Los Angeles 2nd Regional Investors Conference
February 26, 2014

Presented by:
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Department of Public Works, Bureau of Sanitation
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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

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

- 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

City of Los Angeles Population

Wastewater System Customers

Source: State of California, Department of Finance

Source: City of Los Angeles, Bureau of Sanitation
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

- 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.

Billable Wastewater Volume by Customer Class

- Single Family: 34%
- Large Multifamily: 32%
- Commercial/Industrial: 21%
- Small Multifamily: 8%
- Governmental: 3%

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
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.

Monthly Residential Sewer Service Charge – 40 Largest US Cities

Source: 2012 Black & Veatch Rate Survey
Anticipated Capital Improvement Program

Projected CIP Funding Sources (FY 2014-2023)

- Debt Financing $1.3 Billion (48%)
- System Revenues $1.4 Billion (51%)
- Grants/FEMA Reimbursement $20 Million (1%)

Projected CIP Expenditures (FY 2014-2023)

- System wide Collection and Pumping $1.7 Billion, 63%
- 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
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.
Strong Historical Cash Balances

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td><strong>UNRESTRICTED FUNDS</strong></td>
<td></td>
</tr>
<tr>
<td>Sewer Construction and Maintenance</td>
<td>$13,137</td>
</tr>
<tr>
<td>Sewer Operation and Maintenance</td>
<td>7,898</td>
</tr>
<tr>
<td>Sewer Capital</td>
<td>11,856</td>
</tr>
<tr>
<td>Total Unrestricted Funds</td>
<td>$32,891</td>
</tr>
<tr>
<td><strong>RESTRICTED FUNDS</strong></td>
<td></td>
</tr>
<tr>
<td>Construction Funds</td>
<td>$120,362</td>
</tr>
<tr>
<td>Reserve Funds</td>
<td>98,651</td>
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<tr>
<td>Debt Service Funds</td>
<td>18,045</td>
</tr>
<tr>
<td>Operation and Maintenance (O&amp;M) Reserve</td>
<td>34,962</td>
</tr>
<tr>
<td>Insurance and Liability Claims Funds</td>
<td>3,000</td>
</tr>
<tr>
<td>Emergency Fund</td>
<td>5,000</td>
</tr>
<tr>
<td>Total Restricted Funds</td>
<td>$280,552</td>
</tr>
<tr>
<td><strong>TOTAL FUNDS</strong></td>
<td>$313,443</td>
</tr>
</tbody>
</table>

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)
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)

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Projected Net Revenue</td>
<td>$310,812</td>
</tr>
<tr>
<td>Debt Service:</td>
<td></td>
</tr>
<tr>
<td>Existing Senior Lien Bonds</td>
<td>$97,924</td>
</tr>
<tr>
<td>Additional Senior Lien Bonds</td>
<td>-</td>
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<tr>
<td>Total Senior Lien Bonds</td>
<td>$97,924</td>
</tr>
<tr>
<td>Existing Subordinate Lien Bonds</td>
<td>$78,117</td>
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<tr>
<td>Commercial Paper Notes</td>
<td>$1,080</td>
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<tr>
<td>Total Subordinate Lien Bonds</td>
<td>$79,197</td>
</tr>
<tr>
<td>Total All Bonds and CP Notes</td>
<td>$181,981</td>
</tr>
<tr>
<td>Projected Debt Service Coverage:</td>
<td></td>
</tr>
<tr>
<td>Total Senior Lien Bonds</td>
<td>3.17x</td>
</tr>
<tr>
<td>Total Senior and Subordinate Debt</td>
<td>1.75x</td>
</tr>
</tbody>
</table>

Source: City of Los Angeles, Bureau of Sanitation
Existing and Projected Debt

Existing and Projected Debt – Fiscal Year Ending 2018

<table>
<thead>
<tr>
<th></th>
<th>Fixed Rate</th>
<th>Variable Rate *</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Lien</td>
<td>$915,805,000</td>
<td>$0</td>
<td>$915,805,000</td>
</tr>
<tr>
<td>Subordinate Lien</td>
<td>898,550,000</td>
<td>280,860,000</td>
<td>1,179,410,000</td>
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<tr>
<td>SRF Loans</td>
<td>88,506,000</td>
<td></td>
<td>88,506,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,902,861,000</td>
<td>$280,860,000</td>
<td>2,183,721,000</td>
</tr>
</tbody>
</table>

* 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

Debt Service on Existing and Projected Bonds **

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