

0220-06338-0000

TRANSMITTAL

TO Janisse Quinones, General Manager Los Angeles Department of Water and Power	DATE 08/15/2025	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT ALL	

**LOS ANGELES DEPARTMENT OF WATER AND POWER INITIAL RESOLUTION NO. 5075
REQUESTING AUTHORIZATION TO ISSUE \$6.767 BILLION OF POWER SYSTEM REVENUE
BONDS TO FUND A PORTION OF THE POWER SYSTEM THREE-YEAR CAPITAL
IMPROVEMENT PROGRAM FOR FISCAL YEARS 2025-26, 2026-27, AND 2027-28**

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



MAYOR

(Jenny Delwood for)

Attachments

MWS/PJH/JVW:DLG:10260035t

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 29, 2025

CAO File No. 0220-06338-0000

Council File No.

Council District: ALL

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Water and Power dated July 17, 2025; Board of Water and Power Commissioners Communication dated July 9, 2025 and Board Resolution No. 5075 providing initial authorization for the issuance of power revenue bonds; referred by the Mayor for a report on July 22, 2025

Subject: **LOS ANGELES DEPARTMENT OF WATER AND POWER INITIAL RESOLUTION NO. 5075 REQUESTING AUTHORIZATION TO ISSUE \$6.767 BILLION IN POWER SYSTEM REVENUE BONDS TO FUND A PORTION OF THE POWER SYSTEM THREE-YEAR CAPITAL IMPROVEMENT PROGRAM FOR FISCAL YEARS 2025-26, 2026-27, AND 2027-28**

RECOMMENDATION

That the Mayor:

1. Approve Resolution No. 5075 which provides initial authority to the Los Angeles Department of Water and Power (LADWP) to issue up to \$6.767 billion in tax-exempt Power System Revenue Bonds to fund a portion of its Power System Capital Improvement Program for Fiscal Years 2025-26, 2026-27, and 2027-28;
2. Adopt the California Environmental Quality Act (CEQA) determinations of the Los Angeles Board of Water and Power Commissioners that the item is exempt from CEQA pursuant to Section 15060(c)(3) and Section 15378(b)(4) that states an activity is not subject to CEQA if the activity is not a project; and
3. Return the Resolution to the Department for further processing, including necessary Board approval and Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP; Department) requests authority to issue up to \$6.767 billion in Power System Revenue Bonds (Power Bonds) to finance a portion of LADWP's Power System Capital Improvement Program (Power System CIP / CIP) consisting of \$1.820 billion for Fiscal Year (FY) 2025-26, \$2.297 billion for FY 2026-27, and \$2.650 billion for FY 2027-28. The Power System CIP focuses on power system reliability, infrastructure, energy efficiency, operational support, and the development of renewable energy. On July 9, 2025, the Board of Water and Power Commissioners (Board) approved the initiating resolution, set forth

the purpose for future indebtedness, and established the maximum limits for this particular issuance as follows:

- The maximum principal is \$6.767 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.

The combined three-year issuance authority will provide LADWP flexibility to better plan its issuance to meet the Power System's needs. Assuming the maximum issuance of \$6.767 billion in revenue bonds, the total estimated cost is \$14.3 billion over 30 years, including issuance fees, principal and interest. The proposed resolution has been reviewed and approved as to form by the City Attorney.

In accordance with Charter Section 609 (d) "Competitive Bidding or Private Sale," and consistent with the Procedural Ordinance No. 172353 (Ordinance 172353), the LADWP proposes the use of a negotiated or private bond sale backed by the Power Revenue Fund. Based on determinations made by LADWP's Chief Financial Officer (CFO) in consultation with its municipal advisor, the Public Resources Advisory Group (PRAG), LADWP will issue revenue bonds to one or more investment banking firms. The justification for this approach is detailed in the CFO's Report, which is attached to this report as Exhibit A.

Pursuant to Charter Section 609, the issuance of Revenue Bonds is subject to City Council and Mayoral approval. The Ordinance requires that the Board first authorize an "initial resolution" for the issuance of revenue bonds and thereafter, transmit to the Council and Mayor for their approval or disapproval in the manner set forth in the Ordinance. Following Mayor and Council approval, a "supplemental resolution" will be presented at a future Board meeting to authorize the specific terms and conditions of the Power Bonds. Our office has reviewed the request, concurs with the recommendation for a negotiated bond sale, and recommends Mayoral and Council approval.

BACKGROUND

The Power System CIP for the LADWP is extensive, focuses on reliability, infrastructure, energy efficiency, operational support, and the development of renewable energies. LADWP's current three-year CIP program for its Power Division has total estimated costs of \$10.472 billion and will require a variety of external financing and internal funding / billing approaches in order to address the work. Refer to Table 1 of this report for CIP components and funding requirements. The Board's July 9, 2025 Resolution 5075, provides an "Initial Authorization," which allows LADWP to move forward with requesting the necessary authorities to pursue external financing with the issuance of power revenue bonds. The most recent Power System CIP issuance authorized by the Mayor and Council in November 2023, was for two years: FYs 2023-24 and 2024-25 and totaled \$2.119 billion (C.F. 23-1065).

Proposed Shift to a Three-Year Bond Authorization Cycle – The LADWP generally operates on a two-year timeframe for its CIP, with bond issuances secured by the Power Revenue Fund. To enhance flexibility and strategically plan its Power System bond issuance, LADWP proposes extending its bond authorization period from two years to three years. Under the current two-year

cycle, LADWP must finalize its budget and financial plans before submitting a new Executive Directive No. 4 request, often resulting in lost access to the summer bond market, a period that typically offers the most favorable conditions for issuers. A three-year cycle would allow LADWP to access at least two summer market periods per authorization and provide greater flexibility to adjust issuance timing and amounts in response to unexpected events, such as capital market disruptions. This flexibility will enable the Department to meet the Power System's financial needs and mitigate interest costs, particularly in the current environment of inflation and rising interest rates.

Capital Program Financing - The LADWP proposes a mix of external bond financing and internal funds to support the Power System CIP for FYs 2025-26, 2026-27, and 2027-28. The total cost of the FY 2025-26 CIP is approved at \$2.632 billion, which includes \$1.820 billion of tax-exempt Power Bonds and \$812 million to be collected from the ratepayers through current revenues on a pay-as-you-go basis. In addition, the total cost of the FY 2026-27 and 2027-28 expenditures is proposed at \$7.840 billion, and includes \$4.946 billion of tax-exempt Power Bonds and \$2.894 billion also to be collected from the ratepayers on a pay-as-you-go basis. Table 1 details the proposed Power System CIP expenditures for FYs 2025-26, 2026-27, and 2027-28, the Ratepayer Pay-As-You-Go amounts, and Net CIP amounts requiring financing:

Table 1: Summary of Proposed FY 2023-24 and FY 2024-25 Power System CIP				
Various Capital Programs Components	FY 25-26 (Millions)	FY 26-27 (Millions)	FY 27-28 (Millions)	TOTAL (Millions)
Power Supply Replacement Program				
Repowering: Haynes & Scattergood Demo & Modernization, SCPPA Gas Reserves Project	\$1	\$5	\$1	\$7
Renewable Portfolio Standard				
Renewable Resources: Energy Imbalance Market, Community Solar, Owens Valley Solar, Energy Storage, Barren Ridge Renewable Transmission Project, and Long-term Transmission Development.	434	757	666	1,857
Power System Reliability Program				
Replace poles, transformers, cables, and overhead circuits. Improve distribution system. Including the expansion and automation of substations. Integrate smart grid technology.	1,172	1,534	1,876	4,582
Power Supply Support/General				
Improvements at generating stations, distribution system, and general facilities. Investments in automation meter reading and smart grid.	443	675	813	1,931
Energy Efficiency				
Energy Conservation and Incentive Program	163	196	225	584
Operating Support	419	442	650	1,511
CIP Grand Total (Million)	\$2,632	\$3,609	\$4,231	\$10,472
Ratepayer Pay-As-You-Go	(812)	(1,312)	(1,581)	(3,705)
Net CIP Total Requiring Financing (Million)	\$1,820	\$2,297	\$2,650	\$6,767

Supplemental Resolution - Following consideration by Mayor and Council and also as required by Ordinance 172353, LADWP staff will schedule a supplemental resolution to be presented at a future Board meeting which will authorize specific terms and conditions, including the identified underwriting firms from which LADWP's investment banking team members will make a selection,

and the principal financing documents related to the Power Bonds. Detailed underwriting information is discussed below and the selected underwriting firms are identified in Table 2.

LADWP Private Bond Sale Recommendation - Pursuant to City Charter Section 609(d), the Los Angeles Administrative Code Section 11.28.4, and Ordinance 172353 governing proprietary department bond resolutions, LADWP is authorized to utilize and engage in the private sale of bonds to one or more underwriting firms selected by the Board. 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 PRAG, its municipal advisor. 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 and structuring which allows LADWP to navigate through challenging markets.

Furthermore, LADWP indicates a negotiated bond sale can provide an opportunity to communicate directly with investment firms regarding potential concerns including, but not limited to, operations, developments, challenges, and mitigation efforts, which can be effective for ensuring appropriate borrowing rates.

This Office concurs with the recommendation for a negotiated bond sale and the borrowing of funds to support a portion of the Power System CIP for FY 2025-26, 2026-27, and 2027-28. A negotiated sale can be structured to meet specific investor needs, provide flexibility on behalf of LADWP's needs, and would meet the financial interest of LADWP.

Underwriting Team and Reasonable Banking Ordinance – LADWP plans to issue a Request for Proposals in the fourth quarter of 2025 to select a new underwriting team for a five-year term from July 2026 through July 2031. For each bond issuance, LADWP will select underwriters from the approved team, which includes participation from local business, women-owned, minority-owned, and disabled veteran business enterprises. Table 2 lists the current underwriting firms approved by the Board on July 20, 2021.

Table 2: LADWP Selected Underwriting Team	
Senior Managers	Co-Managers
Barclays Capital Inc. ⁽¹⁾	Academy Securities, Inc. ⁽²⁾⁽⁴⁾
BofA Securities, Inc. ⁽¹⁾	Alamo Capital ⁽³⁾
Citigroup Global Markets Inc.*	Backstrom McCarley Berry & Co., LLC ⁽²⁾
Goldman, Sachs & Co. LLC ⁽¹⁾	Cabrera Capital Markets, LLC ⁽²⁾
RBC Capital Markets, LLC ⁽¹⁾	J.P. Morgan Securities LLC
Samuel A Ramirez & Co., Inc. ⁽²⁾	Jefferies LLC ⁽¹⁾
Siebert Williams Shank & Co., LLC ⁽²⁾⁽³⁾	Loop Capital Markets LLC ⁽²⁾
TD Securities (USA) LLC	Morgan Stanley & Co. LLC ⁽¹⁾

Table 2: LADWP Selected Underwriting Team (continued)	
Senior Managers	Co-Managers
UBS Financial Services Inc.*	Stern Brothers & Co. ⁽³⁾
Wells Fargo Bank, National Association ⁽¹⁾	Stifel, Nicolaus & Co., Inc. ⁽¹⁾

1) Local Business Enterprise; 2) Minority Business Enterprise; 3) Women Business Enterprise; and 4) Disabled Veteran Business Enterprise.

2) *Municipal Bond Department no longer in business.

In compliance with the Responsible Banking Ordinance No. 182138 (RBO), LADWP's Pool of Underwriters have disclosed their corporate citizenship, involvement in charitable programs or scholarships within the City of Los Angeles and internal policies regarding use of subcontractors designated as "women owned," "minority owned," or "disabled business enterprises" as required annually.

Issuance and Bond Costs – Assuming the maximum issuance of up to \$6.767 billion in Power Bonds, the total estimated cost is \$14.3 billion over 30 years which includes principal and interest for tax-exempt bonds and debt issuance costs. The debt issuance costs estimated at \$27 million, consists of underwriters' discount, bond counsel, disclosure counsel, municipal advisor and rating agencies fees. The proposed Resolution allows a maximum permissible interest rate of 12 percent per annum consistent with California Code Section 53531. The proposed Power Bonds will not be issued until the next rate action is approved by the Board and the City Council.

Financial Planning Metrics - The LADWP Board adopted financial planning criteria in 2009 designed to ensure the stability of LADWP's finances and ability to pay debt service when due. LADWP metrics are established and the basis for maintaining a certain bond rating category. On May 26, 2020, the LADWP Board determined that the need to maintain the 2.25 times requirement for Debt Service Coverage was no longer necessary. Per LADWP, for FY 2024-25, the Power System anticipates full obligation coverage to be at 2.1 times, liquidity equivalent to approximately 170 days of operating expense, and the debt to capitalization rate to be at 61.2 percent. The financial projection for FY 2025-26 and any proposed rate action for FY 2026-27 and FY 2027-28 must meet the financial planning metrics established by the Board. See Table 3 below:

Table 3: Financial Planning Metrics				
Financial Metrics	Current Board-Approved Metrics	Actual FY 2022-23 Metrics	Actual FY 2023-24 Metrics	Projected FY 2024-25 Metrics
Full Obligation Coverage	1.7 times	2.4 times	2.2 times	2.1 times
Minimum Operating Cash Flow	170 days	234 days	209 days	170 days
Capitalization Ratio	Less than 68%	63.4%	62.0%	61.2%

Indebtedness - As of July 1, 2025, the Power System reported approximately \$11.84 billion in long-term debt obligations. Long-term debt obligations consist of approximately \$450.19 million of variable rate debt and \$11.39 billion of fixed rate revenue bonds. All debt service payments are payable from the Power Revenue Fund.

Proposed Debt Issuance Costs - LADWP estimates the total debt issuance cost is approximately \$27 million as detailed in Table 4 below:

Table 4: Debt Issuance Costs for \$6.767 Billion	
Service	Estimated Cost
Rating Agencies	\$ 6,490,000
Municipal Advisor	1,063,000
Bond Counsel	1,615,000
Disclosure Counsel	850,000
Underwriter's Discount	16,918,000
Printing of Official Statement	51,000
Total Debt Issuance Costs	\$26,987,000

Alternatives Considered – LADWP has two primary sources of funding for its CIP: 1) directly from rates collected from customers, and 2) borrowing from the capital market, which is repaid from customer rates collections over time. Collections directly from rates do not provide sufficient funding for the entire capital budget. Therefore, there is a need to borrow funds by issuing bonds.

CITY COMPLIANCE

City Charter Section 609 Compliance – 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 Board has authorized the sale of bonds pursuant to private sale after written recommendation of the 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 Ordinance 172353, to disapprove the selection by a department of the underwriting firm(s) for the private sale of bonds.

California Environmental Quality Act (CEQA) - The Los Angeles Board of Water and Power Commissioners determined that the item is exempt from CEQA pursuant to Section 15060(c)(3) that states an activity is not subject to CEQA if the activity is not a project. Section 15378(b)(4) states 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 does not meet the definition of a project. Therefore, issuing an initial authorization for the issuance of Power Bonds is not subject to CEQA. The City Attorney has reviewed and approved the proposed resolution as to form. Our Office recommends approval.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the proposed initial resolution authorizes the issuance of up to \$6.767 billion in Power Revenue Bonds to finance a portion of the LADWP Power System CIP for FYs 2025-26, 2026-27, and 2027-28. At a future Board meeting, the LADWP intends to present a supplemental resolution with specific terms and conditions. The total estimated fiscal impact is \$14.3 billion over 30 years, including repayment of the bonds, interest, and \$27 million of debt issuance costs. Repayment of these costs will be from the LADWP Power Revenue

Fund. The proposed request complies with the LADWP's adopted Financial Policies.

Attachments – LADWP July 17, 2025 Letter, July 9, 2025 Board Correspondence, Initial Resolution, June 27, 2025 Public Resources Advisory Group Letter on Negotiated Bond Sale, and Power System - Financial Metrics

MWS/PJH/JVW:DLG:10260035