting recently enacted legislation (AB 850, Nazarian) which permits water utilities to utilize securitization bonds issued through a Joint Powers Agency (JPA).

The attached Resolution, if adopted, would authorize the General Manager or his designee to take such steps as are necessary to further the development of a JPA with one or more Southern California water agencies including the Metropolitan Water District of Southern California (MWD), Los Angeles County Flood Control District, or local municipal utilities such as Pasadena Water and Power. The resolution further directs the General Manager to return to this Board with the recommended proposals which can then be transmitted to the City Council with the request from the Board to establish the proposed JPA by ordinance in accordance with the applicable City Charter and California Government Code Sections.

The JPA would be used to finance certain water capital projects for LADWP, specifically projects related to local water supply, and mandated projects such as those that address water quality. The JPA could finance such projects for LADWP at a lower cost to LADWP's customers, including through a financing approach called "securitization" (also known as "rate reduction bonds").

RECOMMENDATION

It is recommended that your Honorable Board adopt the attached Resolution.

MCI/PH/PL:gw

Attachments

e-c/att: Ronald O. Nichols
 Richard M. Brown
 Aram Benyamin

James B. McDaniel
 Gary Wong
 Philip Leiber

Mario C. Ignacio
 Peter Huynh
 David Pettijohn

WHEREAS, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (Act), commencing with Section 6500, provides that two or more public agencies by agreement may jointly exercise any power common to the contracting parties; and

WHEREAS, the City of Los Angeles (City) supported the California Assembly Bill 850 (Nazarian) (AB 850) that amended the Act to permit water utilities to utilize rate reduction bonds (securitization) issued through a Joint Powers Authority (JPA); and

WHEREAS, AB 850 was signed into law by the Governor of the State of California on October 8, 2013; and

WHEREAS, AB 850 permits securitized financing of utility water projects for conservation or reclamation purposes or in response to a mandate; and

WHEREAS, the Department of Water and Power of the City of Los Angeles (LADWP) seeks to maximize local groundwater supplies including opportunities to sustain and augment the long-term reliability of the City's groundwater supply in the San Fernando Basin; enhance storm water capture, expand the use of recycled water, and promote enhanced water conservation; and

WHEREAS, the LADWP faces mandates related to water quality that will involve substantial costs to cover reservoirs, remove reservoirs from service, re-route water transmission as a result, change how water is treated, among other mandates; and

WHEREAS, the LADWP's capital project financing needs could be funded at lower cost to ratepayers through a JPA, including through the use of securitization; and

WHEREAS, the LADWP has determined that financing through a JPA could save LADWP customers approximately 3 percent in avoided rate increases over the course of the next five years and provide for increased transparency of charges for costs related to specific project work; and

WHEREAS, the LADWP has raised the potential establishment of a JPA with Southern California Water Agencies including the Metropolitan Water District of Southern California (MWD), Los Angeles County Flood Control District, and Pasadena Water and Power; and

NOW, THEREFORE, BE IT RESOLVED that the Board of Water and Power Commissioners (Board) authorizes and directs the General Manager, or his designee, on behalf of the LADWP, to take such steps as are necessary to further the development of the JPA, and to return to this Board the recommended proposals which can then be transmitted to the City Council with the request from this Board to establish the proposed JPA in accordance with the applicable City Charter and California Government Code Sections.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held **DEC 17 2013**

Barbara E. Prochazka

Secretary

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY

DEC 10 2013

[Signature]

BY
JOSEPH A. BRAJEVICH
ASSISTANT GENERAL COUNSEL, WATER & POWER

0220-05120-0000

TRANSMITTAL

TO Marcie L. Edwards, General Manager Department of Water and Power	DATE JAN 27 2015	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

**AUTHORIZATION TO ESTABLISH A JOINT POWERS AUTHORITY
FOR WATER PROJECT FINANCING.**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


MAYOR
(Ana Guerrero)

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 26, 2015

CAO File No.: 0220-05120-0000

Council File No.:

Council District:

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Water and Power dated December 4, 2014; referred by the Mayor for report on December 16, 2014

Subject: **AUTHORIZATION TO ESTABLISH A JOINT POWERS AUTHORITY FOR WATER PROJECT FINANCING**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of the proposed Resolution authorizing the establishment of a Joint Powers Authority (JPA) for water project financing with the City of Burbank. The recent approval of State Assembly Bill 850 (AB 850) allows the City to form the JPA. DWP proposes to name the JPA the "Southern California Public Water Authority (SCPWA)". The two initial members of the JPA would be the City of Los Angeles and the City of Burbank. Additional water agencies will have the opportunity join in the future. This proposed JPA for water financing is comparable to the agreement that created the Southern California Public Power Authority (SCPPA) serving DWP's power interests nearly 35 years ago.

The benefit to the City of establishing a proposed JPA, would be to provide an alternative mechanism for financing water capital projects for the City, specifically projects related to local water supply and mandated projects including water quality. The formation of this JPA does not commit the City to any project, financing or rate.

The City has significant capital needs in the coming years to fund necessary investments in infrastructure, regulatory mandates and increase the use of local water supply to lessen the dependence on imported water. Qualifying projects include those that:

- Are mandated by a federal or state agency;
- Reduce the amount of potable water to be supplied by, or imported by, a publicly owned utility; and,
- Include stormwater capture and treatment, water recycling, development of local groundwater resources, groundwater recharge and water reclamation.

Specifically, benefits will be maximized if the JPA, and the related financings, can be provided with a AAA credit rating. This will lower overall interest costs for a potential financing. Financing will occur through the issuance of bonds whose debt service will be paid through a specific charge that will be paid by DWP ratepayers. This charge will be identified separately on the City service bill, will be collected by DWP and remitted directly to the JPA for payment of debt service. Ratepayers will benefit because the overall cost of the project(s) financed will be less than if DWP used traditional financing whose costs are recovered through the customer rate structure.

DWP is estimating that the first request for capital project financing will be for approximately \$400 million. Over the course of the next five years, DWP is estimating that customers will avoid additional increases in rates of three percent through the use of SCPWA financing.

The SCPWA financings will be reflected on the balance sheet of the JPA, not DWP. Discussions with rating agencies concur that AB 850 debt secured by a separate charge on customer bills would be treated as off-balance sheet debt by rating agencies. Both the receipts from the line-item charge and the debt service associated with the debt would not be included in the calculation of debt service coverage for rating agency metrics.

According to the City Attorney, to access the JPA financing, the Board of Water and Power Commissioners will identify a project and submit a financing request to the JPA with appropriate findings, such as a projection of savings to be achieved, the proposed size and term of debt issuance, and the calculation of the charge to ratepayers. The JPA would enter into agreements with rating agencies, investment bankers, financial advisor, lawyers and other required entities. The JPA submits the application to issue financing to the California Pollution Control Financing Authority who is authorized by AB 850 to provide final approval of the financing.

Additional terms and provisions of the operation of the JPA such as the bylaws and other operating agreements that may specify the allocation of JPA costs among members will be specified in later documents. The City Attorney has approved the proposed resolution as to form and legality. If Council approval is provided early in 2015, it is projected that the JPA could commence operations in the fall of 2015. While DWP will be the City's designated lead for the operation of the JPA, DWP and Sanitation are working closely together so that City water projects are strategically aligned. Therefore, as a result of this collaboration it may be possible that a future Sanitation project would also qualify for financing.

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Resolution authorizing the establishment of a Joint Powers Authority for water financing, to be called the Southern California Public Water Authority with the City of Los Angeles and the City of Burbank as its initial members; and
2. Return the proposed resolution to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

There is no impact on the City or the General Fund. Approval of the proposed Resolution will authorize the DWP to establish a Joint Powers Authority for financing of certain water capital projects.