

BOARD LETTER APPROVAL

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Ann M. Santilli (Aug 18, 2025 12:02:30 PDT)

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DATE: August 18, 2025

SUBJECT: Initial Authorization to Issue up to \$2.530 Billion of Water System Revenue Bonds Under Resolution No. 5076

SUMMARY

Proposed Resolution No. 5076 will authorize the issuance of up to \$2.530 billion of tax-exempt Water System Revenue Bonds (Water Bonds) to finance a portion of the budgeted capital improvements for Fiscal Years (FYs) 2025-26, 2026-27, and 2027-28, including the related costs of issuance. The debt service on the Water Bonds for FY 2025-26 will be covered by the currently approved rate level and the debt service on the Water Bonds for FY 2026-27 and 2027-28 must meet the financial planning metrics established by the Board. The debt service will be payable out of the Water Revenue Fund.

Resolution No. 5076 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, which provides additional information about the proposed Water Bond issuance, will be introduced at subsequent Board meetings.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners adopt the attached Resolution recommending City Council's approval of the issuance of up to \$2.530 billion of Water Bonds as required in Charter Section 609.

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 up to \$2.530 billion by issuing Water Bonds pursuant to Section 609 of the Charter for the purpose of financing a portion of the Water System's budgeted capital improvements for FYs 2025-2026 and financial projections for 2026-27 and 2027-28.

FINANCIAL INFORMATION

The total estimated cost for the \$2.530 billion new money, including principal and interest, is approximately \$5.3 billion over 30 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$11.0 million equivalent to 0.44 percent of the total bond issue which includes underwriters' discount, bond counsel, disclosure counsel, municipal advisor, and rating agencies fees.

The Board adopted financial metrics to use for Power System financial plans as follows:

1. maintain a minimum operating cash target of the equivalent of 150 days of operating expenses,
2. maintain debt service coverage of at least 1.7 times, and
3. maintain a debt-to-capitalization ratio of less than 65 percent.

For FY 2024-25, the Water System anticipates full obligation coverage to be at 1.7 times, liquidity equivalent to approximately 154 days of operating expenses, and the debt to capitalization rate to be at 59.8 percent. The financial projection for FY 2026-27 and 2027-28 must meet the above financial metrics established by the Board. Attached is a historical financial overview of the Power System operating results and financial metrics.

BACKGROUND

Overview of Bond Funding Need

The Water System's FY 2025-26 Budget, approved by the Board on May 13, 2025, and transmitted to City Council in accordance with Charter Section 684, reflects a need to borrow approximately \$357 million to support a portion of its planned \$1.153 billion capital improvements program over the same period. Additionally, the multi-year financial plan, which supports the budget, indicates a need of approximately \$2.173 billion external financing to support a portion of its planned \$3.307 billion capital improvements program for FY 2026-27 and 2027-28.

Proposed Resolution No. 5076 will authorize the issuance of up to \$2.530 billion of tax-exempt Water Bonds to finance a portion of the budgeted capital improvements for FYs 2025-26, 2026-27, and 2027-28, including the related costs of issuance. The combined three-year issuance authorization will provide the Department the flexibility to better plan its issuances to meet the Water System's needs and mitigate interest costs given the rising interest rates environment.

The debt service on the Water Bonds for FY 2025-26 will be funded by the currently approved rate level and the debt service on the Water Bonds for FY 2026-27 and 2027-28 must meet the above financial metrics established by the Board. The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Water System and would be drawn down to fund a portion of its capital improvements program.

Resolution No. 5076 is an “initial authorizing resolution” of the Board, setting forth the purpose for future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 5076 also provides for the private sale of the Water Bonds to one or more of the firms included in the team of underwriting firms approved by the Board in July 2021 pursuant to the Procedural Ordinance. At a future Board meeting, the Financial Services Organization will present a “supplemental resolution” that will authorize the specific terms and conditions for the Water Bonds, including the underwriting firms that will be selected from among LADWP’s investment banking team members and the principal financing documents related to the Water Bonds.

Both LADWP’s Chief Financial Officer (CFO) and its municipal advisor, the Public Resources Advisory Group (PRAG) recommend the Water 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.

Ordinance No. 182138 requires investment banks to disclose their corporate citizenship which shall include their participation in charitable programs or scholarships within the City of Los Angeles (City of LA) and internal policies regarding utilization of subcontractors which are designated as “women owned,” “minority owned,” or “disabled business enterprises.” All of the current investment banks that are in LADWP’s Pool of Underwriters are in compliance with Ordinance No. 182138.

In accordance with the Mayor’s Executive Directive No. 4, the City Administrative Officer’s Report (CAO) was approved on August 15, 2025.

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, issuing an Initial Authorization for the issuance of Water System Revenue Bonds is not subject to CEQA.

CITY ATTORNEY

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

ATTACHMENTS

- Resolution
- CFO Report
- PRAG's Letter on Negotiated Bond Sale
- Water System Financial Overview
- CAO Report