



BOARD LETTER APPROVAL



JEFFERY L. PELTOLA
Chief Financial Officer



MARCIE L. EDWARDS
General Manager

DATE: November 24, 2015

SUBJECT: Transfer of Money from the Power Revenue Fund to the Reserve Fund of the City of Los Angeles During Fiscal Year (FY) 2015/16

SUMMARY

The attached resolution authorizes the adoption of an ordinance by the Los Angeles City Council to transfer money from the Power Revenue Fund of the Los Angeles Department of Water and Power (LADWP) to the Reserve Fund of the City of Los Angeles (City) during FY 2015/16 in the amount of \$266,957,000. This amount will be available for transfer based on a review of the Power System's operations as of the close of FY 2014/15.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners (Board) adopt the attached resolution authorizing the adoption of an ordinance to transfer money from the Power Revenue Fund to the Reserve Fund of the City during FY 2015/16.

ALTERNATIVES

The alternatives for the City transfer are described in City Charter Section 344. By December 31 of each year, the Board shall notify the City Council and the Mayor of the Board's decision to:

1. Approve that the transfer be made in full;
2. Approve that the transfer be made in part; or
3. Decide that the transfer not be made in whole or in part.

If the Board decides to not make the transfer in full, the Board shall provide the City Council and the Mayor with a detailed explanation of the basis therefore and all supporting financial information, and a preliminary assessment on the feasibility of making the transfer or the remaining portion of the transfer, as the case may be, by the end of the FY. In the event the Board notifies the City that it will be unable to make the transfer in whole or in part, the City Administrative Officer (CAO) shall verify the LADWP's findings and report to the Mayor and the City Council concurrently, by no later than February 28, with their findings and recommendations. The Board shall after

receiving the report from the CAO and consultation with the Council and Mayor, act to either amend or uphold the Board's preliminary findings.

BACKGROUND

The Power System transfer recommendation is based on the financial data of FY 2014/15, as of November 24, 2015, and a transfer amount of eight percent of the gross operating revenues. Transfers of this nature are a common practice of municipal electric utilities, based on data from the American Public Power Association. The transfer is subject to the following bond covenants:

- 1) No transfer may exceed the prior FY's net income; and
- 2) No transfer may result in the prior FY's surplus less the 2015/16 transfer amount being less than thirty-three and one-third percent (33-1/3 percent) of the total indebtedness (including the current portion) outstanding not more than ten days prior to the date of such transfer.

Based on the calculations as shown in Attachment A, both of these bond covenant requirements will be met and LADWP recommends a transfer of \$266,957,000 during FY 2015/16.

The attached resolution provides for \$133,500,000 to be transferred within ten days after the effective date of the ordinance in one lump-sum payment, and for the remainder to be transferred in approximately equal monthly installments so that by June 30, 2016, the full amount of \$266,957,000 will have been paid.

Effective FY 2014/15, LADWP adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB No. 68). Government entities with pensions were required to adopt GASB No. 68 for FY's beginning after June 15, 2014. While this Board adopted the accounting treatment to handle this statement in October 2015, LADWP staff will need extra time to work with LADWP's auditors to finalize the new disclosures such that the auditors can issue the audited financial statements. The dollar amounts in this Board letter, Resolution, and Power System City Transfer Calculation are based on financial data in the Power System's general ledger. Based on the general ledger as of November 24th for the June 30, 2015 fiscal year end there is \$35.2 million positive variance difference between the City Transfer amount and funds available per the net income bond covenant test. The other financial test is the debt to equity ratio which has \$2.275 billion positive difference. The audited financial statements will be presented to LADWP prior to December 31 and are expected to reflect the numbers shown above. In the event that the audited financial statements presented disclose financial data materially different from that disclosed above, LADWP staff will return this matter to this Board for information and further direction.

CITY ATTORNEY

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

ATTACHMENTS

- Resolution
- Power System City Transfer Calculation for FY 2015/16 and Bond Covenants Compliance Tests (Attachment A)