City of Los Angeles

Los Angeles 2nd Regional Investors Conference
February 26, 2014

Presented by:
Lisa Mowery, Acting Chief Financial Officer
Department of Public Works, Bureau of Sanitation

Disclaimer

This Investor Presentation is provided as of February 26, 2014 as part of the Los Angeles 2nd Regional Investor Conference 2014 organized by the City of Los Angeles ("City") with respect to its Wastewater System Revenue Bonds (the "Bonds"). If you are viewing this presentation after February 26, 2014, there may have been events that occurred subsequent to such date that may have a material adverse effect on the financial information that is presented herein, and the City has not undertaken any obligation to update this Investor Presentation. All financial data and other information provided herein are not guaranteed as to completeness or accuracy and are subject to change without notice.

This Investor Presentation does not constitute a recommendation or an offer or solicitation for the purchase or sale of any security or other financial instrument, or to adopt any investment strategy. Any offer or solicitation with respect to the purchase or sale of any security will be made solely by means of an Official Statement, which describes the actual terms of such securities. This Investor Presentation is not an Official Statement. In no event shall the City be liable for any use by any party of, for any decision made or action taken by any party in reliance upon, or for any inaccuracies or errors in, or omissions from, the information contained herein and such information may not be relied upon by you in evaluating the merits of participating in any transaction mentioned herein. The City makes no representations as to the legal, tax, credit or accounting treatment of any transaction mentioned herein, or any other effects such transactions may have on you and your affiliates or any other parties to such transactions and their respective affiliates. You should consult with your own advisors as to such matters and the consequences of the purchase and ownership of any security. Nothing in this Investor Presentation constitutes a commitment by the City.

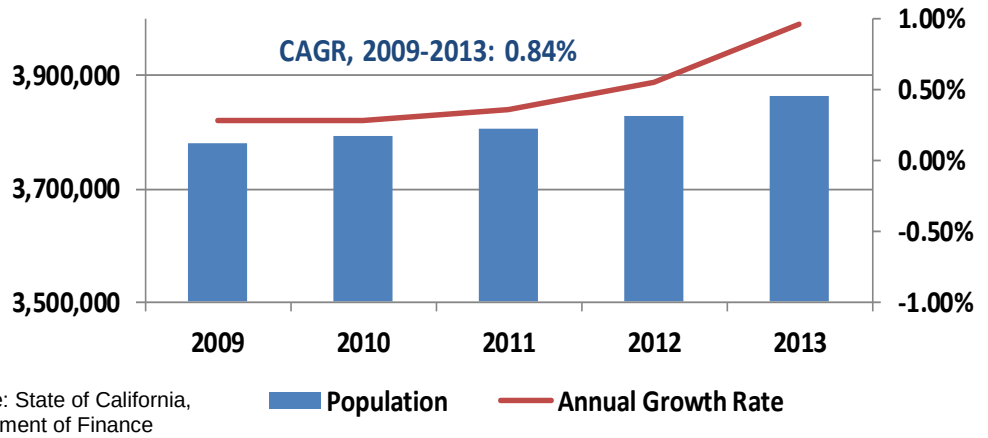
This Investor Presentation contains certain forward-looking statements. The achievement of certain results or other expectations contained in any forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although the City believes that such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The City is not obligated and has not undertaken any obligation to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Presentation Highlights

- Large service area population and stable customer base
- Continued improvement in system reliability
- Sound historical financial results with strong cash reserves
- Approved and implemented 10-year rate plan provides predictable funding stream and demonstrates political support for the Wastewater System
- Affordable and manageable capital improvement plan (CIP)
- Significant use of non-bond funding sources keeps debt level moderate
- New billing system has resulted in some delayed billings and collections, but will not affect daily operations or have a material impact on debt coverage.

Stable City Population & Solid and Established Customer Base

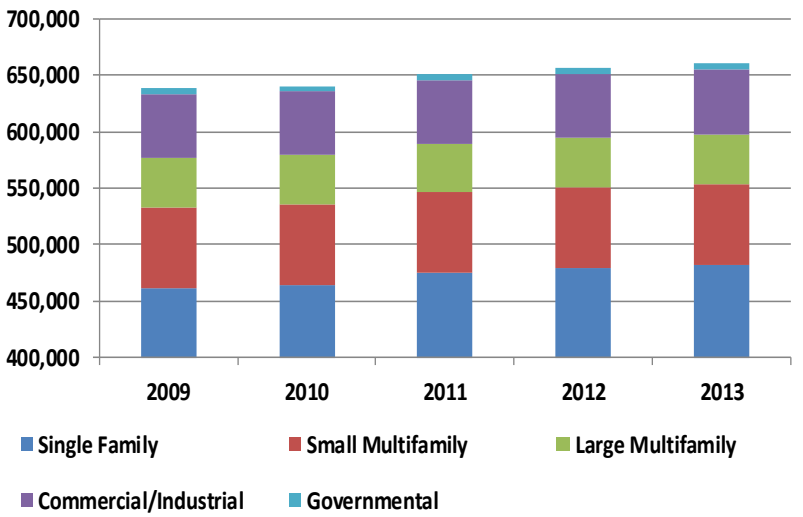
City of Los Angeles Population



Source: State of California, Department of Finance

- Providing service to the 2nd largest City in the nation, the System's population base is large and stable

Wastewater System Customers



Source: City of Los Angeles, Bureau of Sanitation

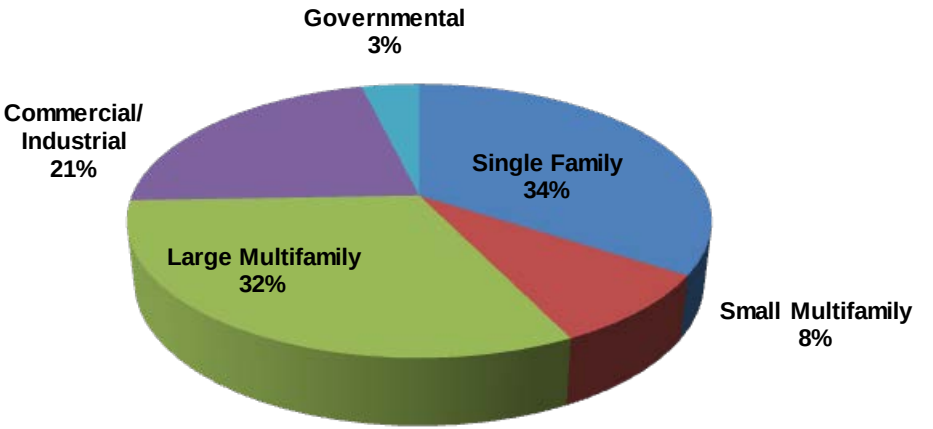
- Customer base, by category and in aggregate, has remained constant for the last 5 years
  - While water conservation has reduced flows, this was accounted for in the rate increases adopted in 2012
  - Focus on efficiently serving existing demand and meeting regulatory standards

Wastewater System Customers for FY 2013

- Ten largest customers comprise less than 5% of total FY 2013 sewer service charge revenues of $519 million

- Largest customers are stable:
  - Government
  - Universities
  - Healthcare provider
  - Large residential complex

Billable Wastewater
Volume by Customer Class

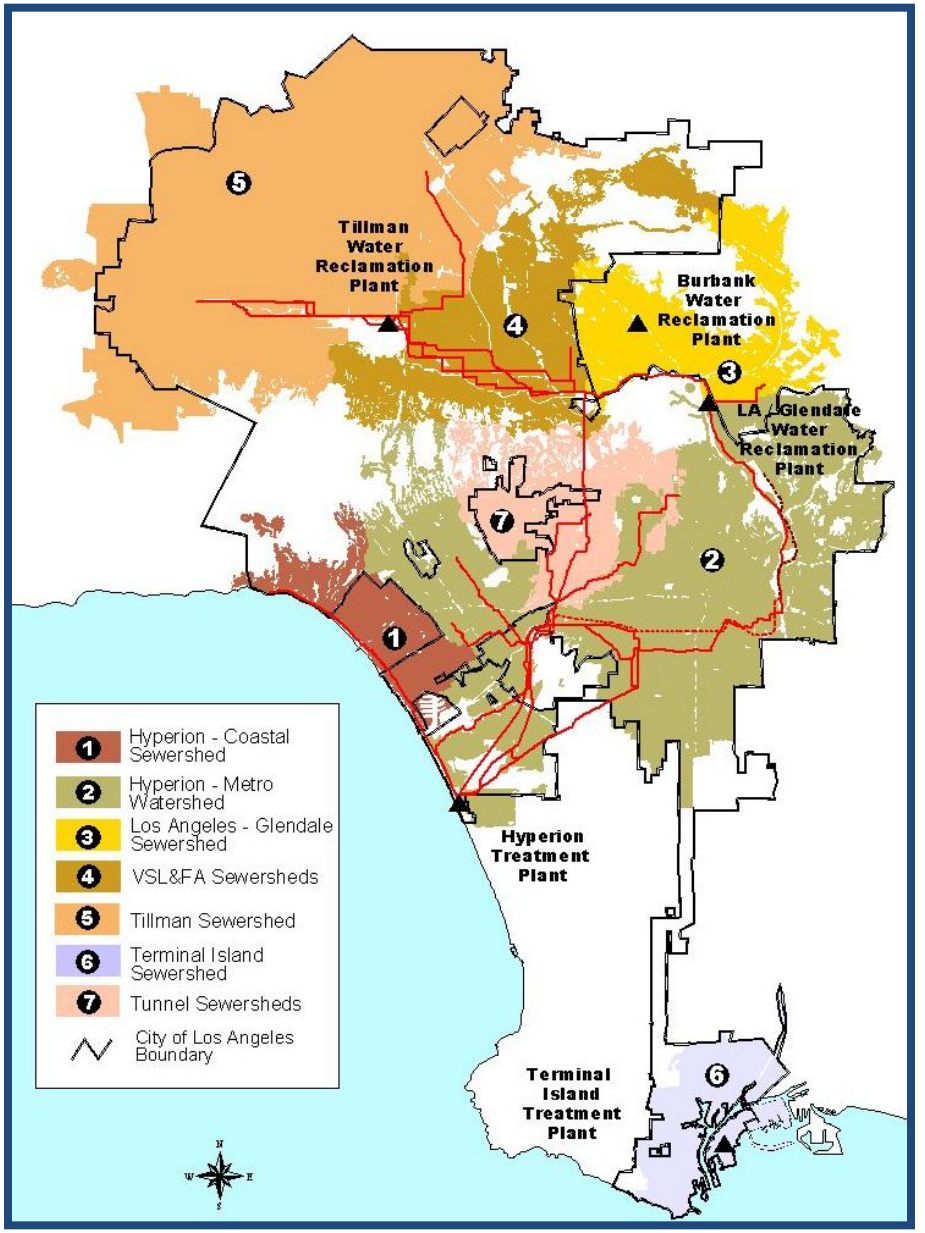


- Implementation of new billing system in September 2013 has resulted in some delayed billings and collections; however, this does not impact daily operations nor materially reduce debt service coverage.

Source: City of Los Angeles, Bureau of Sanitation

System Overview

- "Built-out" System
  - 6,700 miles of mainline sewers
  - 7 main interceptor sewers
  - 44 pumping plants
  - 4 City-owned water reclamation plants
- System uses natural geography of LA basin in an efficient and cost effective manner
  - Drainage patterns and gravity direct flow from two primary drainage areas to 4 treatment plants
- 29 contracting agencies use the System and accounted for 11.4% of wastewater flow in FY 2013



Source: City of Los Angeles, Bureau of Sanitation

Enhancements to System = Improved Reliability

- In response to sanitary sewer spills caused by 1998 El Niño rains, City has made major enhancements to System
  - Rehabilitation of older sewers
  - Increased cleaning of sewers
  - Fat, Oil, and Grease (FOG) program
- As a result, sewer spills and odor are steadily declining
- Sewer odor complaints reduced by 42% since FY 2004
  - 213 complaints in FY 2004, down to 123 in FY 2013

- Spills caused by fats, oils and grease have been reduced by 94% over past 12 years due to aggressive enforcement
  - 290 spills in FY 2001, down to 17 spills in FY 2013
- Total spills reduced by 82% over past ten years
  - 687 spills in FY 2001, down to 125 spills in FY 2013
- Successful completion of 10-year Collection System Settlement Agreement expected in 2014
- Construction of co-generation facility will power largest water reclamation plant by 2016

Source: City of Los Angeles, Bureau of Sanitation

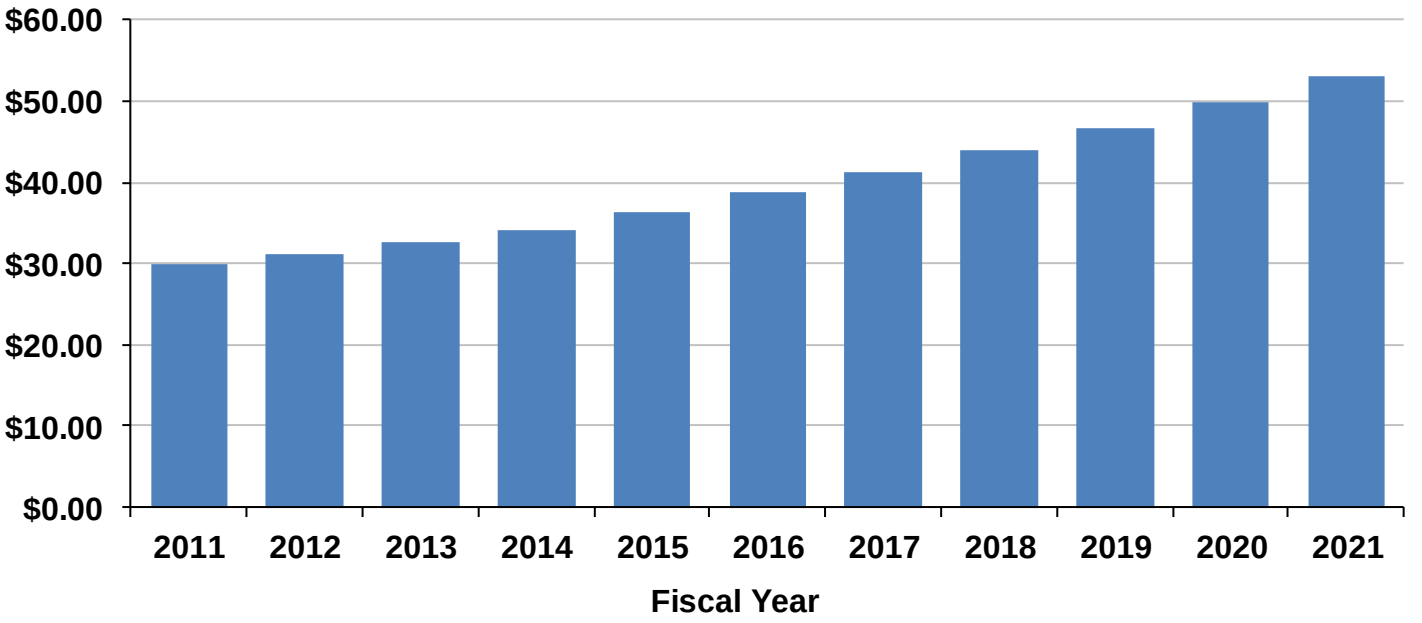
Regulatory Status

- System is in compliance with all federal and state permits
- Terminal Island plant received its 5-year National Pollutant Discharge Elimination System permit in 2010. The other three plants received their 5 year permits in 2011.
- City is a stakeholder in the process of developing State Water Resources Control Board Total Maximum Daily Loads that is expected to continue for the next decade

10-year Sewer Service Charge Increase Plan Adopted

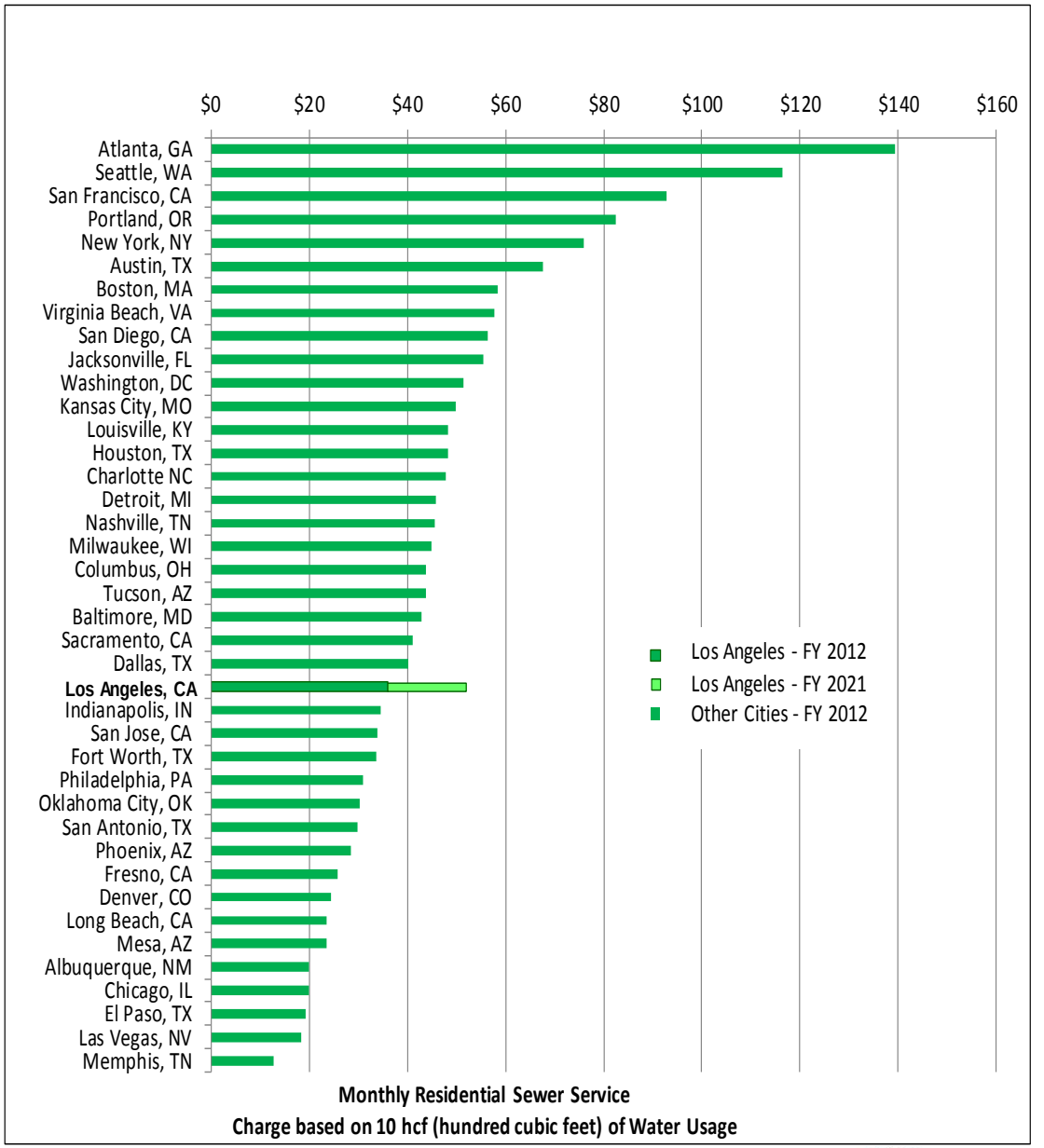
- February 2012 City action raised sewer rates annually through Fiscal Year 2021
  - Received unanimous Mayor and City Council support
  - No further City Council action required for annual rate increases during this time period
  - Effective as of April 6, 2012
- Gradual rate increase provides predictable revenue stream to support System operations
  - Annual increases of 4.5% already implemented for first three years, 6.5% in next seven years
  - Delays in revenue collections can be absorbed

Monthly Sewer Service Charge for Typical Household



Source: City of Los Angeles, Bureau of Sanitation

Monthly Residential Sewer Service Charge – 40 Largest US Cities

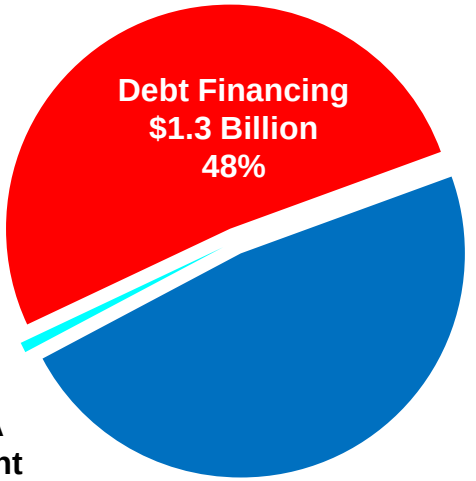


- Current average monthly residential charge of $35.97 is moderate compared to other large U.S. cities
- Even after full implementation of 10-year rate increase plan, the City's sewer service charge will still be lower than the current charges of many large cities

Source: 2012 Black & Veatch Rate Survey

Anticipated Capital Improvement Program

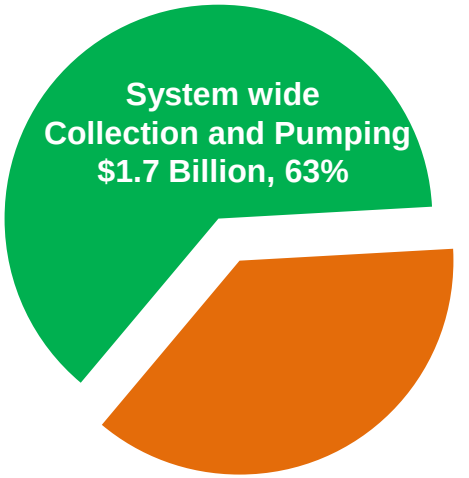
Projected CIP Funding Sources (FY 2014-2023)



Grants/FEMA Reimbursement
$20 Million
1%

System Revenues
$1.4 Billion
51%

Projected CIP Expenditures (FY 2014-2023)



Wastewater Treatment
$1 Billion, 37%

Total - Projected CIP Expenditures & Funding Sources (FY 2014-2023): $2.702 Billion

- 52% of CIP is projected to be funded through non-debt sources
- Majority of CIP costs are for collection system which is expected to have a useful life in excess of 75 years

Source: City of Los Angeles, Bureau of Sanitation

Summary of Historical Operating Results

CASH BASIS (UNAUDITED) (in Thousands)

	Fiscal Year Ended June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Total Operating Receipts	$526,378	$526,300	$525,569	$497,118	$567,038
Non-Operating Revenues	7,179	2,756	6,179	25,045	23,003
Total Revenues	$533,557	$529,056	$531,748	$522,163	$590,041
Less Operating Expenses	275,179	238,635	254,727	267,850	264,137
Net Revenues	$258,378	$290,421	$277,021	$254,313	$325,904
Senior Debt					
Debt Service	$ 82,176	$102,818	$107,579	$112,551	$118,023
Debt Service Coverage	3.14x	2.82x	2.58x	2.26x	2.76x
Subordinate Debt Service	71,932	71,240	72,916	84,269	90,464
Total Debt	$154,108	$174,058	$180,495	$196,820	$181,277
Debt Service without SRF Loans	140,503	160,453	166,890	183,215	194,882
Debt Service Coverage	1.84x	1.81x	1.66x	1.29x	1.56x
Revenues After Debt Service	$104,270	$116,363	$ 96,526	$ 57,493	$ 117,417
Non-operating Revenues	$ 13,622	$ 15,387	$ 10,845	$ 10,881	$ 10,455
Non-operating Expenses	$ 3,628	$ 0	$ 4,335	$ 0	$ 1,5245
Balance Available	$114,264	$131,750	$103,036	$ 68,374	$ 126,348

- System operations have generated $544 million in operating funds during five-year period to contribute to funding CIP
- Upticks in DSC and cash balance in 2013 reflect the first two years of rate adjustments

Source: City of Los Angeles, Bureau of Sanitation

Strong Historical Cash Balances

Sewer Construction and Maintenance Fund Cash Balances ($000's)

	Fiscal Year Ended June 30				
	2009	2010	2011	2012	2013
UNRESTRICTED FUNDS					
Sewer Construction and Maintenance	$ 13,137	$ 56,768	$ 63,457	$ 54,365	$ 102,856
Sewer Operation and Maintenance	7,898	31,124	27,595	28,988	14,400
Sewer Capital	11,856	25,496	19,947	18,113	8,840
Total Unrestricted Funds	$32,891	$ 113,388	$110,999	$ 111,465	$126,096
RESTRICTED FUNDS					
Construction Funds	$ 120,362	$ 94,099	$ 95,412	$ 36,027	$ 118,131
Reserve Funds	98,651	95,902	107,605	100,687	98,085
Debt Service Funds	18,045	13,298	19,045	18,984	17,441
Operation and Maintenance (O&M) Reserve	34,962	34,277	34,277	27,276	36,553
Insurance and Liability Claims Funds	3,000	3,000	3,000	3,000	3,000
Emergency Fund	5,000	5,000	5,000	5,000	5,000
Rebate Funds	532	431	431	431	431
Total Restricted Funds	$280,552	$ 246,007	$264,770	$ 191,406	$278,641
TOTAL FUNDS	$313,443	$ 359,395	$375,769	$ 302,872	$404,736

- Fiscal Year 2013 Cash available for Operation & Maintenance (O&M) Expenses:
  - Total unrestricted cash in Sewer Construction and Maintenance and Sewer Operation and Maintenance funds of $91 million, plus $34.3 million in required O&M Reserves, plus $5 million in Emergency Fund, aggregate to 220 days of operating expenses (shaded in blue)

Source: City of Los Angeles, Bureau of Sanitation

Projected Operating Results

- Strong projected debt service coverage:
  - Ratios are expected to range from 3.03x to 3.76x for Senior Lien Bonds and 1.65x to 1.95x for Subordinate Lien Bonds from Fiscal Year 2014 to 2018

Debt Service Coverage (In Thousands)

	Fiscal Year Ended June 30				
	2014	2015	2016	2017	2018
Projected Net Revenue	**$310,812**	**$337,201**	**$382,140**	**$420,215**	**$458,707**
Debt Service:					
Existing Senior Lien Bonds	97,924	100,499	94,014	79,177	79,162
Additional Senior Lien Bonds	-	10,903	22,954	35,217	42,718
Total Senior Lien Bonds	**$ 97,924**	**$111,402**	**$116,968**	**$114,394**	**$121,880**
Existing Subordinate Lien Bonds	78,117	92,769	98,951	113,180	113,473
Commercial Paper Notes	1,080	360	0	0	0
Total Subordinate Lien Bonds	79,197	93,129	98,951	113,180	113,473
Total All Bonds and CP Notes	**$181,981**	**$188,948**	**$197,167**	**$216,802**	**$226,434**
Projected Debt Service Coverage:					
Total Senior Lien Bonds	**3.17x**	**3.03x**	**3.27x**	**3.67x**	**3.76x**
Total Senior and Subordinate Debt	**1.75x**	**1.65x**	**1.77x**	**1.85x**	**1.95x**

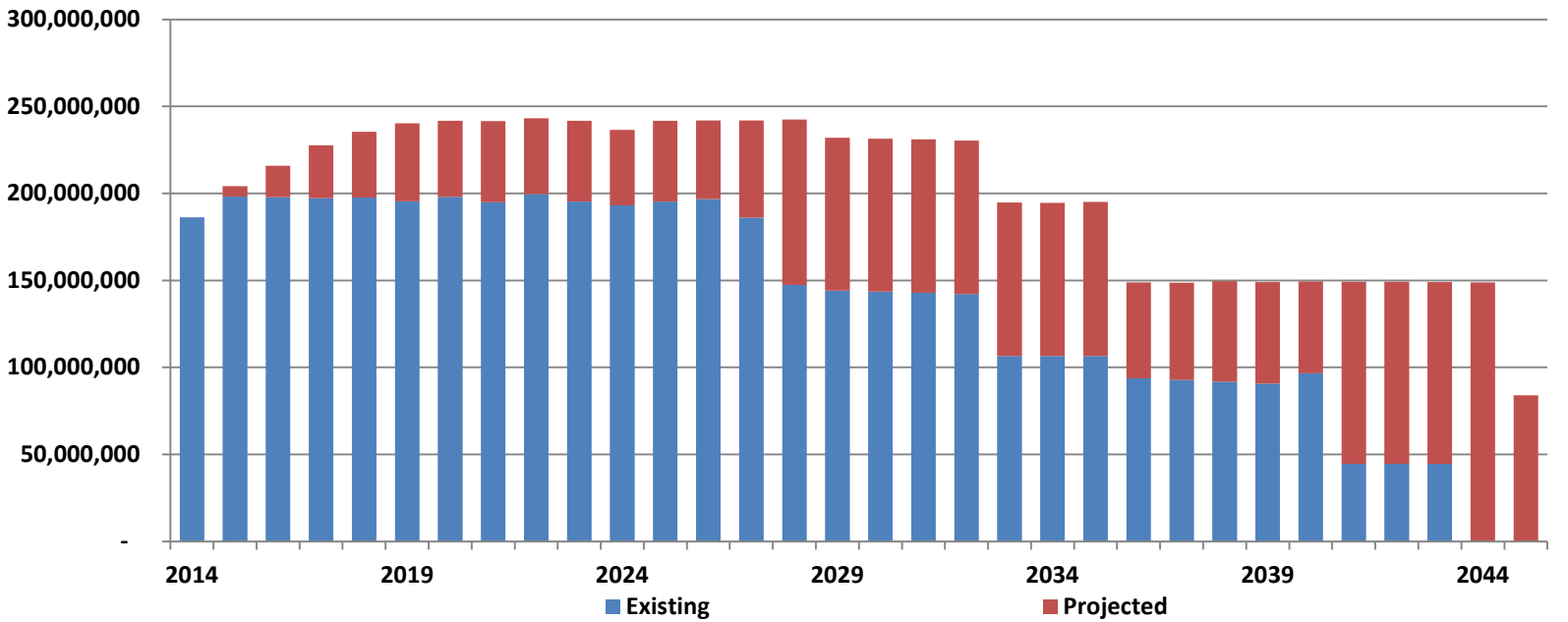
Source: City of Los Angeles, Bureau of Sanitation

Existing and Projected Debt

Existing and Projected Debt – Fiscal Year Ending 2018

	Fixed Rate	Variable Rate *	Total
Senior Lien	$915,805,000	$ -	$915,805,000
Subordinate Lien	898,550,000	280,860,000	1,179,410,000
SRF Loans	88,506,000	-	88,506,000
Total	**$1,902,861,000**	**$280,860,000**	**2,183,721,000**

Debt Service on Existing and Projected Bonds **



* Includes Commercial Paper Notes and portion of Variable Rate bonds associated with outstanding swap agreements

** Does not include debt service on SRF loans, which are subordinate to Subordinate Lien Bonds and Commercial Paper Notes

Source: City of Los Angeles, Bureau of Sanitation

Summary

- System serves one of the largest and most diverse service areas in the US
- Current and projected financial results bolstered by approved 10-year rate increases (seven years remaining)
  - Senior Lien Debt Service Coverage
    - ✓ FY 2014: 3.17x; FY 2015 – 2018: ranges from 3.03x to 3.76x
  - Subordinate Lien Debt Service Coverage
    - ✓ FY 2014: 1.75x; FY 2015 – 2018: ranges from 1.65x to 1.95x
- Revenue collection delays are being resolved and are not negatively impacting operations or debt service coverage