

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Los Angeles Department of Water & Power, CA's Water System Revenue Bonds 2022 A & B; outlook stable

18 Feb 2022

New York, February 18, 2022 -- Moody's Investors Service has assigned a Aa2 rating to the Los Angeles Department of Water and Power, CA's \$300 million Water System Revenue Bonds, 2022 Series A (SIFMA Index Rate) and \$416 million Water System Revenue Bonds, 2022 Series B (Fixed Rate). Post issuance, the Department will have \$5.5 billion outstanding water system revenue bonds. The outlook is stable.

RATINGS RATIONALE

The Aa2 underlying ratings and bank bond ratings reflect the Department's exceptionally large customer base and local economy, providing a base of ratepayers that is among the largest in the nation and which we anticipate will remain stable. The Department addresses the Water System's unpredictable hydrology with a sophisticated rate structure that allows it to recover the cost of purchased water that varies from year to year and will support its ability to manage through the current severe drought conditions. The Department has demonstrated exceptionally strong management of its large capital program and regulatory compliance. The ratings further reflect the Water System's solid financial profile, with predictable revenue that provides healthy debt service coverage and funding for capital improvements. The ratings incorporate the Water System's large but manageable debt portfolio with sufficient legal and security provisions.

RATING OUTLOOK

The stable outlook on the underlying ratings reflects our expectation that the Department's Water System will continue to maintain sound finances and a broad and stable customer base while effectively managing its debt and capital programs. Multiyear severe drought conditions the Department's ability to supply sufficient water or outstripping customer conservation efforts would pose negative pressure on the rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained operating improvement resulting in stronger reserves and debt service coverage levels
- Increase in effective water diversity and storage
- Increased and sustained water supply availability

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant deterioration of liquidity or coverage below target levels
- Material weakening of stored water supply availability
- Weakening of the Water System's customer or economic base

LEGAL SECURITY

The bonds are secured by a pledge of gross revenues from the water enterprise, on parity with its operations and maintenance expenses.

USE OF PROCEEDS

Proceeds will be used to pay costs of capital improvements to the Water System, refund certain outstanding bonds and prepay a portion of outstanding state loans.

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 (Aa2 stable). Los Angeles Department of Water & Power, CA (LADWP)

Power System (Aa2 stable) and Water System respectively provide electric and water service to about 4.0 million residents in the city, which encompasses 473 square miles, and portions of neighboring communities. The Water System includes 7,340 miles of water mains and trunk lines, 85 pumping stations, 124 storage tanks and reservoirs and eight aqueduct reservoirs, all serving about 692,000 customer connections. The service area is divided into 111 pressure zones. The Water System's operation includes one filtration plant, 42 water treatment facilities and seven fluoridation facilities.

Under the City Charter, LADWP 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 October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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