

KBRA Assigns AA Rating, Stable Outlook to the Department of Water and Power of the City of Los Angeles - Water System Revenue Bonds

New York (October 22, 2025)

KBRA assigns a long-term rating of AA to the Department of Water and Power of the City of Los Angeles (LADWP, or the Department) Water System Revenue Bonds, 2025 Series C. The Outlook is Stable. Proceeds of the 2025 Series C Bonds will primarily be used to pay costs of Water System capital improvements and refund certain outstanding Water System Revenue Bonds. As of October 1, 2025, approximately \$6.04 billion Water System Revenue Bonds and revolving loans were outstanding. Other parity indebtedness includes \$722.6 million of loans provided by the State Water Resources Control Board, and a \$2.9 million loan from the California Department of Water Resources.

LADWP is the nation's largest municipal utility, operating as a proprietary, self-supporting department of the City of Los Angeles (the City). Governed by a five-member Board, the Department maintains full rate-setting authority per City Charter. All revenues from Water System operations are deposited into the Water Revenue Fund, which is maintained separately from the Power System.

Water System Revenue Bonds and other parity indebtedness are secured by the Water Revenue Fund. While the Master Resolution includes a sum-sufficient rate covenant, internal Board policy targets minimum debt service coverage (DSC) of 1.70x. FY 2024 net revenues of \$950.5 million provided 2.19x DSC. DSC is projected to decline through FY 2030 with the implementation of the Department's \$7.74 billion Water System Capital Plan, roughly two-thirds of which will be funded by existing and future Water System Revenue Bonds and parity obligations. Other policy targets include a debt-to-capitalization ratio under 65%, and at least 150 days of operating cash. The 2025 Series C Bonds are not backed by a debt service reserve fund. An additional bonds test requires adjusted net income of at least 1.25x maximum annual debt service, providing sound protection against overleveraging, in KBRA's view.

The Department has increased water rates in recent years to recover the rising costs of purchased water from the Metropolitan Water District (approximately 50% of water supply) and ensure funding of system improvements needed to meet water quality and reliability goals. The 4-year CAGR (2021-2025) of total System average water rates (all customer classes) of 10.8% reflects increases in various rate adjustment factors and growing costs of purchased water. FY 2025 overall water rates increased approximately 23.6% year over year. Nonetheless, KBRA continues to view the total system average rate for all customer classes of \$10.90 per hundred cubic feet of metered water as affordable given the System's wealthy service area, though rates are above average relative to the U.S. overall.

The Department currently forecasts no change in base rates for FY 2026, although it did increase the base rate revenue target for FY 2026 by 0.58% versus that in effect during FY 2025. The increase to the Base Rate revenue targets will continue to provide for sufficient revenues to meet the rate covenant and Board adopted financial metrics. Further rate increases are anticipated - regardless of any wildfire-related expenditures not otherwise met - as the Department addresses its ambitious \$7.74 billion FY 2026-2030 Water System Capital Plan. The Capital Plan will address water quality compliance (including projects to meet federal Safe Drinking Water Act mandates and State Division of Drinking Water requirements), distribution system expansion and upgrades, protection of existing water supplies, and development of new water resources. Also included in the Capital Plan is approximately \$300 million of the costs of a new initiative, known as "Pure Water Los Angeles", which will maximize the recycling of wastewater from the City's Hyperion Water Reclamation Plant. The total preliminary capital cost for Pure Water Los Angeles, a joint effort between LADWP and the Los Angeles Bureau of Sanitation ("LASAN") is currently estimated at \$20 to \$25 billion, to be phased in through 2058.

As of October 16, 2025, approximately 74 cases involving roughly 2,279 individual plaintiffs, including two putative class actions relating to the January 2025 Palisades Fire, have been filed against the Water System, with plaintiffs generally alleging that the Department failed to properly maintain components of its water system for fire fighting



purposes, that it chose to design its water system for urban use, and not to fight wildfires, that after ignition of the fire, the Department failed to de-energize its Power System distribution and transmission facilities, and that the Palisades Fire was foreseeable in light of historical data. Plaintiffs seek compensation for damages, and some actions seek certain injunctive relief as well as monetary damages. One of the class actions asserts a damages figure in excess of \$10 billion. The Department intends to vigorously defend against all existing and potential lawsuits.

Wildfire-related inverse condemnation claims, along with rising insurance premiums, are expected to necessitate water rate increases and may contribute to elevated Water System leverage, reduced liquidity and delayed capital spending. While full litigation exposure may not be known for years, various wildfire mitigants are available. In KBRA's view, spreading any uninsured inverse condemnation judgments or settlements over multiple years would likely result in only a modest surcharge to water bills, keeping average rates within accepted affordability limits.

The Stable Outlook reflects our view that cost recovery through rate adjustments, ample liquidity and other financial mitigants will continue to allow for sound DSC and stable financial metrics as the Department addresses potential wildfire judgement or settlement costs, achieves compliance with EPA safe drinking water mandates, replaces aging infrastructure, and expends local water supplies through implementation of its ambitious Water System Capital Plan.

Key Credit Considerations

The ratings reflect the following key credit considerations:

Credit Positives

- Established water system serving one of the nation's largest metropolitan areas, with a wealthy, primarily residential customer base.
- Rate structure incorporates several pass-through adjustments that effectively decouple revenue generation from changes in customer demand
- Water rates remain competitive and affordable considering the relatively wealthy service base, despite having increased annually since 2020 at a CAGR of 10.8%.

Credit Challenges

- The strict liability standards imposed by California's inverse condemnation law subject the Department to contingent liability risks relating to the 2025 wildfire and future wildfires.
- Legal challenges relating to Proposition 218 have the potential to constrain the Department's ability to implement future water rate increases, although the Department expects to continue to establish water rates sufficient to meet the rate covenant of the Master Resolution and Board adopted financial policy criteria.
- Water System leverage, calculated as the ratio of long-term debt to net fixed assets, has steadily improved over the last eight years, given substantial increases in net utility plant, but remains high at 66.5% for FY 2024.
- A large share of the \$7.74 billion Water System Capital Plan includes federal and state-mandated water-quality compliance projects with hard, legally enforceable deadlines and little scheduling discretion.

Rating Sensitivities

For Upgrade

- Favorable resolution of existing and future inverse condemnation claims or the Department's ability to address such claims without significant negative impacts to leverage, liquidity and rate affordability.
- Sustained reduction in Water System leverage and maintenance of strong DSC.

For Downgrade



- Potential adverse litigation outcomes relating to the 2025 wildfire or to future wildfires which pressure the Department's ability to meet the related liability exposure.
- Inadequate or delayed rate recovery that causes a sustained decline in debt service coverage below existing Board established coverage metrics and historical averages.

To access ratings and relevant documents, click [here](#).

Methodologies

- [Public Finance: U.S. Municipal Retail Utility Revenue Bond Rating Methodology](#)
- [ESG Global Rating Methodology](#)

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Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located [here](#).

Information on the meaning of each rating category can be located [here](#).

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