

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings downgrades Los Angeles Department of Water & Power, CA's water system revenue bonds to Aa3 from Aa2; outlook stable**

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03 Mar 2026

New York, March 03, 2026 -- Moody's Ratings (Moody's) has downgraded the Los Angeles Department of Water & Power, CA's water system revenue bonds to Aa3 from Aa2. The department has about \$6.0 billion in outstanding water system revenue bonds. The outlook was revised to stable from negative.

The downgrade of the water system revenue bonds reflects the potential for significant liability judgments against the city and the water and power systems as part of litigation underway by property owners and businesses affected by the 2025 Palisades Wildfire. While the level of any potential liability is unknown, the litigation is proceeding after recent court orders unfavorable to the city and department, and the outcome is not expected for some time. This adds significant uncertainty to both the city's and the water system's longer-term financial profile.

#### RATINGS RATIONALE

The Aa3 rating reflects the water system's exceptionally large and stable customer base, despite the recent losses to wildfires. The ratepayer base is among the largest in the nation, with operating revenue of about \$1.9 billion and operating and maintenance (O&M) of about \$1.3 billion. While O&M can vary widely from year to year due to unpredictable hydrology driving variation in the cost of purchased water, a sophisticated rate structure supports full cost recovery. However, significant increases in costs from any liability could crowd out necessary capital spending or strain rate increases and therefore financial flexibility over the long term, even accounting for the use of securitization through rate reduction bonds.

The system's finances were solid in fiscal 2025 and are expected to remain so in fiscal 2026. Audited results included debt service coverage at 1.84 times, debt equal to 3.7 times operating revenue and 173 days cash on hand.

The rating incorporates legal security for the bonds that is atypical for a government enterprise, as there is no pledge of or lien on the net revenue of the water system. The bonds are special obligations payable only from the water revenue fund. The bonds do not benefit from a debt service reserve, a weakness for which we do not make a rating distinction, given the department's solid financial position.

#### RATING OUTLOOK

The stable outlook for the water system reflects our view that the department will be able to absorb additional debt or use securitization to fund planned capital projects while maintaining finances that are appropriate to this rating level. It incorporates the department's ability to raise rates and use debt or securitization to fund any potential liability for the Palisades Fire. This is supported by the department's strong rate setting mechanism and the planned cost of service study expected to be underway this year.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Favorable outcome in Palisades Fire litigation
- Successful securitization of debt or litigation liability through rate reduction bonds such that metrics other than leverage stay within policy targets and consistent with the rating level

- Sustained debt service coverage above 2.0 times
- Improvement in the city's general credit quality

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A finding of sizable liability on the part of LADWP for the Palisades Fire
- Inability to securitize debt or litigation liability through rate reduction bonds
- Failure to adapt the organization and policy priorities to changing environmental risks
- Sustained decline in cash to below 150 days or debt service coverage below 1.25 times

#### PROFILE

The Los Angeles Department of Water & Power is the largest municipal utility in the nation and is a proprietary department of the City of Los Angeles. The Department's Power System and Water System respectively provide electric and water service to about 3.8 million residents in the city, which encompasses 473 square miles, and portions of neighboring communities. Under the City Charter, the Department is governed by an appointed Board of Commissioners, which is subject to City Council oversight. Though they operate within the same department, the finances and operations of the Water System are distinct and independent of the Power System.

#### METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416489>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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