KPMG

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Financial Statements and
Required Supplementary Information

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

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Independent Auditors' Report

The Board of Water and Power Commissioners
City of Los Angeles
Department of Water and Power:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Water Revenue Fund of the Department of Water and Power of the City of Los Angeles (the Water System), as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water System as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department of Water and Power of the City of Los Angeles and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1(a), the financial statements present only the Water System and do not purport to, and do not, present fairly the financial position of the City of Los Angeles as of June 30, 2023 and 2022, and changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–14 and the other required supplementary information on pages 89–94 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023 on our consideration of the Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water System's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
December 12, 2023

The following discussion and analysis of the financial performance of the Department of Water and Power (the Department) of the City of Los Angeles' Water Revenue Fund (Water System) provides an overview of the financial activities for the fiscal years ended June 30, 2023 and 2022. Descriptions and other details pertaining to the Water System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Water System's financial statements, which begin on page 15.

Using this Financial Report

This annual financial report consists of the Water System's financial statements and required supplementary information and reflects the self-supporting activities of the Water System that are funded primarily through the sale of water to the public it serves.

Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows

The financial statements provide an indication of the Water System's financial health. The statements of net position include all of the Water System's assets, deferred outflows, liabilities, deferred inflows, and net position using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which assets are restricted as a result of bond covenants and other commitments as of June 30, 2023 and 2022. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, capital and related financing activities, and investing activities for the years ended June 30, 2023 and 2022.

The following tables summarize the financial condition and changes in net position of the Water System as of and for the fiscal years ended June 30, 2023, 2022, and 2021:

Table 1 – Condensed Schedule of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

(Amounts in millions)

	Year Ended June 30		
Assets and Deferred Outflows	**2023**	**2022**	**2021**
Utility plant, net	$ 10,783	10,128	9,482
Investments	54	53	54
Other noncurrent assets	364	927	553
Current assets	1,369	1,202	1,293
Deferred outflows	485	210	359
Total assets and deferred outflows	$ 13,055	12,520	11,741
Net Position, Liabilities, and Deferred Inflows			
Net position:			
Net investment in capital assets	$ 3,462	3,213	2,835
Restricted	192	162	126
Unrestricted	576	542	724
Total net position	4,230	3,917	3,685
Liabilities and Deferred Inflows:			
Long-term debt, net of current portion	7,159	6,707	6,592
Other long-term liabilities	443	122	474
Current liabilities	995	875	807
Deferred inflows	228	899	183
Total liabilities and deferred inflows	8,825	8,603	8,056
Total net position, liabilities, and deferred inflows	$ 13,055	12,520	11,741

(Continued)

Table 2 – Condensed Schedule of Revenues, Expenses, and Changes in Net Position

(Amounts in millions)

	Year ended June 30		
	2023	**2022**	**2021**
Operating revenues:			
Residential	$ 607	674	635
Multiple-dwelling units	557	500	460
Commercial and industrial	396	352	301
Other	103	100	86
Uncollectible accounts	(2)	(19)	(19)
Total operating revenues	1,661	1,607	1,463
Operating expenses:			
Purchased water	(239)	(346)	(296)
Maintenance and other operating expenses	(768)	(635)	(573)
Depreciation and amortization	(236)	(219)	(207)
Total operating expenses	(1,243)	(1,200)	(1,076)
Operating income	418	407	387
Nonoperating revenues (expenses):			
Net investment income (loss)	13	(34)	—
Federal bond subsidies	14	14	15
Other nonoperating revenues (expenses), net	(8)	11	4
Debt expense, net	(217)	(207)	(208)
Total nonoperating expense, net	(198)	(216)	(189)
Income before capital contributions	220	191	198
Capital contributions	93	41	93
Increase in net position	313	232	291
Beginning balance of net position	3,917	3,685	3,394
Ending balance of net position	$ 4,230	3,917	3,685

Assets

Utility Plant

The Water System utility plant assets fall into five major categories-source of water supply, pumping, purification, distribution, and general (water infrastructure). Each category of assets is important for providing water services and has a specific purpose. During fiscal years 2023 and 2022, the Water System's net utility plant increased $654 million and $646 million, respectively. Net utility plant consists of significant investments in water infrastructure less accumulated depreciation.

During fiscal year 2023, utility plant additions totaled $911 million. Approximately, $477 million of the $911 million in additions were construction work in progress (CWIP) expenditures and $422 million comprises direct additions by utility plant categories. Approximately, $309 million in CWIP projects were transferred from CWIP to plant accounts. Major CWIP additions/expenditures during the year included: $137 million for the Tujunga and North Hollywood centralized treatment projects to remove contamination, $52 million for the River Supply Conduit Upper Reach Unit 7 project, $34 million for the North Haiwee Dam #2 Seismic Improvement project, $19 million for the North Hollywood West Wellhead Water Treatment project, $17 million for the Headworks Flow Control Station project, $12 million for the City Trunk Line North Unit #2 installation project, $11 million for Coronado Trunk Line new regulator station, $11 million for the City Trunk Line North Unit #1 replacement project, and $10 million for the River Supply Conduit Lower Reach Unit 1 installation project. Approximately, $268 million and $23 million of additions were transferred from CWIP to distribution plant accounts and source of water supply accounts, respectively. Major projects transferred from CWIP included $169 million for the Headworks Reservoir West, $48 million for mainline replacement at various water districts, $37 million to construct the Machado Lake Pipeline, and $21 million for installation and remediation of monitoring wells.

The completion of projects for distribution, source of supply, pumping, purification, and general plant resulted in the $309 million transfer from CWIP to depreciable assets during 2023.

Direct additions are mostly related to improvements in distribution infrastructure as part of the Water System's reliability program. Many of the Water System's assets were installed between 1920 and 1970, thus the reliability program evaluates water main infrastructure to determine which assets should be replaced first to reduce leaks and the frequency of water service disruptions due to water main breaks.

Approximately $253 million of the additions are for improvements to the distribution system. During fiscal year 2023, the Water System invested $208 million in programs to replace mains, services, reservoirs, tanks, and meters, including continuing replacement of existing meters with lead-free meters and fittings in accordance with the Water System's goal to increase the reliability and safety of its distribution system. Additionally, $10 million was invested in improvements to facilities and yards that support water distribution and $5 million went into installing new fire hydrants as ordered by the fire department to provide fire protection for new construction. A combined total of about $20 million was invested to construct or retrofit regulator stations and regulator vaults, to replace or relocate water facilities in conjunction with LA City Public Works projects, improvements to industrial control systems, improvements to chloramination trailers, anode replacement for corrosion control to improve water distribution infrastructure, and to replace substandard tap housings.

Source of supply additions totaled $53 million in fiscal year 2023 and were primarily attributable to improvements in Owens Lake efficiency measures to reduce the use of water on regulatory requirements, improvements to the Southern and Northern Aqueduct systems, the removal of the old conduit ceiling at the First LA Aqueduct, and groundwater system improvements. During fiscal year 2023, the balance of general plant assets increased by $89 million, mainly due to purchases of approximately $26 million of computers/hardware, distributed processing systems, communication systems, cybersecurity systems, customer service office automation, net amortization of software, and the development of new applications. Other investments in general plant include $28 million of fleet equipment, $7 million for building improvements to general office and fleet facilities, and $2 million in improvements to northern district yards.

During fiscal year 2022, utility plant additions totaled $860 million. Approximately $520 million of the $860 million in additions were construction work in progress (CWIP) expenditures and $336 million represents direct additions by utility plant categories. Approximately $360 million in CWIP projects were transferred from CWIP to plant accounts. Major CWIP additions/expenditures during the year included $203 million for the Tujunga and North Hollywood centralized treatment to remove contamination, $24 million for the Headworks Flow Control Station, $24 million for City Trunk Line South Unit 3 installation, $20 million for River Supply Conduit Upper Reach Unit 7, $20 million for Century Trunk Line rehabilitation, $20 million for North Hollywood West Wellhead Treatment Plant, $14 million for North Haiwee Dam #2 seismic improvements, $12 million for Coronado Trunk Line new regulator station, and $11 million to replace pipes at Foothill Trunk Line. Approximately $152 million and $117 million of additions were transferred from CWIP to distribution plant accounts and source of water supply accounts, respectively. Major projects transferred from CWIP included $140 million for the LA Reservoir UV Disinfection Plant, $75 million for the Century Trunk Line Unit 1 rehabilitation, $48 million for the Tujunga Spreading Grounds Improvements, and $26 million for mainline replacement at various water districts.

Direct additions are mostly related to improvements in distribution infrastructure as part of the Water System's reliability program. Many of the Water System's assets were installed between 1920 and 1970, thus the reliability program evaluates water main infrastructure to determine which assets should be replaced first to reduce leaks and the frequency of water service disruptions due to water main breaks.

Approximately $233 million of the additions are for improvements to the distribution system. During fiscal year 2022, the Water System invested $198 million in programs to replace mains, services, reservoirs, tanks, and meters, including continuing replacement of existing meters with lead free meters and fittings in accordance with the Water System's goal to increase the reliability and safety of its distribution system. Additionally, $6 million was invested in improvements to facilities and yards that support water distribution and $5 million went into installing new fire hydrants as ordered by the Fire Department to provide fire protection for new construction. A combined total of about $13 million was invested in improvements to industrial control systems in the metro area, regulator stations, water facilities in conjunction with LA City Public Works projects, anode replacement for corrosion, and facilities/yards to further improve water distribution.

Source of supply additions totaled $27 million in fiscal year 2022 and were primarily attributable to improvements in Owens Lake efficiency measures to reduce the use of water on regulatory requirements and the removal of the old conduit ceiling at the First LA Aqueduct. During fiscal year 2022, the balance of general plant assets increased by $72 million due to purchases of approximately $28 million of computers/hardware,

(Continued)

distributed processing systems, telecommunications headquarters, communication systems, customer service office automation, net amortization of software, and the development of new applications. Other investments in general plant include $8 million of fleet equipment, $7 million for building improvements for safety codes and fire regulation, $3 million in improvements to northern district yards, offset by $23 million in retirements and disposals.

During fiscal year 2023, accumulated depreciation, net of retirements, increased $217 million. The Water System uses the straight line depreciation method for all assets based on estimated service lives. The increase in accumulated depreciation was mostly due to depreciation recognized on distribution, source of supply, and general plant assets added during the year.

Source of water supply assets are the assets that the Water System has installed to help ensure an adequate supply of water. The Water System has four major sources of water. These include the following:

- Los Angeles Aqueduct and Second Los Angeles Aqueduct supply imported water from the Owens Valley and the Mono Basin
- Local groundwater supply (with pumping rights in the San Fernando, Sylmar, and Central and West Coast Basins)
- Purchased supply from Metropolitan Water District
- Recycled water

All sources of water, except for recycled water, are supplied for potable use, that is, the water from these sources is of drinkable quality. Table 3 below shows the percentage of water delivered from the major sources:

Table 3 – Sources of Potable Water
Supplied during fiscal years 2023, 2022, and 2021

	Fiscal year 2023		Fiscal year 2022		Fiscal year 2021	
	Millions of gallons	Percentage	Millions of gallons	Percentage	Millions of gallons	Percentage
Source:						
Aqueduct	56,612	40 %	18,843	12 %	39,815	24 %
Wells	9,501	7	17,324	11	17,855	11
Purchases	71,586	51	119,875	75	103,268	63
Recycled water	3,055	2	3,920	2	3,680	2
	140,754	100 %	159,962	100 %	164,618	100 %

The Aqueduct provided 40% of the total water supply in fiscal year 2023 compared to 12% in fiscal year 2022.

Water storage during low-demand, cold, or wet periods is essential to provide the capacity needed to supply the extra water needed during warm weather or emergency situations. The Water System's 124 tanks and reservoirs, ranging in size from 10,000 to 60 billion gallons, have a current capacity of approximately 323,820 acre feet, or 105.5 billion gallons. Nine aqueduct reservoirs provide 96% of the Water System's storage capacity; major and minor distribution reservoirs and tanks provide the remaining 4%.

Further information regarding the Water System's utility plant can be found in note 3 to the financial statements.

Other Noncurrent Assets

During fiscal year 2023, other noncurrent assets had a net decrease of $563 million primarily due to a decrease of $538 million in net pension asset, decrease of $77 million in net OPEB asset, decrease of $47 million in regulatory asset related to OPEB, and a decrease of $5 million in other regulatory assets offset by a $104 million increase in restricted cash as a result of issuance of bonds. Decreases in regulatory assets related to pension and OPEB were due to actual expense being less than actuarially determined contributions.

During fiscal year 2022, other noncurrent assets had a net increase of $374 million primarily due to the increase of $538 million in net pension asset and $83 million increase in net other postemployment benefits (OPEB) asset primarily due to a favorable investment return, and an increase of $3 million in long-term lease receivable, offset by a decrease of $105 million in regulatory asset related to pension, decrease of $67 million in regulatory asset related to OPEB, decrease of $68 million in construction fund, and a decrease of $11 million in other regulatory assets. Decreases in regulatory assets related to pension and OPEB were due to actual expense being less than actuarially determined contributions.

Current Assets

During fiscal year 2023, current assets increased a net of $167 million mostly due to a $177 million increase in underrecovered costs as a result of lower revenue generated by lower sales due to record rainfall, a $53 million increase in customer accounts receivable, a $35 million increase in restricted cash, a $5 million increase in materials and supplies, offset by a $103 million decrease in unrestricted cash.

During fiscal year 2022, current assets decreased a net of $91 million mostly due to a $163 million decrease in unrestricted cash as a result of decrease in cash used by operating activities and an $81 million increase in underrecovered costs due to higher expenses compared to revenues.

Net Position, Liabilities, and Deferred Inflows

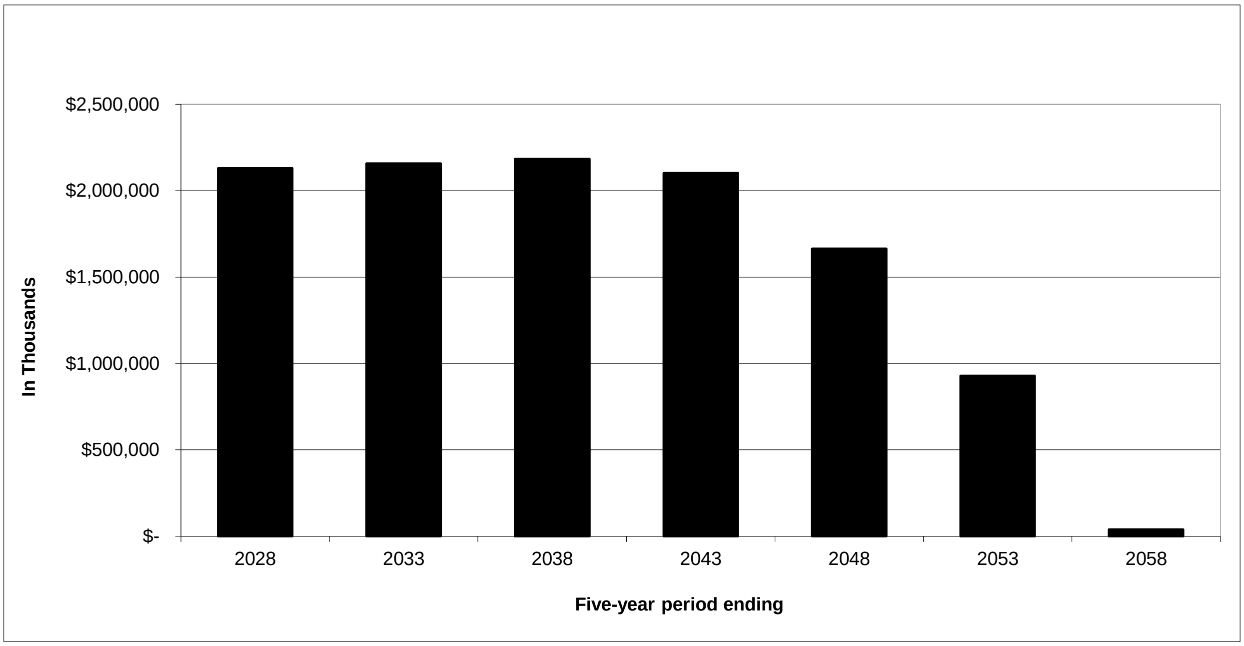
Long-Term Debt

As of June 30, 2023, the Water System's total outstanding long-term debt balance, including the current portion, was approximately $7.34 billion. The increase of $465 million over the previous year's balance was due to $895 million in new debt issuance at par in fiscal year 2023, $108 million in issue premiums, $21 million in loans from the State of California's State Water Resources Control Board (SWRCB), offset by scheduled maturities of $125 million, defeasance of $363 million, and $71 million in amortization on premiums and discounts. Two bond issuances were used to defease debt and finance capital improvements.

As of June 30, 2022, the Water System's total outstanding long-term debt balance, including the current portion, was approximately $6.87 billion. The increase of $135 million over the previous year's balance was due to $822 million in new debt issuance at par in fiscal year 2022, $167 million in issue premiums, $35 million in loans from the State of California's State Water Resources Control Board (SWRCB), offset by scheduled maturities of $105 million, defeasance of $682 million, and $102 million in amortization on premiums and discounts. Two bond issuances were used to defease debt and finance capital improvements.

Scheduled payments of principal, plus scheduled interest as of June 30, 2023, are shown in the chart below:

Chart: Debt Service Requirements



In May 2023, Moody's Investors Service, Fitch Ratings, and S&P Global Ratings affirmed the Water System's bond rating of Aa2, AA, and AA+, respectively. In May 2022, Kroll Bond Rating Agency affirmed the Water System's bond rating of AA+. The Water System maintained each of their respective bond ratings as of June 30, 2023.

The Master Bond Resolution allows for parity debt to be issued as long as the Water System's adjusted net income for the applicable calculation period is at least 1.25 times the maximum annual adjusted debt service. The debt service coverage ratio is computed by taking operating revenue less operating expense excluding depreciation expense to calculate net revenue. Net revenue is then divided by the current debt service. The Water System debt service coverage for fiscal year 2022–2023 was 1.94.

Additional information regarding the Water System's long-term debt can be found in note 6 to the financial statements.

Other Long-Term Liabilities and Deferred Inflows

During fiscal year 2023, other long-term liabilities had a net increase of $320 million primarily due to an increase in net pension liability of $202 million as a result of a (5.37)% return which was lower than the assumed return of 7% resulting in an unfavorable investment return during the year and changes in actuarial assumptions, a $99 million increase in over recovered costs pension, a $14 million increase in other noncurrent liability, and a $5 million increase in accrued workers' compensation liability.

During fiscal year 2022, other long-term liabilities had a net decrease of $352 million primarily due to a decrease in net pension liability of $359 million as a result of a 26.30% return, which was higher than the assumed return of 7% resulting in a favorable investment return during the year, a $91 million reduction of the net OPEB and death benefits liabilities due to favorable investment and premium renewal experience, offset by a $90 million increase in overrecovered costs – pension, a $3 million increase in workers' compensation liability, and an increase of $6 million in other noncurrent liabilities.

Current Liabilities

During fiscal year 2023, current liabilities increased $121 million primarily due to an issuance of $100 million in line of credit, an increase of $28 million in accrued employee expenses, an increase of $26 million in customer deposits, an increase of $17 million in accrued interest, an increase of $13 million in the interfund balance due to the Power System, an increase of $13 million in long-term debt current portion, offset by a decrease of $8 million in obligations under securities lending transactions, and $68 million decrease in accounts payable.

During fiscal year 2022, current liabilities increased $68 million primarily due to an increase of $34 million in the interfund balance due to the Power System, an increase of $6 million in accrued employee expenses, an increase of $20 million in long-term debt current portion, an increase of $5 million in obligations under securities lending transactions, a $12 million increase in customer deposits, a $1 million decrease in accounts payable and a $9 million decrease in accrued interest.

Changes in Net Position

Revenue

The operating revenue of the Water System is generated from selling water to its customers. The current water rate ordinance effective April 15, 2016 has two components, a base rate and adjustable rates, which are referred to as pass-through rates. The pass-through rates are in place to recover the cost of specific expenses. These specific expenses include purchased water, water quality, reclaimed water, demand-side management (or conservation expense), water security, Owens Valley regulatory, and low-income subsidy credits. As a result of the inclusion of pass-through rates in the water rates, revenue can increase or decrease from one year to the next based on the Water System incurring greater or smaller expenses in these categories.

The Water System has five major customer categories. These categories include residential, multiple-dwelling units, commercial, industrial, and other. Table 4 below summarizes the percentage contribution of revenue from each customer category during fiscal years 2023, 2022, and 2021:

Table 4 – Revenue and Percentage of Revenue by Customer Class
(Amounts in thousands)

	Fiscal year 2023		Fiscal year 2022		Fiscal year 2021	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Type of customer:						
Residential	$ 607,522	37 %	$ 673,926	42 %	$ 634,785	43 %
Multiple-dwelling units	557,060	34	500,162	31	460,541	32
Commercial and industrial	395,676	24	351,707	22	301,159	20
Other	102,757	5	99,832	5	86,109	5
Uncollectible accounts	(1,737)	—	(18,949)	—	(18,813)	—
	$ 1,661,278	100 %	$ 1,606,678	100 %	$ 1,463,781	100 %

Residential and multiple-dwelling units customers provided between 71% to 75% of the Water System's revenue for the 2023, 2022, and 2021 fiscal years, representing the largest class of customers. As of June 30, 2023, the Water System had approximately 697,000 customers. As shown in table 5 below, 71% of total customers were in the residential customer class as of June 30, 2023, 2022, and 2021:

Table 5 – Number of Customers and Percentage of Customers by Customer Class
(Amounts in thousands other than percentages)

	Fiscal year 2023		Fiscal year 2022		Fiscal year 2021	
	Number	Percentage	Number	Percentage	Number	Percentage
Type of customer:						
Residential	497	71 %	496	71 %	494	71 %
Multiple-dwelling units	124	18	123	18	122	18
Commercial	62	9	61	9	61	9
Industrial	6	1	6	1	6	1
Other, including uncollectible accounts	8	1	8	1	8	1
	697	100 %	694	100 %	691	100 %

During fiscal year 2023, operating revenue increased by $55 million, or 3.4% from fiscal year 2022. The increase of 3.4% in Operating Revenue is largely due to higher multi-dwelling billing rate per unit (HCF) and accrued unbilled revenue that resulted from lower sales due to record rainfall in fiscal year 2023.

Operating Expenses

Purchased water expense is generally the single largest expense the Water System incurs each fiscal year and represents the cost of buying water. During fiscal year 2023, the Water System decreased its purchased water costs by $108 million, or 31%, due to a 28% increase in water supplied by the aqueduct and runoff available from snowfall, which decreased the purchases for water. The Water System continues to urge customers to make water conservation a way of life and has continued to maintain all water conservation policies and programs, and has continued investing in developing local water supplies through stormwater capture and recycled water to protect the City from future drought. See table 3 on page 8 for a summary of sources of water.

Table 6 below summarizes the Water System's operating expenses for fiscal years 2023, 2022, and 2021:

Table 6 – Operating Expenses and Percentage of Expense by Type of Expense
(Amounts in thousands other than percentages)

	Fiscal year 2023		Fiscal year 2022		Fiscal year 2021	
	Expenses	**Percentage**	**Expenses**	**Percentage**	**Expenses**	**Percentage**
Type of expense:						
Purchased water	$ 238,856	19 %	$ 346,568	29 %	$ 296,261	28 %
Other operating expenses	526,366	42	430,889	36	388,556	36
Maintenance expense	242,009	20	204,086	17	184,774	17
Depreciation and amortization	236,008	19	218,599	18	207,264	19
	$ 1,243,239	100 %	$ 1,200,142	100 %	$ 1,076,855	100 %

Fiscal Year 2023

During fiscal year 2023, maintenance and other operating expenses were $133 million higher as compared to the prior year. The increase is primarily comprised of an increase in total maintenance of $38 million and other operating expenses of $95 million. Other operating expenses included a net increase due to source of supply, distribution, purification, and administrative and general corporate expenses.

Fiscal Year 2022

During fiscal year 2022, maintenance and other operating expenses were $62 million higher as compared to the prior year. The increase is primarily comprised of an increase in total maintenance of $19 million and other operating expenses of $42 million. Other operating expenses included a net increase due to source of supply, distribution, purification, and administrative and general corporate expenses.

Nonoperating Revenue and Expenses

Fiscal Year 2023

Fiscal year 2023 nonoperating revenue (expense), net was $28 million higher than in fiscal year 2022. The $28 million increase in nonoperating income can be primarily attributed to a $47 million increase in investment income, offset by a decrease in overall other nonoperating income (expenses) of $9 million, and a decrease in other nonoperating income of $10 million.

Capital contributions increased by $52 million from the prior year and can be primarily attributed to an increase of $47 million in state grant funding and an increase of $5 million in service installations.

Fiscal Year 2022

Fiscal year 2022 nonoperating revenue (expense), net was $27 million lower than in fiscal year 2021. The $27 million decrease in nonoperating income (loss) can be primarily attributed to a $34 million decrease in investment income, a decrease of $1 million in debt expenses, an increase in overall other nonoperating income of $5 million, and an increase in nonoperating expenses of $1 million.

Capital contributions decreased by $52 million from the prior year and can be primarily attributed to a decrease of $26 million from service installations, a $9 million decrease in distribution mains installations, a $6 million decrease in fire hydrant installation, a $2 million decrease in Customer Acreage Supply charges and an $8 million decrease in state grant funding.

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Statements of Net Position

June 30, 2023 and 2022

(Amounts in thousands)

Assets and Deferred Outflows		2023	2022
Noncurrent assets:			
Utility plant:			
Source of water supply	$	2,720,421	2,644,656
Pumping		472,296	451,623
Purification		982,873	970,873
Distribution		7,047,801	6,531,041
General		1,139,935	1,047,200
Total		12,363,326	11,645,393
Accumulated depreciation		(3,872,881)	(3,656,298)
Total		8,490,445	7,989,095
Construction work in progress		2,292,130	2,139,016
Total		10,782,575	10,128,111
Investments		54,092	53,174
Cash and cash equivalents – restricted		189,848	84,864
Regulatory assets – other		152,006	156,524
Regulatory assets – OPEB		13,482	60,495
Net pension assets		—	538,006
Net OPEB assets		5,765	82,888
Long-term lease receivable		3,307	3,470
Total noncurrent assets		11,201,075	11,107,532
Current assets:			
Cash and cash equivalents – unrestricted		467,930	570,654
Cash and cash equivalents – restricted		263,430	227,937
Cash collateral received from securities lending transactions		3,010	11,220
Customer and other accounts receivable, net of $58,773 and $64,560 allowance for losses for 2023 and 2022, respectively		170,756	117,476
Underrecovered costs		383,592	206,445
Materials and supplies		43,640	37,939
Prepayments and other current assets		36,765	30,586
Total current assets		1,369,123	1,202,257
Total assets		12,570,198	12,309,789
Deferred outflows – debt refunding		987	3,191
Deferred outflows – pension		275,154	28,338
Deferred outflows – OPEB		46,204	30,371
Deferred outflows – pension contributions made after measurement date		119,613	106,255
Deferred outflows – OPEB contributions made after measurement date		42,739	42,006
Total deferred outflows		484,697	210,161
Total assets and deferred outflows	$	13,054,895	12,519,950

(Continued)

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Statements of Net Position

June 30, 2023 and 2022

(Amounts in thousands)

Net Position, Liabilities, and Deferred Inflows		**2023**	**2022**
Net position:			
Net investment in capital assets	$	3,461,826	3,213,602
Restricted:			
Debt service		134,788	113,555
Other purposes		57,187	48,216
Unrestricted		576,671	541,864
Total net position		4,230,472	3,917,237
Long-term debt, net of current portion		7,158,875	6,706,501
Other noncurrent liabilities:			
Accrued workers' compensation claims		30,949	25,878
Net pension liability		202,559	—
Overrecovered costs – pension		189,222	89,955
Other noncurrent liability		19,993	6,449
Total other noncurrent liabilities		442,723	122,282
Current liabilities:			
Current portion of long-term debt		122,669	110,014
Current portion of variable rate demand bond liquidity advance not made		58,230	58,230
Accounts payable and accrued expenses		135,566	203,672
Line of Credit		100,000	—
Due to Power System		67,260	53,751
Accrued employee expenses		113,169	85,197
Accrued interest		126,524	109,933
Obligations under securities lending transactions		3,010	11,220
Customer deposits		268,712	242,521
Total current liabilities		995,140	874,538
Total liabilities		8,596,738	7,703,321
Deferred inflows – debt refunding		90,757	75,208
Deferred inflows – pension		25,558	605,215
Deferred inflows – OPEB		108,190	215,760
Deferred inflows – leases		3,180	3,209
Total deferred inflows		227,685	899,392
Total net position, liabilities, and deferred inflows	$	13,054,895	12,519,950

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(Amounts in thousands)

		2023	2022
Operating revenues:			
Residential	$	607,522	673,926
Multiple-dwelling units		557,060	500,162
Commercial and industrial		395,676	351,707
Other		102,757	99,832
Uncollectible accounts		(1,737)	(18,949)
Total operating revenues		1,661,278	1,606,678
Operating expenses:			
Purchased water		238,856	346,568
Maintenance and other operating expenses		768,375	634,975
Depreciation and amortization		236,008	218,599
Total operating expenses		1,243,239	1,200,142
Operating income		418,039	406,536
Nonoperating revenues (expenses):			
Net investment income (loss)		12,966	(34,325)
Federal bond subsidies		14,088	14,641
Grant revenues		—	73,985
Other nonoperating income		8,428	18,235
Total nonoperating revenue		35,482	72,536
Grant expenses		—	(73,441)
Other nonoperating expenses		(15,685)	(7,219)
Nonoperating revenues (expenses), net		19,797	(8,124)
Debt expenses:			
Interest on debt		217,421	206,965
Total debt expense		217,421	206,965
Income before capital contributions		220,415	191,447
Capital contributions		92,820	41,137
Increase in net position		313,235	232,584
Net position:			
Beginning of period		3,917,237	3,684,653
End of period	$	4,230,472	3,917,237

See accompanying notes to financial statements.

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Amounts in thousands)

		2023	2022
Cash flows from operating activities:			
Cash receipts:			
Cash receipts from customers	$	1,528,051	1,534,735
Cash receipts from customers for other agency services		650,919	716,874
Cash receipts from interfund reimbursements		690,780	630,743
Other cash receipts		6,305	9,515
Cash disbursements:			
Cash payments to employees		(454,876)	(391,409)
Cash payments to suppliers		(461,598)	(417,872)
Cash payments for interfund reimbursements		(894,999)	(803,511)
Cash payments to other agencies for fees collected		(658,615)	(697,732)
Cash payments for property taxes		(20,333)	(19,212)
Net cash provided by operating activities		385,634	562,131
Cash flows from noncapital financing activities:			
Proceeds from line of credit for operations		100,000	—
Proceeds from grant receipts		—	73,985
Net cash provided by noncapital financing activities		100,000	73,985
Cash flows from capital and related financing activities:			
Additions to plant and equipment, net		(854,638)	(849,132)
Capital contributions		97,586	53,353
Principal payments and maturities on long-term debt		(94,860)	(75,080)
Proceeds from issuance of bonds		640,055	306,184
Proceeds from California Department of Water Resources loan		21,410	34,993
Payment of California Department of Water Resources loan		(30,586)	(30,001)
Debt interest payments		(254,067)	(264,695)
Federal bond subsidies		14,088	14,641
Net cash used in capital and related financing activities		(461,012)	(809,737)
Cash flows from investing activities:			
Purchases of investment securities		(52,585)	(52,663)
Sale of investment securities		52,022	52,333
Investment loss		13,694	(33,466)
Net cash provided by (used in) investing activities		13,131	(33,796)
Net increase (decrease) in cash and cash equivalents		37,753	(207,417)
Cash and cash equivalents:			
Beginning of period		883,455	1,090,872
Ending of period	$	921,208	883,455

(Continued)

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Amounts in thousands)

		2023	2022
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	418,039	406,536
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		236,008	218,599
Provision for losses on customer and other receivables		1,737	18,949
Changes in assets and liabilities:			
Customer and other accounts receivable		(55,937)	(51,782)
Underrecovered costs		(177,147)	(81,437)
Due to power system		13,509	33,620
Materials and supplies		(5,701)	(3,024)
Regulatory asset – other		(10,833)	(4,118)
Regulatory asset – OPEB		47,013	67,364
Regulatory asset – pensions		—	105,055
Overrecovered costs – pension		99,267	89,955
Other noncurrent liability		13,544	6,449
Accounts payable and accrued expenses		(88,589)	(1,626)
Prepayment and other current assets		(6,179)	(3,907)
Customer deposits		21,425	569
Accrued employee expenses		27,972	6,079
Deferred outflows		(276,740)	143,902
Net pension asset/liability		740,565	(897,279)
Net OPEB asset/liability		77,123	(174,308)
Deferred inflows – pensions & OPEB		(687,227)	665,311
Deferred inflows – leases		(29)	3,209
Accrued workers' compensation claims and other		(2,186)	14,015
Net cash provided by operating activities	$	385,634	562,131

Supplemental disclosure of noncash capital and relating financing activities:

During the year ended June 30, 2023, the Water System issued revenue bonds to refund previously issued debt. The $363.6 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of $363.5 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $21.6 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

During the year ended June 30, 2022, the Water System issued revenue bonds to refund previously issued debt. The $686.1 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of $682.1 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $50.6 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

Accounts payable related to capital expenditures totaled $89.3 million and $60.1 million during fiscal years 2023 and 2022, respectively.

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Los Angeles Department of Water and Power (the Department) exists as a separate department of the City of Los Angeles (the City) under and by virtue of the City Charter enacted in 1925 and as revised effective July 2000. The Department's Water Revenue Fund (Water System) is responsible for the procurement, quality, and distribution of water for sale in the City. The Water System is operated as an enterprise fund of the City.

(a) Method of Accounting

The accounting records of the Water System are maintained in accordance with U.S. generally accepted accounting principles (GAAP) for governmental entities. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Water System is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

The financial statements of the Water System are intended to present the net position and the changes in net position and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Water System. These financial statements do not purport to, and do not, present fairly the financial position of the City as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

The Water System's rates are determined by the Board of Water and Power Commissioners (the Board) and are subject to review and approval by the Los Angeles City Council (the Council). As a regulated enterprise, the Water System follows the regulatory accounting criteria set forth in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which requires that the effects of the rate-making process be recorded in the financial statements. Such effects primarily concern the time at which revenue and expenses are recorded in net position. Accordingly, the Water System records various regulatory assets and liabilities to reflect the Board's actions by deferring expenses and revenue that are recoverable or payable from rates provided in the water rate ordinance. Regulatory liabilities are comprised of overrecovered costs and deferred inflows and regulatory assets are comprised of underrecovered costs (note 4f), regulatory assets, and deferred outflows in the statements of net position. Management believes that the Water System meets the criteria for continued application and will continue to evaluate its applicability based on changes in the regulatory environment. See note 4.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Utility Plant

The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials, and allocated indirect charges, such as engineering, supervision, transportation and construction equipment, retirement plan contributions, healthcare costs, and certain administrative and general expenses. The costs of maintenance, repairs, and minor replacements are charged to the appropriate operations and maintenance expense accounts.

(d) Intangibles

The Water System follows GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that an intangible asset be recognized in the statements of net position only if it is considered identifiable. Additionally, it establishes a specified-conditions approach to recognize intangible assets that are internally generated. Effectively, outlays associated with the development of such assets are not capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria are expensed as incurred. Intangible assets include land easements, water rights, and computer software and are capitalized and included in general utility plant on the statements of net position.

(e) Impairment of Long-Lived Assets

The Water System follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under GASB Statement No. 42, impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

(f) Depreciation and Amortization

Depreciation is computed using the straight-line method based on service lives. The Water System uses the composite method of depreciation, and therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 70 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years. Depreciation and amortization expense as a percentage of average depreciable utility plant in service was 2.0% for both fiscal years ended June 30, 2023 and 2022.

(g) Cash and Cash Equivalents

As provided for by the State of California Government Code (the Code), the Water System's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. The Water System considers the cash on deposit with the City Treasurer to be demand deposits as the amounts are available on demand without prior notice or penalty. Cash and cash equivalents in the City's general investment pool are reported at fair value on a recurring basis, and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in net position. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period. The City Treasurer invests available funds of the City and its independent operating departments on a combined basis. The Water System classifies all cash and cash equivalents that are restricted either by creditors, the Board, or by law as restricted cash and cash equivalents on the statement of net position. The Water System considers its portion of pooled investments in the City's pool to be cash and cash equivalents and the unspent construction funds as long-term restricted cash and cash equivalents.

At June 30, 2023 and 2022, restricted cash and cash equivalents include the following (amounts in thousands):

		June 30	
		2023	2022
Bond redemption and interest funds	$	234,993	207,471
Other restricted funds		28,437	20,466
Restricted cash and cash equivalents – current portion		263,430	227,937
Self-insurance fund		28,750	27,750
Bond redemption funds		26,379	16,078
Construction funds		134,719	41,036
Restricted cash and cash equivalents – noncurrent		189,848	84,864
Total restricted cash and cash equivalents	$	453,278	312,801

(h) Customer and Other Accounts Receivable and Allowance for Doubtful Accounts

The Water System's accounts receivables are reported net of allowance for losses. Customer account receivables result from the sale of water to City residents. Other receivables consist of billings to customers, federal, state, and local governments for work performed to improve or enhance water distribution, and other miscellaneous receivables.

The Water System's residential customers are billed bimonthly, and customers on monthly billings include commercial, governmental, and industrial. The Water System records an estimate for uncollectible accounts for its receivables based on an analysis of the balances in the Water System's accounts receivable aging reports. These estimates are reviewed and adjusted annually.

The Water System records bad debt for its estimated uncollectible accounts related to water customer and noncustomer billings as a reduction in the Water operating revenue.

(Continued)

At June 30, 2023 and 2022, customer and other accounts receivable include the following (amounts in thousands):

		June 30	
		2023	**2022**
Customer and other accounts receivable	$	229,529	182,036
Allowance for losses		(58,773)	(64,560)
Customer and other accounts receivable, net	$	170,756	117,476

(i) Materials and Supplies

Materials and supplies are recorded at average cost.

(j) Accrued Unbilled Revenue

Accrued unbilled revenue is the receivable for estimated water sales during the period at the appropriate rates for which service has been provided but the customer has not been billed. See note 1(p).

(k) Investments

The Water System follows GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and fair value reporting issues related to fair value measurements by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement established a three-level hierarchy of inputs to valuation techniques used to measure fair value. The Water System's investments consist of investments held in the Water Expense Stabilization Fund to stabilize water rates. Investments are reported at fair value on a recurring basis, and changes in unrealized gains and losses are recorded in the statements of revenue, expenses, and changes in net position. See note 5.

(l) Accrued Employee Expenses

Accrued employee expenses include accrued payroll and an estimated liability for vacation leave, sick leave, and compensatory time, which are accrued when employees earn the rights to the benefits. Below is a schedule of accrued employee expenses as of June 30, 2023 and 2022 (amounts in thousands):

		June 30	
		2023	**2022**
Type of expense:			
Accrued payroll	$	22,099	16,442
Accrued vacation		51,548	47,365
Accrued sick leave		8,855	8,525
Compensatory time		30,667	12,865
Total	$	113,169	85,197

(m) Debt Expenses

Debt premiums and discounts are capitalized and amortized to debt expense using the effective-interest method over the lives of the related debt issues. Gains and losses on refunding related to bonds redeemed by proceeds from the issuance of new bonds are reported as deferred inflows or outflows of resources and amortized to interest expense using the effective-interest method over the shorter of the life of the new bonds or the remaining term of the bonds refunded. Debt issuance costs are expensed in the year incurred.

(n) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their estimated net present value. See note 9.

(o) Customer Deposits

Customer deposits represent deposits collected from customers upon opening new accounts. These deposits are obtained when the customer does not have a previously established credit history with the Department. Original deposits plus interest are paid to the customer after deduction of any unpaid charges or indebtedness due to the Department upon termination of service. An active service account is eligible for deposit refund review once a satisfactory payment history is maintained, generally after two to three years.

The Water System is responsible for collection, maintenance, and refunding of these deposits for all Department customers, including those of the Department's Power Revenue Fund (Power System). As such, the Water System's statements of net position include a deposit liability of $269 million and $243 million as of June 30, 2023 and 2022, respectively, for all customer deposits collected.

(p) Revenue

The Water System’s rates are established by a rate ordinance set by the Board based on its powers and duties established in Section 676 of the City Charter. The Water System sells water to other City Departments at rates provided in the ordinance. The Water System recognizes water costs in the period incurred and accrues for estimated water sold but not yet billed.

Revenue consists of billings to customers for water consumption at rates specified in the water rate ordinance. These rates include cost adjustment factors that provide the Water System with full recovery of water supply costs; water quality improvement expenditures; base rate revenue based upon established revenue targets published for each major customer class; Owens Valley regulatory costs; lifeline and low-income customer adjustments; water infrastructure costs; and funds maintained to cover costs in the event of unforeseen events impacting water service delivery. Management estimates these costs biannually and annually for a 12-month prospective period to establish the cost recovery component of customer billings, and any difference between billed and actual costs is adjusted in subsequent billings. This difference of $269 million and $90 million is considered a regulatory asset and reported as a component of underrecovered costs in the accompanying statements of net position as of June 30, 2023 and 2022, respectively. See note 4. The remaining portion of underrecovered costs of $114 million and $116 million relates to accrued unbilled amounts related to costs incurred during the years ending June 30, 2023 and 2022 that will be billed with the current fiscal year’s customer consumption but have not been billed at fiscal year-end as the consumption period and billing period have not yet ended.

(q) Current Rate Ordinance

The current water rate ordinance has been in effect since April 15, 2016, and reflects the most recent rate ordinance still in effect. The water rates are set for each customer class based upon a completed formal marginal cost of service study, which is common industry practice.

For single-family residential customers, water budgets are utilized to design an expanded four-tier rate structure. The rate structure provides water conservation signals with tier thresholds set based on indoor and outdoor water budgets, which encourage conservation. Tier 1 provides 800 cubic feet for basic indoor water needs. Tier 2 provides water levels for efficient outdoor native landscaping. Tier 3 provides water levels, which represent much less efficient outdoor irrigation and nondrought-tolerant landscaping, and Tier 4 represents excessive water usage. Tiers 2 and 3 allotments also vary based on temperature zone and lot size.

Single-family residential rates are developed to recover the revenue requirement associated with providing service to this class while recognizing the increasing cost of providing water at higher levels of usage. The major differentiating amounts between tier rates are water supply costs, peak pumping, and storage costs. The Tier 1 rate represents indoor basic needs met by the least expensive sources of water supply; the Tier 2 rate covers efficient outdoor water use and reflects water supplies, which include some expensive sources of water; the Tier 3 rate is for above-average outdoor use, which may require more expensive sources of water supply; and the Tier 4 rate is for excessive use and may include the most costly sources of water supply.

The two-tier structure of the multifamily customer class has been maintained from prior rate ordinances. Multifamily tier thresholds are set based on prior winter usage characteristics for each customer. Water allotments still provide incentives for additional conservation with Tier 1 allotment reductions applied in the second (93%), third (88%), fourth (88%), and fifth (88%) year of the five-year rate action.

The major differentiating amounts between the two-tier structure of multifamily rates are water supply costs, peak pumping, and storage costs. Tier 1 rates reflect water supplies, which include the less expensive sources of water, and the Tier 2 rate includes the higher costs of water supply sources.

The two-tier structure of the commercial and industrial customer class has been maintained from prior rate ordinances. High and Low Season Tier thresholds are also set based on prior winter usage characteristics for each customer. Water budgets still provide incentives for additional conservation with Low Season Tier 1 allotments set at 100% of prior winter usage and the High Season Tier 1 allotment set at 105% of prior winter usage.

Like the multifamily customer class, the major differentiating costs between the two-tier structure of the commercial and industrial rates are water supply costs, peak pumping costs, and storage costs. The Tier 1 rate reflects water supplies, which include the less expensive sources of water and the Tier 2 rate includes the higher costs of water supply sources.

The rates still reflect equity consideration for water-intensive businesses and other customers having high seasonal variation in their water usage. Fixed monthly service availability charges apply only to private fire service.

The Water System’s rate ordinance contains a Water Supply Cost Adjustment Factor, a Water Quality Improvement Adjustment Factor, a Base Rate Revenue Target Adjustment Factor, an Owens Valley Regulatory Adjustment Factor, a Low-Income Subsidy Adjustment Factor, a Water Infrastructure Adjustment Factor, and a Water Expense Stabilization Factor. These factors are recovered by direct adjustments to customers’ bills. The Water Supply Cost Adjustment Factor recovers the cost of Los Angeles Aqueduct water, purchased water, including water purchased from the Metropolitan Water District, groundwater, water conservation, recycled water, and any additional water supply source expenses. The Water Quality Improvement Factor recovers expenditures to equalize water quality throughout the City, to meet state and federal water quality standards, and to provide security for water supply, storage, and conveyance infrastructure and related facilities. The Base Rate Revenue Target Adjustment recovers any shortage in revenue from base rates or credits back any excess collection of revenue from base rates due to variation in water sales from established revenue targets published for each major customer class. The Owens Valley Regulatory Adjustment factor recovers expenditures for the Owens Lake Dust Mitigation Program, the Lower Owens River Project, and the Owens Lake Master Project. The Low-Income Subsidy Adjustment Factor recovers the cost of credits provided to lifeline and low-income customers. The Water Infrastructure Adjustment Factor recovers capital costs associated specifically with infrastructure investments to maintain and improve the reliability of the water distribution system, and the Water Expense Stabilization Factor recovers funds in order to stabilize rates in the event of unforeseen events impacting water service delivery and also the expense for legal and courts costs or any judgment or settlement.

Operating revenue is revenue generally derived from activities that are billable in accordance with the water rate ordinance established by the City of Los Angeles. Other types of revenue are generally considered nonoperating.

(r) Capital Contributions

Capital contributions and other grants received by the Water System are for constructing utility plant and other activities and are recognized when all applicable eligibility requirements, including time requirements, are met.

(s) Use of Restricted and Unrestricted Resources

The Water System's policy is to use unrestricted resources prior to restricted resources to meet expenses to the extent that it is prudent from an operational perspective. Once it is not prudent, restricted resources will be utilized to meet intended obligations.

(t) Pensions

Eligible employees of the Water System are members of the Water and Power Employees' Retirement Plan (the Plan), which is a single employer defined-benefit pension plan. The Water System's policy is to fund all the required actuarially determined contributions; such costs to be funded are determined annually as of July 1 by an actuary utilized by the Plan. The assets of the Plan are accumulated and reported at fair value in a special trust fund of the City and, therefore, are not reported in the accompanying financial statements.

The Water System recognizes a net pension liability (asset), which represents the Water System's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension plan as reflected in the financial statements of the Plan. The net pension liability (asset) is measured as of the Water System's prior fiscal year-end. Changes in the net pension liability (asset) are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability (asset) that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition. Contributions made after the measurement date are recorded as deferred outflows and a reduction to the pension regulatory asset.

For purposes of measuring the net pension liability (asset) and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the Water System's pension plan and additions to/deductions from the Plan's fiduciary net position has been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(u) Other Postemployment Plan Benefits

Eligible employees of the Water System are members of the Water and Power Employees' Retirement Plan, which comprises a single-employer defined-benefit plan and a system of benefits. In addition to pension benefits, retirees can also receive other postemployment benefits (OPEB), mainly, healthcare and death benefits. The level of benefits is determined based on their years of civil service, age, and which pension tier they belong to.

The Water System's policy is to fund all the required actuarially determined contributions; such costs to be funded are determined annually as of July 1 by an actuary utilized by the Plan. The assets of the Plan are accumulated and reported at fair value in a special trust fund of the City and, therefore, are not reported in the accompanying financial statements.

The Water System recognizes a net OPEB liability (asset), which represents the Water System's proportionate share of the excess of the total OPEB liability over the fiduciary net position of the Plan as reflected in the financial statements of the Plan. The net OPEB liability (asset) is measured as of the Water System's prior fiscal year-end. Changes in the net OPEB liability (asset) are recorded, in the period incurred, as OPEB expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net OPEB liability (asset) that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of OPEB expense beginning with the period in which they are incurred. Projected earnings on pension investments are recognized as a component of OPEB expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of OPEB expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition. Contributions made after the measurement date are recorded as deferred outflows and a reduction to the OPEB regulatory asset.

For purposes of measuring the net OPEB liability (asset) and deferred outflows/inflows or resources relating to OPEB and OPEB expense, information about the fiduciary net position of the Water System's Plan and additions to/deductions from the Plan's fiduciary net position has been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit's terms.

(v) Leases

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the Water System's fiscal year beginning July 1, 2021. The purpose of this statement is to enhance consistency in accounting and financial reporting by providing a methodology for identifying and reporting lease arrangements and obligations. The Water System adopted the provisions of GASB Statement No. 87 on July 1, 2021 and the Water System's financial statements for the fiscal years ended June 30, 2023 and 2022 reflect the implementation of this statement.

The Water System is both a lessor and a lessee:

(i) Lessor

The Water System is a lessor for various noncancelable leases covering building, land and improvements. For leases with a maximum possible term of 12 months or less at commencement, the Water System recognizes revenue based on the provisions in each contract. For all other leases (i.e., those that are not short term), the Water System recognizes a lease receivable and deferred inflows in accordance with GASB Statement No. 87.

At lease commencement, the Water System initially measures the lease receivable at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts, if any. If the present value of payments expected to be received is below the $100,000 materiality threshold, then revenues will be recognized as short-term leases. Subsequently, for all other leases, the lease receivable is reduced by the principal portion of lease payments received.

As a lessor, the Water System's long-term Ranch Leases (land) cover a period of five years. The lease terms for these leases are determined each year and are based on three valuation components including 1) utility of land, 2) operating structures and 3) rental adjustments based on priced indexes specified in each lease.

On behalf of the Customer Service Division (CSD), DWP purchased a six-story Class A office building consisting of approximately 83,904 square feet and approximately 315 parking spaces on approximately 1.59 acres of land. The property was delivered to DWP partially occupied by six existing tenants. Two of the lease agreements and tenancies will expire by December 2023 and three of the lease agreements and tenancies will expire by June 2026. The lease agreement with the remaining tenant, a telecommunications facility located on the roof of the building, will expire by November 2031. DWP does not intend to extend any of the lease terms or renew any of the lease agreements with the existing tenants. The building cost and the future rental incomes will be shared by both the Water and Power Systems.

The deferred inflows are initially measured as the initial amount of the lease receivable plus any prepaid lease payments at or before the lease commencement less any lease incentives paid at or before the lease commencement. Subsequently, the Water System recognizes the deferred inflow of resources as inflows of resources on a straight-line basis over the remaining term of the lease.

The Water System used the long-term average Weighted Average Cost of Capital (WACC) for AA rated utilities as the discount rate for leases, which approximates the Water System's incremental borrowing rate.

(Continued)

The lease term includes the period during which a lessee has a noncancelable right to use an underlying asset plus any additional periods covered where the lessor and/or the lessee have the option to extend the lease and that option is reasonably certain to be exercised. The lease term also includes periods where only the lessor or lessee has the option to terminate the lease, if this termination is reasonably certain not to be exercised. Periods where both the lessee and the lessor have an option to terminate the lease without permission from the other party are cancelable periods and are excluded from lease term.

The Water System monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the lease receivable is remeasured and a corresponding adjustment is made to the lease asset. There was no remeasurement of leases during fiscal year 2023.

Lease receivables are reported with long-term receivables under noncurrent assets and the corresponding deferred inflows are reported with other deferred inflows in the Statement of Net Position.

The Water System had the following lessor activities during fiscal year 2023 (amounts in thousands):

		Balances June 30, 2022	Leases and Additions	Remeasurements	Deductions	Balance, June 30, 2023
Lessor:						
Lease Receivable – GASB 87	$	3,470	724	—	(887)	3,307
Deferred inflows – GASB 87		3,209	724	—	(753)	3,180

The Water System had the following lessor activities during fiscal year 2022 (amounts in thousands):

		Balances as of July 1, 2021	Leases and Additions	Remeasurements	Deductions	Balance, June 30, 2022
Lessor:						
Lease Receivable – GASB 87	$	—	3,562	—	(92)	3,470
Deferred inflows – GASB 87		—	3,562	—	(353)	3,209

(ii) Lessee

The Water System is a lessee for various noncancelable leases of buildings, vehicles and land. For leases with a maximum possible term of 12 months or less at commencement, the Water System recognizes expense based on the provisions of the lease contract. For all other leases (i.e., those that are not short term), the Water System recognizes a lease liability and an intangible right-of-use lease asset.

At lease commencement, the Water System initially measures the lease liability at the present value of payments expected to be made during the lease term. If the present value of payments expected to be made is below the $100 thousand materiality threshold, then expenses will be recognized as short-term leases. Subsequently, for all other leases, the lease liability is reduced by the principal portion of lease payments made at or before the lease commencement date.

The lease asset (right-of-use) is initially measured as the initial amount of the lease liability plus ancillary cost to place the asset into use, plus lease payments and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The Water System generally uses its estimated incremental borrowing rate as the discount for leases unless the rate that the lessor/vendor charges is known. The Water System’s incremental borrowing rate is based on the long-term average Weighted Average Cost of Capital (WACC) for AA rated utilities as the discount rate for leases unless the rate that the lessor charges is known. The Water System’s incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date.

The lease term includes the period during which a lessee has a noncancelable right to use an underlying asset plus any additional periods covered where the lessor and/or the lessee have the option to extend the lease and that option is reasonably certain to be exercised. The lease term also includes periods where only the lessor or lessee has the option to terminate the lease, if this termination is reasonably certain not to be exercised. Periods where both the lessee and the lessor have an option to terminate the lease without permission from the other party are cancelable periods and are excluded from lease term.

The Water System monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset. There was no remeasurement of leases during fiscal year 2023.

Lease assets are reported with capital assets and lease liabilities are reported with current liabilities and other noncurrent liabilities (long-term) in the Statement of Net Position.

The Water System had the following lease assets (lessee) during fiscal year 2023 (amounts in thousands):

		Balance, June 30, 2022	Additions	Remeasurements	Deductions	Balance, June 30, 2023
Water (Lessee)						
Lease assets:						
Buildings	$	8,556	15,343	—	—	23,899
Vehicles		1,203	2,866	—	—	4,069
Land, right-of-use		645	—	—	—	645
Total lease assets (right-of-use)		10,404	18,209	—	—	28,613
Less accumulated amortization:						
Lease assets:						
Buildings		(1,279)	(1,768)	—	—	(3,047)
Vehicles		(550)	(781)	—	—	(1,331)
Land, right-of-use		(24)	(24)	—	—	(48)
Total accumulated amortization		(1,853)	(2,573)	—	—	(4,426)
Total lease assets, net	$	8,551	15,636	—	—	24,187

The Water System had the following lease liability (lessee) during fiscal year 2023 (amounts in thousands):

		Balance, June 30, 2022	Additions	Remeasurements	Deductions	Balance, June 30, 2023	Amount due in FY 2024
Water:							
Lease liabilities	$	8,784	18,209	—	(2,647)	24,346	5,930

The Water System had the following lease assets (lessee) during fiscal year 2022 (amounts in thousands):

	Balance, July 01, 2021	Additions	Remeasurements	Deductions	Balance, June 30, 2022
Water (Lessee)					
Lease assets:					
Buildings	$ 7,919	637	—	—	8,556
Vehicles	—	1,203	—	—	1,203
Land, right-of-use	645	—	—	—	645
Total lease assets (right-of-use)	8,564	1,840	—	—	10,404
Less accumulated amortization:					
Lease assets:					
Buildings	—	(1,279)	—	—	(1,279)
Vehicles	—	(550)	—	—	(550)
Land, right-of-use	—	(24)	—	—	(24)
Total accumulated amortization	—	(1,853)	—	—	(1,853)
Total lease assets, net	$ 8,564	(13)	—	—	8,551

The Water System had the following lease liability (lessee) during fiscal year 2022 (amounts in thousands):

	Balance, July 01, 2021	Additions	Remeasurements	Deductions	Balance, June 30, 2022	Amount due in FY 2023
Water:						
Lease liabilities	$ 8,564	1,840	—	(1,620)	8,784	2,336

As of June 30, 2023, annual principal and interest for the lease liability are as follows (amounts in thousands):

		Principal	Interest
Fiscal year(s) ending June 30:			
2024	$	5,930	799
2025		1,682	844
2026		1,677	775
2027		1,806	702
2028		1,965	618
2029–2033		10,385	1,445
2034–2038		290	176
2039–2043		367	105
2044–2048		223	38
2049–2053		21	1
Total requirements	$	24,346	5,503

As of June 30, 2022, annual principal and interest for the lease liability are as follows (amounts in thousands):

		Principal	Interest
Fiscal year(s) ending June 30:			
2023	$	2,336	308
2024		589	285
2025		627	260
2026		530	235
2027		557	212
2028–2032		3,200	598
2033–2037		266	185
2038–2042		395	121
2043–2047		245	50
2048–2052		39	3
Total requirements	$	8,784	2,257

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligations for those payments are incurred. The amounts recognized as outflows (expense) for variable lease payments not included in the measurement of the lease liabilities were $231 thousand and $127 thousand during fiscal year 2023 and 2022, respectively.

The Water System, DWP as lessee, has a lease agreement with the City of Los Angeles Department of General Services, as lessor. This lease agreement and any lease agreements with other City departments are excluded from GASB Statement No. 87 because control is not conveyed to another legal entity; hence, these types of lease agreements should not be reported as leases in the Water System's financial statements.

(2) Recent Accounting Pronouncements

(a) GASB Statement No. 94

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs or P3s) and Availability Payment Arrangements (APAs)*, which clarifies the accounting and financial reporting related to these types of arrangements. This standard also establishes definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for these types of transactions. The Water System adopted the provisions of Statement No. 94 in fiscal year 2023, which did not impact the financial statements.

(b) GASB Statement No. 96

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* effective for the Water System's fiscal year beginning July 1, 2022. The objective of this statement is to enhance consistency in accounting and financial reporting by requiring government entities to recognize a right-to-use subscription asset and corresponding subscription liability for such contracts with a specified term. The Water System adopted the provisions of GASB Statement No. 96 on July 1, 2022 and the Water System's financial statements for the fiscal year ended June 30, 2023 reflect the implementation of this statement.

The Water System has various noncancelable SBITAs of cloud hosting fees, software subscription fees and enterprise services subscription fees. For SBITAs with a maximum possible term of 12 months or less at commencement, the Water System recognizes expense based on the provisions of the SBITA contract. For all other SBITAs (i.e., those that are not short term), the Water System recognizes a subscription liability and an intangible right-to-use subscription asset.

At the commencement the subscription term, the Water System initially measures the subscription liability at the present value of payments expected to be made during the subscription term. If the present value of payments expected to be made are below the $100 thousand materiality threshold, then expenses will be recognized as short-term subscriptions. Subsequently, for all other subscriptions, the subscription liability is reduced by the principal portion of subscription payments made at or before the subscription commencement date.

The subscription asset (right-of-use) is initially measured as the initial amount of the subscription liability plus payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term plus capitalizable initial implementation costs before the commencement of the subscription term. The subscription asset is amortized into amortization expense on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

The Water System generally uses its estimated incremental borrowing rate as the discount for subscriptions unless the rate that the vendor charges is known. The Water System's incremental borrowing rate is based on the long-term average Weighted Average Cost of Capital (WACC) for AA rated utilities as the discount rate for subscriptions unless the rate that the SBITA vendor charges is known. The Water System's incremental borrowing rate for subscriptions is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the subscription under similar terms at the commencement or remeasurement date.

The subscription term includes the period during which the Water System has a noncancelable right to use and underlying SBITA asset, plus any additional periods covered by either the Water System or the vendor's unilateral option to (1) extend for which it is reasonably certain to be exercised or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Water System and the vendor have an option to terminate (or if both parties have to agree to extend) are excluded from the subscription term.

The Water System monitors changes in circumstances that may require remeasurement of subscriptions. When certain changes occur that are expected to significantly affect the amount of the subscription liability, the liability is remeasured and a corresponding adjustment is made to the subscription asset (right-of-use), respectively. There was no remeasurement of subscriptions during fiscal year 2023.

Subscription assets are reported with capital assets and Subscription liabilities are reported with current liabilities and other noncurrent liabilities (long-term) in the Statement of Net Position.

The Water System had the following subscription assets during fiscal year 2023 (amounts in thousands):

	Balance, July 01, 2022	Additions	Remeasurements	Deductions	Balance, June 30, 2023
SBITAs					
Subscription assets	$ 2,248	—	—	—	2,248
Less accumulated amortization					
Subscription assets (right-of-use)	—	(365)	—	—	(365)
Total SBITA assets, net	$ 2,248	(365)	—	—	1,883

The Water System had the following subscription liability during fiscal year 2023 (amounts in thousands):

	Balance, July 01, 2022	Additions	Remeasurements	Deductions	Balance, June 30, 2023	Amount due in FY 2024
Subscription liability	$ 2,248	—	—	(671)	1,577	—

As of June 30, 2023, annual principal and interest for the subscription liability are as follows (amounts in thousands):

	Principal	Interest
Fiscal year ending June 30:		
2024	$ —	—
2025	363	87
2026	383	67
2027	404	46
2028	427	23
Total requirements	$ 1,577	223

Variable payments, excluding those dependent on an index or rate or those that are fixed in substance, are not considered when measuring the subscription liability. These amounts are recognized as expense in the period when the obligation for such payments is incurred.

As of June 30, 2023, the Water System, under the Department of Water and Power, has a SBITA agreement with Workday, Inc. for the purchase of cloud-based, Enterprise Resource Planning (ERP) Software-as-a-Service (SaaS) subscription licenses. The agreement is for a term of five years and currently in the implementation stage.

(3) Utility Plant

The Water System had the following activity in utility plant during fiscal year 2023 (amounts in thousands):

	Balance, June 30, 2022	Additions	Retirements and disposals	Transfers	Balance, June 30, 2023
Nondepreciable utility plant:					
Land and land rights	$ 203,653	12,976	—	—	216,629
Construction work in progress	2,139,016	476,657	(14,388)	(309,155)	2,292,130
Total nondepreciable utility plant	2,342,669	489,633	(14,388)	(309,155)	2,508,759
Depreciable utility plant:					
Source of water supply	2,526,783	53,156	—	22,751	2,602,690
Pumping	449,526	14,146	—	6,527	470,199
Purification	961,986	12,000	—	—	973,986
Distribution	6,491,232	253,377	(4,679)	267,758	7,007,688
General	1,012,213	88,889	(21,087)	12,119	1,092,134
Total depreciable utility plant	11,441,740	421,568	(25,766)	309,155	12,146,697
Accumulated depreciation:					
Source of water supply	(592,496)	(40,372)	—	—	(632,868)
Pumping	(173,560)	(10,025)	—	—	(183,585)
Purification	(311,454)	(20,726)	—	—	(332,180)
Distribution	(2,065,200)	(115,296)	4,679	—	(2,175,817)
General	(513,588)	(35,916)	1,073	—	(548,431)
Total accumulated depreciation	(3,656,298)	(222,335)	5,752	—	(3,872,881)
Total utility plant, net	$ 10,128,111	688,866	(34,402)	—	10,782,575

The Water System had the following activity in utility plant during fiscal year 2022 (amounts in thousands):

		Balance, June 30, 2021	Additions	Retirements and disposals	Transfers	Balance, June 30, 2022
Nondepreciable utility plant:						
Land and land rights	$	200,179	3,474	—	—	203,653
Construction work in progress		1,984,834	520,139	(6,024)	(359,933)	2,139,016
Total nondepreciable utility plant		2,185,013	523,613	(6,024)	(359,933)	2,342,669
Depreciable utility plant:						
Source of water supply		2,382,497	26,788	—	117,498	2,526,783
Pumping		438,445	11,080	—	1	449,526
Purification		868,204	10,316	—	83,466	961,986
Distribution		6,111,360	232,759	(5,086)	152,199	6,491,232
General		955,966	55,415	(5,937)	6,769	1,012,213
Total depreciable utility plant		10,756,472	336,358	(11,023)	359,933	11,441,740
Accumulated depreciation:						
Source of water supply		(554,259)	(38,237)	—	—	(592,496)
Pumping		(163,813)	(9,747)	—	—	(173,560)
Purification		(292,365)	(19,089)	—	—	(311,454)
Distribution		(1,963,403)	(106,883)	5,086	—	(2,065,200)
General		(485,783)	(33,742)	5,937	—	(513,588)
Total accumulated depreciation		(3,459,623)	(207,698)	11,023	—	(3,656,298)
Total utility plant, net	$	9,481,862	652,273	(6,024)	—	10,128,111

Depreciation and amortization expense during fiscal years 2023 and 2022 was $236.0 million and $218.6 million, respectively. Depreciation and amortization expense on the statements of revenues, expenses, and changes in net position and cash flows includes amortization expense on software and regulatory assets, which is not included in additions to accumulated depreciation above.

Land and land rights are included in the statement of net position as utility plant assets in their functional category.

(4) Regulatory Assets and Liabilities

Regulatory assets are created by the actions of the Board of Water and Power Commissions by deferring certain expenses that are recoverable by future rate charges in accordance with the current rate ordinances, so as to more evenly match the recognition of revenue and expenses with the water rates charged to retail customers.

Below is a summary of the Water System's regulatory assets (amounts in thousands):

Description		June 30, 2022	Additions	Reductions	June 30, 2023
Assets:					
(a) Regulatory assets – water conservation rebates	$	99,548	10,579	(12,373)	97,754
(b) Regulatory assets – stormwater capture program		47,031	253	(1,611)	45,673
(c) Regulatory assets – customer care and billing system		9,945	—	(1,366)	8,579
Regulatory assets – other		156,524	10,832	(15,350)	152,006
(d) Regulatory assets – OPEB		60,495	—	(47,013)	13,482
(e) Underrecovered costs		89,979	269,362	(89,979)	269,362
Total	$	306,998	280,194	(152,342)	434,850

Description		June 30, 2021	Additions	Reductions	June 30, 2022
Assets:					
(a) Regulatory assets – water conservation rebates	$	107,458	4,019	(11,929)	99,548
(b) Regulatory assets – stormwater capture program		48,500	97	(1,566)	47,031
(c) Regulatory assets – customer care and billing system		11,311	1	(1,367)	9,945
Regulatory assets – other		167,269	4,117	(14,862)	156,524
(d) Regulatory assets – pension		105,055	—	(105,055)	—
(e) Regulatory assets – OPEB		127,859	—	(67,364)	60,495
(f) Underrecovered costs		9,378	89,979	(9,378)	89,979
Total	$	409,561	94,096	(196,659)	306,998

(a) Regulatory Assets – Water Conservation Rebates

Water conservation is an integral part of the water resources management efforts and is a key element of maintaining a sustainable supply of water for the City. The Water System provides customers with 26 water conservation programs that are designed to reduce indoor and outdoor water usage. Initially the programs included low-flow showerheads and incentives to customers who purchase the high-efficiency toilets and high-efficiency clothes washing machines in an effort to reduce water use. In

2015, the program was expanded to include outdoor water savings through a turf reduction program to encourage replacing water-guzzling grass with low-water use shrubs and permeable walkways.

As provided in the Water System's rate structure, beginning June 2011, customers' bills include a charge related to water conservation program payments to be collected over the useful life of the program, which ranges from 5 to 20 years. As rates have been established at a level sufficient to recover all such costs, the Water System recorded these costs as a regulatory asset.

(b) Regulatory Assets – Watershed Management Stormwater Capture Program

The goal of the Stormwater Capture Program is to capture stormwater for recharging the basin with water that would otherwise run off to the ocean and, thus, be lost as a usable source to customers. Regulatory assets related to the Watershed Management Programs include investing in dams, reservoirs, and spreading grounds owned by other agencies, but the water collected benefits Water System customers.

As provided in the Water System's rate structure, beginning August 2013, customers' bills include a charge related to payments made related to the Stormwater Capture Program to be collected over a period of at least 30 years. As rates have been established at a level sufficient to recover all such costs, the Water System recorded these costs as a regulatory asset.

(c) Regulatory Assets – Customer Care and Billing System

In 2013, the Water System implemented the customer care and billing system (CC&B). The implementation of the system required significant investment in training of the Water System's employees.

As provided in the Water System's rate structure, beginning January 2014, customers' bills include a charge related to training for the CC&B to be collected over a 15-year period. As rates have been established at a level sufficient to recover all such costs, the Water System recorded a regulatory asset.

During fiscal year 2019, the Water System's management determined that certain costs originally capitalized as a regulatory asset were not expected to move forward for regulatory asset rate recovery. As a result, $29.5 million was removed from regulatory assets and reclassified as operating expenses or general plant assets based on the expenditure. Remaining costs in CC&B regulatory asset relate to training costs on the system and will be recovered through future rates.

(d) Regulatory Assets – Pension

In connection with the recognition of the net pension liability under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* an amendment of GASB Statement No. 27, the Water System established a regulatory asset in the amount of $745.5 million equal to the net pension liability reported at July 1, 2013. Amortization of the regulatory asset is the difference between amounts paid toward actuarially determined contributions and actual pension expense and totaled $195 million during fiscal year 2022. During fiscal year 2022, the difference between amounts paid toward actuarially determined contributions and actual pension expense exceeded the remaining balance in

(Continued)

the regulatory asset and resulted in the recognition of overrecovered costs – pension in the amount of $90 million.

During fiscal year 2023, the amounts paid toward actuarially determined contributions exceeded actual pension expense by $99 million, resulting in an overrecovered costs – pension balance of $189.2 million.

(e) Regulatory Assets – OPEB

In connection with the recognition of the net OPEB liability (asset) under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* the Water System established a regulatory asset in the amount of $211.7 million equal to the net OPEB liability (asset) reported at July 1, 2017 less contributions after the measurement date. The OPEB regulatory asset is expected to be amortized over a period not to exceed 15 years. Amortization of the regulatory asset is the difference between amounts paid toward actuarially determined contributions and actual OPEB expense, which totaled $47 million and $67.4 million for the years ended June 30, 2023 and 2022, respectively.

(f) Regulatory Assets – Underrecovered Costs

As provided in the Water System Rate Ordinance, the Water System is required to maintain balancing accounts to record differences between specific costs incurred and amounts billed through rates to recover those costs. The net amount of these balancing accounts is presented on the statement of net position as a current asset when costs are underbilled (underrecovered costs) or as a current liability when costs are overbilled (overrecovered costs). All of these balancing accounts are expected to be settled within a 12-month period through the adjustment of pass-through rates during the billing process and are reported as a component of underrecovered costs in the accompanying statements of net position.

At fiscal year-end June 30, 2023 and 2022, the regulatory asset related to current underrecovered costs of $269 million and $90 million, respectively, were composed of the following (amounts in thousands):

		As of June 30	
		2023	2022
Underrecovered balancing accounts – regulatory asset	$	284,762	121,162
Less overrecovered balancing accounts – regulatory liability		(15,400)	(31,183)
Net underrecovered balancing accounts – regulatory asset	$	269,362	89,979

(5) Cash, Cash Equivalents, and Investments

(a) Investments

A summary of the Water System's investments is as follows (amounts in thousands):

Description		June 30 2023	June 30 2022
Water Expense Stabilization Fund	$	54,092	53,174

All investments are to be used for a designated purpose as follows:

(i) Water Expense Stabilization Fund

The Water Expense Stabilization Fund was established under the Master Bond Resolution and can be withdrawn upon and applied to any lawful purpose in connection with the Water System.

As of June 30, 2023, the Water System's investments and their maturities are as follows (amounts in thousands):

Type of investments		Fair value	Investment maturities: 1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. government securities	$	4,884	—	994	3,890	—
U.S. government agencies securities		26,231	—	516	17,636	8,079
Supranationals		2,296	—	—	2,296	—
Medium-term corporate notes		7,714	—	—	2,929	4,785
Commercial paper		983	—	—	983	—
Negotiable CDs		7,540	3,999	3,047	494	—
California local agency bonds		1,594	—	1,145	—	449
California state bonds		729	—	—	729	—
Other state bonds		2,106	—	—	991	1,115
Money market fund		15	15	—	—	—
	$	54,092	4,014	5,702	29,948	14,428

As of June 30, 2022, the Water System's investments and their maturities are as follows (amounts in thousands):

Type of investments	Fair value	Investment maturities: 1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. government securities	$ 6,988	—	—	4,097	2,891
U.S. government agencies securities	14,196	999	—	6,910	6,287
Supranationals	4,294	—	—	1,967	2,327
Medium-term corporate notes	7,916	—	—	5,961	1,955
Commercial paper	2,997	1,999	998	—	—
Negotiable CDs	4,161	1,000	—	3,161	—
California local agency bonds	6,538	—	2,692	2,727	1,119
California state bonds	1,757	—	—	1,018	739
Other state bonds	4,323	1,000	—	3,323	—
Money market fund	4	4	—	—	—
	$ 53,174	5,002	3,690	29,164	15,318

(ii) Interest Rate Risk

The Water System's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. government and U.S. government agency securities; 5 years for supranational securities, medium-term corporate notes, municipal bonds, and state bonds; 270 days for commercial paper; and 397 days for negotiable certificates of deposit.

(iii) Credit Risk

Under its investment policy and the Code, the Water System is subject to the prudent investor standard of care in managing all aspects of its portfolios. The prudent investor standard requires that the Department "shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The U.S. government securities in the portfolio consist of securities issued by or explicitly guaranteed by the U.S. government. All of the U.S. government securities in the portfolio, $4.9 million and $6.9 million as of June 30, 2023 and 2022, respectively, carried the highest or second highest credit ratings of the Nationally Recognized Statistical Rating Organizations (NRSROs) that rated them.

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2023 and 2022, the U.S. government agency securities in the portfolio carry the following credit ratings by the NRSROs that rated them (amounts in thousands):

	June 30, 2023		June 30, 2022	
Categories	Securities	Percentage	Securities	Percentage
AAA or AA	$ 25,468	97 %	$ 14,196	100 %
Not rated	763	3	—	—
	$ 26,231	100 %	$ 14,196	100 %

The Water System’s investment policy specifies that supranational notes must be rated “AA” or its equivalent or better by a NRSRO upon purchase. As of June 30, 2023 and 2022, the Water System’s investments in supranational notes were rated with the highest possible credit ratings by each of the NRSROs.

The Water System’s investment policy specifies that medium term corporate notes must be rated in a rating category of “A” or its equivalent or better by an NRSRO upon purchase. The Water System’s investments in corporate notes as of June 30, 2023 and 2022 were rated in the category of A or its equivalent or better by at least one NRSRO as follows (amounts in thousands):

	June 30, 2023		June 30, 2022	
Categories	Corporate notes	Percentage	Corporate notes	Percentage
AAA	$ 962	13 %	$ 995	13 %
AA	1,879	24	—	—
A	4,873	63	6,921	87
	$ 7,714	100 %	$ 7,916	100 %

The Water System’s investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2023 and 2022, all of the Water System’s investments in commercial paper were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Water System’s investment policy specifies that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2023 and 2022, all of the Water System’s investments in negotiable certificates of deposit were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Water System's investment policy specifies that banker's acceptances must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2023 and 2022, there were no investments in banker's acceptances.

The Water System's investment policy specifies that municipal obligations, issued by California local agencies, must be rated in a rating category of "A" or its equivalent or better by an NRSRO. The Water System's investments in municipal bonds as of June 30, 2023 and 2022 were rated in the following categories by at least one NRSRO as follows (amounts in thousands):

	June 30, 2023		June 30, 2022	
Categories	Municipal bonds	Percentage	Municipal bonds	Percentage
AAA	$ 448	28 %	$ 250	4 %
AA	1,146	72	6,288	96
A	—	—	—	—
	$ 1,594	100 %	$ 6,538	100 %

The Water System's investment policy specifies that State of California obligations must be rated in a rating category of A or its equivalent or better by a NRSRO. As of June 30, 2023 and 2022, the Water System's investments in State of California obligations were rated in the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

	June 30, 2023		June 30, 2022	
Categories	State of California obligations	Percentage	State of California obligations	Percentage
AAA	$ —	— %	$ —	— %
AA	729	100	739	42
A	—	—	1,018	58
	$ 729	100 %	$ 1,757	100 %

The Water System's investment policy specifies that obligations of other states in addition to California must be rated in a rating category of "A" or its equivalent or better by a NRSRO. The Water System's investments in other state obligations as of June 30, 2023 and 2022 were rated in the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

	June 30, 2023		June 30, 2022	
Categories	Other state obligations	Percentage	Other state obligations	Percentage
AAA	$ —	— %	$ 1,996	46 %
AA	2,106	100	—	—
A	—	—	2,327	54
	$ 2,106	100 %	$ 4,323	100 %

The Water System's investment policy specifies that money market funds may be purchased as allowed under the Code, which requires that the fund must have either (1) attained the highest ranking or highest letter and numerical rating provided by not less than two NRSROs or (2) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2023 and 2022, the money market funds in the portfolio had attained the highest possible ratings by at least two NRSROs.

(iv) Concentration of Credit Risk

The Water System's investment policy specifies that there is no percentage limitation on the amount that can be invested in U.S. government agency securities, except that a maximum of 30% of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer.

The Water System's total investments as of June 30, 2023 and 2022 in securities issued by U.S. government agencies are as follows (amounts in thousands):

	June 30, 2023		June 30, 2022	
	Securities	Percentage	Securities	Percentage
Federal Home Loan Bank	$ 15,376	28 %	$ 3,417	6 %
Federal Farm Credit Bank	5,158	10	5,912	11
Federal Home Loan Mortgage Corp.	3,955	7	3,903	7
Federal National Mortgage Association	979	2	964	2
Federal Agricultural Mortgage Corp.	763	1	—	—
	$ 26,231	48 %	$ 14,196	26 %

(v) Custodial Risk

All investments are held in the Water System's name, and therefore, they do not have custodial risk.

(vi) Fair Value Measurements

The Water System holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Department's mission, the Water System determines that the disclosures related to these investments only need to be disaggregated by major type. The Department chooses a tabular format for disclosing the levels within the fair value hierarchy. The Department categorizes its fair value measurements within the fair value hierarchy established by GAAP.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

- Level 1 inputs are quoted prices for identical assets or liabilities in an active market.
- Level 2 inputs are quoted prices of similar assets or liabilities in active or not active markets.
- Level 3 are unobservable inputs using the best information available to management.

		(In thousands) Fair value using			
	June 30, 2023	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Not classified
Investments by fair value level:					
Debt securities:					
U.S. government securities	$ 4,884	4,884	—	—	—
U.S. government agencies	26,231	—	26,231	—	—
Supranationals	2,296	—	2,296	—	—
Medium-term corporate notes	7,714	—	7,714	—	—
California state bonds	729	—	729	—	—
California local agency	1,594	—	1,594	—	—
Other state bonds	2,106	—	2,106	—	—
Total debt securities	45,554	4,884	40,670	—	—
Other:					
Commercial paper	983	—	983	—	—
Certificate of deposit	7,540	—	7,540	—	—
Money market funds	15	—	—	—	15
Total other	8,538	—	8,523	—	15
Total investments	$ 54,092	4,884	49,193	—	15

		(In thousands) Fair value using			
	June 30, 2022	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Not classified**
Investments by fair value level:					
Debt securities:					
U.S. government securities	$ 6,988	6,988	—	—	—
U.S. government agencies	14,196	—	14,196	—	—
Supranationals	4,295	—	4,295	—	—
Medium-term corporate notes	7,916	—	7,916	—	—
California state bonds	1,756	—	1,756	—	—
California local agency	6,538	—	6,538	—	—
Other state bonds	4,323	—	4,323	—	—
Total debt securities	46,012	6,988	39,024	—	—
Other:					
Commercial paper	2,997	—	2,997	—	—
Certificate of deposit	4,161	—	4,161	—	—
Money market funds	4	—	—	—	4
Total other	7,162	—	7,158	—	4
Total investments	$ 53,174	6,988	46,182	—	4

Debt and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical securities. Debt securities classified as Level 2 of the fair value hierarchy are valued using a multidimensional relationship model or matrix pricing model utilizing market data, including, but not limited to, benchmark yields, reported trades, and broker-dealer quotes. Money market funds with maturity dates of one year or less from the balance sheet are recorded at amortized cost and not required to be categorized.

(b) Pooled Cash

The Water System’s cash and cash equivalents and its collateral value of the City’s securities lending program (SLP) are included within the City Treasury’s general and special investment pools. As of June 30, 2023 and 2022, the Water System’s total share of the City’s general and special investment pools was $924.2 million and $894.7 million, respectively, which represents approximately 6.1% and 6.2% of the pooled funds, respectively. Amounts pooled in the City Treasury’s general and special investment pools are not required to be classified in the fair value hierarchy per GASB Statement No. 72, since they are part of an internal investment pool.

Pooled cash is recorded as follows on the statements of net position and statements of cash flows (in thousands):

		As of June 30	
		2023	**2022**
Cash and cash equivalents – unrestricted	$	467,930	570,654
Cash and cash equivalents – restricted		263,430	227,937
Cash and cash equivalents – restricted noncurrent		189,848	84,864
Subtotal cash and cash equivalents		921,208	883,455
Cash – securities lending transactions		3,010	11,220
	$	924,218	894,675

In accordance with GASB Statement No. 31, the Water System records its investment pool funds at fair market value. This fair market value adjustment is recognized as investment income (loss) on the Statement of Revenues, Expenses, and Changes in Net Position and is also recorded as an increase (decrease) to cash and cash equivalents - unrestricted on the Statement of Net Position. The fair value gain (loss) recognized on the Water System's financial statements was $(6,828) thousand and $(43,185) thousand at June 30, 2023 and 2022, respectively.

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities, but safety and liquidity still take precedence over return. Investments in special investment pools will be managed in accordance with the respective pool's policy. If no policy exists, then investments must comply with the California State Government Code Sections 53600–53635 et seq. Special pool participants include the City, Airports, Power System and Water System, Harbor, Sewer, and MICLA. Interest earned on pooled investments is allocated to and recorded in certain participating funds, as authorized by the Council and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. Unless allocation provisions are specifically stipulated in a City ordinance, Council action, or funding source, interest earned on certain funds is allocated to and recorded in the General Fund. The City measures and categorizes its investments using fair value measurement guidelines established by generally accepted accounting principles.

Pursuant to California Government Code Section 53607 (State Code) and the Council File No. 94-2160, the City Treasury shall render to the Council a statement of investment policy (the Policy) annually. Council File No. 11-1740 was adopted on December 2, 2020, as the City's investment policy. This Policy shall remain in effect until the Council and the Mayor approve a subsequent revision. As of June 30, 2023, Council File No. 21-1494 (the subsequent revision) was still pending in Committee. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the City Treasurer will deposit funds and types of investment instruments permitted

(Continued)

by California Government Code Sections 53600–53638, 16340 and 16429.1. The City Treasury further reports that the current policy allows for the purchase of investments with maturities up to 30 years.

The City issues a publicly available financial report that includes complete disclosures related to the City's pooled investments. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, California, 90012, or the Los Angeles City Controller's website, https://lacontroller.org/financial-reports.

General Investment Pool Securities Lending Program

Securities lending is permitted and limited under provisions of California Government Code Section 53601. The Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines. The Water System invested $3 million and $11.2 million in the City's securities lending program as of June 30, 2023 and 2022, respectively.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions that it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction, and shall make a reasonable effort for two business days (the Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts, as necessary, to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City loans out U.S. Treasury Notes, U.S. Agencies Securities, and Medium-Term Notes. The City receives cash as collateral on the loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

During the fiscal year 2023, collateralizations on all loaned securities were compliant with the required 102% of the fair value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(6) Long-Term Debt

Long-term debt outstanding as of June 30, 2023 and 2022 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts and other long-term debt, as follows (amounts in thousands):

Bond issues	Date of issue	Effective interest rate%	Fiscal year of last scheduled maturity	Principal outstanding 2023	Principal outstanding 2022
Revenue bonds:					
Issue of 2001, Series B	February 28, 2001	Variable	2036	$ 182,300	182,300
Issue of 2009, Series C	December 3, 2009	3.844	2040	282,650	314,960
Issue of 2010, Series A	December 14, 2010	4.374	2051	392,710	392,710
Issue of 2012, Series C	August 9, 2012	2.483	2023	—	9,350
Issue of 2013, Series A	May 30, 2013	2.797	2035	—	66,565
Issue of 2013, Series B	December 5, 2013	3.836	2036	—	318,725
Issue of 2014, Series A	November 20, 2014	3.987	2045	257,165	260,895
Issue of 2016, Series A	April 21, 2016	3.184	2047	530,360	540,795
Issue of 2016, Series B	June 9, 2016	3.111	2047	260,055	262,965
Issue of 2017, Series A	May 11, 2017	3.825	2048	519,310	525,575
Issue of 2018, Series A	March 1, 2018	3.576	2049	231,000	231,000
Issue of 2018, Series B	November 29, 2018	3.802	2049	410,670	414,860
Issue of 2019, Series A	July 1, 2019	Variable	2050	200,000	200,000
Issue of 2020, Series A	July 1, 2020	3.031	2051	196,675	200,560
Issue of 2020, Series B	September 1, 2020	0.624	2031	120,465	120,465
Issue of 2020, Series C	January 5, 2021	2.502	2042	237,355	237,355
Issue of 2021, Series A	January 26, 2021	Variable	2052	200,000	200,000
Issue of 2021, Series B	June 29, 2021	2.897	2052	158,730	158,730
Issue of 2022, Series B	April 5, 2022	3.182	2053	494,670	494,670
Issue of 2022, Series C	June 30, 2022	3.629	2053	326,905	326,905
Issue of 2022, Series D	December 28, 2022	4.006	2053	399,685	—
Issue of 2023, Series A	June 1, 2023	3.833	2054	495,530	—
Total principal amount				5,896,235	5,459,385
Unamortized premiums and discounts				707,638	670,283
Revenue bonds, net				6,603,873	6,129,668
Debt due within one year, long-term debt				(107,245)	(94,860)
Debt due within one year, variable rate demand bond liquidity advance not made				(58,230)	(58,230)
Revenue bonds, noncurrent, net				6,438,398	5,976,578

Bond issues	Date of issue	Effective interest rate%	Fiscal year of last scheduled maturity	Principal outstanding 2023	Principal outstanding 2022
Other long-term debt:					
Loans payable to California State Water Resources Control Board:					
SRF10CX103	June 24, 2010	—	2035	$ 25,763	28,105
SRF10CX104	June 24, 2010	—	2033	4,548	5,026
SRF11CX105	June 30, 2011	—	2035	13,727	14,920
SRF10CX116	June 30, 2011	—	2033	9,500	10,500
SRF10CX117	June 30, 2011	—	2033	4,750	5,250
SRF12CX105	June 30, 2012	—	2046	93,339	97,582
SRF12CX106	June 30, 2012	—	2046	24,117	25,213
SRF13CX104	June 26, 2013	—	2051	93,014	94,211
SRF13CX105	June 26, 2013	—	2048	81,928	85,342
SRF14CX102	June 26, 2014	2.085	2047	6,813	7,036
SRF14CX103	June 26, 2014	2.085	2047	45,556	47,045
SRF14CX104	June 26, 2014	2.085	2047	14,411	14,882
SRF14CX105	June 26, 2014	2.085	2047	28,415	29,344
SRF14-310-550	June 19, 2015	1.663	2040	88,195	88,203
SRF D15-02014	September 29, 2015	1.663	2036	2,654	2,844
SRF D17-02079	October 2, 2018	1.800	2050	23,883	24,598
SRF D17-02080	October 1, 2018	1.800	2050	6,933	7,140
SRF D17-02081	October 1, 2018	1.800	2052	145,945	149,919
SRF D17-02082	July 31, 2018	1.800	2049	6,706	6,917
SRF D21-02029	May 10, 2022	1.100	2055	14,704	—
Loans payable to California Department of Water Resources Calconserve	September 19, 2018	—	2044	1,000	1,000
Total principal amount				735,901	745,077
Amount due within one year				(15,424)	(15,154)
Loans payable, noncurrent				720,477	729,923
Total long-term debt, bonds, and loans, net				$ 7,158,875	6,706,501

Revenue bonds generally are callable 10 years after issuance. The Water System has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Water System's net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities. Revenue bonds and refunding bonds are collateralized by the future revenue of the Water System.

(a) Long-Term Debt Activity

The Water System had the following activity in long-term debt during fiscal years 2023 and 2022 (amounts in thousands):

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023
Revenue bonds:				
Principal:				
Beginning balance	$ 5,459,385	—	—	5,459,385
Issuances	—	570,310	—	570,310
Refunding bonds	—	324,905	—	324,905
Scheduled maturities	—	—	(94,860)	(94,860)
Refunded/defeased bonds	—	—	(363,505)	(363,505)
	5,459,385	895,215	(458,365)	5,896,235
Premium (discount):				
Beginning balance	670,283	—	—	670,283
Issuances	—	69,193	—	69,193
Refunding bonds	—	39,152	—	39,152
Scheduled amortization	—	—	(47,423)	(47,423)
Written off due to refunding	—	—	(23,567)	(23,567)
	670,283	108,345	(70,990)	707,638
Revenue bonds, net	6,129,668	1,003,560	(529,355)	6,603,873
Loans from SWRCB and DWR [1]	745,077	21,410	(30,586)	735,901
Total	$ 6,874,745	1,024,970	(559,941)	7,339,774

[1] During fiscal year 2023, the Water System did not enter into a new loan agreement with either the SWRCB or DWR. Existing SWRCB loans received $21.4 million to fund water quality capital improvements and made principal payments of $30.6 million.

		Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022
Revenue bonds:					
Principal:					
Beginning balance	$	5,395,020	—	—	5,395,020
Issuances		—	249,230	—	249,230
Refunding bonds		—	572,345	—	572,345
Scheduled maturities		—	—	(75,080)	(75,080)
Refunded/defeased bonds		—	—	(682,130)	(682,130)
		5,395,020	821,575	(757,210)	5,459,385
Premium (discount):					
Beginning balance		605,061	—	—	605,061
Issuances		—	51,722	—	51,722
Refunding bonds		—	115,017	—	115,017
Scheduled amortization		—	—	(43,912)	(43,912)
Written off due to refunding		—	—	(57,605)	(57,605)
		605,061	166,739	(101,517)	670,283
Revenue bonds, net		6,000,081	988,314	(858,727)	6,129,668
Loans from SWRCB and DWR [1]		740,084	34,993	(30,000)	745,077
Total	$	6,740,165	1,023,307	(888,727)	6,874,745

1 During fiscal year 2022, the Water System entered into one new loan agreement with the SWRCB and none with the DWR. The Water System did not receive funding for the new SWRCB loan during fiscal year 2022. Existing SWRCB loans received $35.0 million to fund water quality capital improvements and made principal payments of $30.0 million.

(b) New Issuances

Fiscal Year 2023

In December 2022, the Water System issued $399.7 million of Water System Revenue Bonds, 2022 Series D. The net proceeds of $449.4 million, including $49.7 million issue premium net of underwriter’s discount, were used to pay for budgeted capital improvements to the Water System and refund all of the $61.2 million outstanding Water System Revenue Bonds, 2013 Series A. The transaction resulted in a net present value savings of $8.1 million and a net gain for accounting purposes of $4.4 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

In June 2023, the Water System issued $495.5 million of Water System Revenue Bonds, 2023 Series A. The net proceeds of $552.3 million, including a $56.8 million issue premium net of underwriter's discount, were used to pay for budgeted capital improvements to the Water System and refund all of the $302.3 million outstanding Water System Revenue Bonds, 2013 Series B. The transaction resulted in a net present value savings of $36.9 million and a net gain for accounting purposes of $17.2 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

Fiscal Year 2022

In April 2022, the Water System issued $494.7 million of Water System Revenue Bonds, 2022 Series B. The net proceeds of $604.4 million, including $109.7 million issue premium net of underwriter's discount, were used to pay for budgeted capital improvements to the Water System, refund a portion of the outstanding Water System Revenue Bonds, 2012 Series A, amounting to $138.4 million, refund a portion of the outstanding Water System Revenue Bonds, 2012 Series B, amounting to $161.0 million, and refund a portion of the outstanding Water System Revenue Bonds, 2012 Series C, amounting to $41.7 million. The transaction resulted in a net present value savings of $81.4 million and a net gain for accounting purposes of $23.6 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

In June 2022, the Water System issued $326.9 million of Water System Revenue Bonds, 2022 Series C. The net proceeds of $382.1 million, including a $55.2 million issue premium net of underwriter's discount, were used to pay for budgeted capital improvements to the Water System, refund all of the $138.4 million outstanding Water System Revenue Bonds, 2012 Series A, refund all of the $161.0 million outstanding Water System Revenue Bonds, 2012 Series B, and refund a portion of the outstanding Water System Revenue Bonds, 2012 Series C, amounting to $41.7 million. The transaction resulted in a net present value savings of $60.6 million and a net gain for accounting purposes of $27.0 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

(c) Outstanding Debt Defeased

The Water System defeased certain revenue bonds in the prior years by placing cash or the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water System's financial statements. At June 30, 2023, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues		Principal outstanding
Issue of 1998 R	$	66,040
Issue of 2013 B		302,285
	$	368,325

(d) Variable Rate Bonds

As of June 30, 2023 and 2022, the Water System had variable rate bonds outstanding in the amounts of $582.3 million and $582.3 million, respectively. The variable rate bonds currently bear interest at daily and weekly rates ranging from 1.30% to 3.44% as of June 30, 2023 and 0.27% to 0.90% as of June 30, 2022. The Water System can elect to change the interest rate period of the bonds, with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days' prior notice. The Water System has entered into standby agreements with a syndicate of commercial banks to provide liquidity for the variable rate bonds in the amount of $126.2 million (2001B, Subseries B-1 to B-3), $56.1 million (2001B, Subseries B-4), $130.0 million (2019A, Subseries A-1), $70.0 million (2019A, Subseries A-2), and $200.0 million (2021A, Subseries A-1 to A-2) as of June 30, 2023. The extended standby agreements expire in January 2024 for $126.2 million, January 2026 for $256.1 million, and January 2027 for $200.0 million.

Under the agreements, $382.3 million of variable rate bonds will bear interest that is payable monthly at the greatest of (i) Prime Rate plus 1.00%; (ii) the Federal Funds Rate plus 2.00%; and (iii) 7.50% and $200.0 million variable rate bonds will bear interest that is payable monthly at the greatest of (i) Prime Rate plus 1.50%, (ii) the Federal Funds Rate plus 2.00%, and (iii) 7.00%. The unpaid principal of each liquidity advance made by the liquidity provider is payable in 10 equal semiannual installments 90 days immediately following the related liquidity advance. At its discretion, the Water System has the ability to convert the outstanding bonds to fixed rate obligations, which cannot be tendered by the bondholders.

The variable rate bonds have been classified as long term on the statements of net position as the liquidity facilities give the Water System the ability to refinance on a long-term basis, and the Water System intends to either renew the facilities or exercise its right to tender the debt as a long-term financing. That portion, which would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements, has been included in the current portion of long-term debt and was $58.2 million and $58.2 million as of June 30, 2023 and 2022, respectively.

(e) Direct Borrowings and Line of Credit

Under GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, the Water System has the following direct placement debt and unused line of credit:

The Drinking Water State Revolving Fund (DWSRF), administered by the State of California's State Water Resources Control Board, assists public water systems in financing the cost of drinking water infrastructure projects needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements. The DWSRF utilizes a prioritized project ranking system to ensure that program resources are applied to projects addressing public health risk problems, projects needed to comply with the SDWA, and projects assisting public water systems most in need on a per household-affordability basis. The Water System has applied for and received funding from the DWSRF for critical Water System capital projects required for compliance with federal drinking water regulations, specifically the Long-Term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfection by Products Rule. This funding has been made available to the Water System in the form of low or 0% interest loans with a repayment period of up to 30 years.

The CalConserve Water Use Efficiency Loan Program, administered by the State of California Department of Water Resources (DWR), established a loan program to local agencies for specific types of water conservation and water use efficiency projects and programs to achieve urban water use targets. The Water System has applied for and received funding from the DWR that will be used to implement an Institutional Water Use Efficiency Loan Program. This funding has been made available to the Water System as a 0% interest loan with a repayment period of 20 years.

The direct borrowings from the DWSRF and DWR contain specified terms relating to certain default provisions as defined by each respective funding agreement. Certain default provisions under the funding agreements include, but are not limited to, material breach of the funding agreement, cessation of operations or bankruptcy, failure to pay amounts due, making false representations with respect to the funding agreements, and failure to meet compliance requirements. Some agreements may be terminated at the option of the lender upon material violation and failure to become compliant. Such termination may result in the immediate repayment of disbursed funds. The Water System does not have any assets pledged as collateral for direct borrowings or subjective acceleration clauses.

On May 25, 2023, the Water System entered into a Second Amended and Restated Revolving Credit Agreement (Second Amended RCA) and the related Second Amended and Restated Fee and Interest Rate Agreement with Wells Fargo Bank, National Association with a $300 million commitment and the option to request additional commitment, as needed, up to a total commitment of $500 million. LADWP can request loans for Water System improvements, Power System improvements, and/or such other lawful purposes of LADWP. The interest charge for tax-exempt loans is based on daily Secured Overnight Financing Rate (SOFR) plus a spread of 0.39%. The interest charge for taxable loans is based on daily SOFR plus a spread of 0.47%. The Second Amended RCA expires in May 2026. As of June 30, 2023 and 2022, the Water System has $100 million and $0, respectively, outstanding under the Second Amended RCA.

In June 2023, the Water System borrowed $100 million from the Wells Fargo Second Amended RCA, which was deposited into the Water Revenue Fund to offset a liquidity shortfall. The liquidity shortfall was primarily due to a record-setting level of precipitation that caused lower consumption, decreasing the Base Revenue Target and caused under collection of certain pass-through costs. The $100 million draw is a taxable loan bearing interest based on a daily SOFR Index Rate plus a 0.47% spread, which will be paid from the Water Revenue Fund. LADWP expects to repay the loan on or before June 2024 as under-collections are recovered.

(f) Scheduled Principal Maturities and Interest

As of June 30, 2023, annual principal maturities and interest on an accrual basis for bonds and loans are as follows (amounts in thousands):

		Principal	Interest and amortization
Fiscal year(s) ending June 30:			
2024	$	122,669	230,985
2025		144,734	226,249
2026		151,645	221,199
2027		156,848	216,725
2028		176,191	211,627
2029–2033		966,229	972,068
2034–2038		1,225,227	791,181
2039–2043		1,449,780	554,373
2044–2048		1,342,089	287,811
2049–2053		858,702	61,282
2054–2058		38,022	6
Total requirements	$	6,632,136	3,773,506

The interest and amortization are net of $797.4 million of unamortized discount/premium and gain/loss due to issuances of new and refunding bonds.

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Water System's long-term debt. The schedule is presented assuming that the tender options on the variable rate bonds, as discussed on the previous page, will not be exercised. Should the bondholders exercise the tender options, the Water System could be required to redeem the $582.3 million in variable rate bonds outstanding over the next six fiscal years as follows: $58.2 million in fiscal year 2024, $116.5 million in each of the fiscal years 2025 through 2028, and $58.2 million in fiscal year 2029. Accordingly, the statements of net position recognize the possibility of the exercise of the tender options and reflect the $58.2 million that could be due in fiscal year 2024, as a current portion of long-term debt payable.

Interest and amortization presented in the above schedule include interest requirements for the variable rate debt over the regularly scheduled maturity period. Variable debt interest rate in effect at June 30, 2023 averages 2.76%. Should the tender options be exercised, the interest would be payable at the rate in effect at the time the standby agreements are activated.

(7) Retirement Plan

(a) Plan Description

The Water System has funded a contributory retirement plan covering substantially all of its employees. The Water and Power Employees' Retirement Fund (the Fund or Plan) operates as a single-employer defined-benefit plan to provide pension benefits to eligible Department employees. The Retirement Fund's assets are held in a special trust fund of the City. Plan benefits are generally based on years of service, age at retirement, and the employee's highest 12 consecutive months of salary before retirement. Active participants who joined the Plan on or after June 1, 1984 are required to contribute 6% of their annual covered payroll. Participants who joined the Plan prior to June 1, 1984 contribute an amount based upon an entry-age percentage rate. A new Tier 2 was added to the Plan and applies to members hired on or after January 1, 2014. Tier 2 plan participants are required to contribute 10% of their salary and plan benefits are based on a three-year final average salary period.

Under the provisions of the City Charter, the Retirement Board of Administration (the Retirement Board) has the responsibility and authority to administer the Plan and to invest its assets. The Retirement Board members serve as trustees and must act in the exclusive interest of the Plan's members and beneficiaries. The Retirement Board has seven members: One member of the Board of Water and Power Commissioners, the General Manager, the Chief Accounting Employee, three employee members who are elected for three-year terms by active members of the Plan, and one retiree who is appointed by the Board of Water and Power Commissioners for a three-year term.

Plan amendments must be approved by both the Retirement Board and the Board of Commissioners of the Department. The Plan issues separately available financial statements on an annual basis. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 N. Hope, Room 357, Los Angeles, California 90012.

(b) Benefits Provided

The Plan provides retirement benefits to eligible employees. Most employees of the Water System become members of the Plan effective on the first day of biweekly payroll following employment or immediately following transfer from another City department. Members employed prior to January 1, 2014 are designated as Tier 1 and those hired on or after January 1, 2014 are designated as Tier 2 (unless a specific exemption applies to employee providing a right to Tier 1 status).

Tier 1 members are eligible to retire once they attain the age of 60 with 5 or more years of service or at age 55 with 10 or more years of service acquired in the last 12 years prior to retirement. A Tier 1 member with 30 years of service is eligible to retire regardless of age. Tier 2 members are eligible to retire once they attain the age of 60 with at least 5 years of continuous Department service or at any age with 30 years of service. For both tiers, combined years of service between the Plan and the Los Angeles City Employees Retirement System is used to determine retirement eligibility and at least 5 years must be actual employment at the Department or the City (not purchased). For both tiers, members receiving Permanent Total Disability benefits may retire regardless of age. For Tier 1, to be eligible for a Formula Pension, the employee must have worked or been paid disability 4 of the last 5 years immediately preceding eligibility to retire, or while eligible to retire.

The Formula Pension benefit the member will receive is based upon age at retirement, monthly average salary base, and years of retirement service credit. The Tier 1 Formula Pension is equal to 2.1% times years of service credit times monthly average salary base. In addition, members retiring after attaining age 55 with 30 years of service credit receive an increase in the benefit factor from 2.1% to 2.3%. A reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement age between 60 and 55 and 3.0% for each year of retirement before age 55.

Under Tier 2, there are various benefit factors that apply as shown below:

- 1.5% at age 60 with 5 years of continuous Department service (or 10 years of qualifying service)
- 2.0% with 30 years of qualifying service
- 2.0% at age 55 with 30 years of service credit
- 2.0% at age 63 with 5 years of continuous Department service (or 10 years of qualifying service)
- 2.1% at age 63 with 30 years of qualifying service

Reduced early retirement benefits are still available at any age (under 55) with 30 years of service and the reduction factors are the same as Tier 1. Note that these reduction factors continue to include the reduction from age 60 to 55 and from 55 to age at retirement.

For Tier 1 members, the maximum monthly retirement allowance is 100% of monthly average salary base. For Tier 2 members, the maximum monthly retirement allowance is 80% of monthly average salary base. Under Tier 1, pension benefits are calculated based on the highest average salary earned during a 12-month period. Under Tier 2, pension benefits are calculated based on the average salary earned during a 36-month period.

The member may elect the full allowance or choose an optional retirement allowance. The full allowance provides the highest monthly benefit and up to a 50% continuance to an eligible surviving spouse or domestic partner. There are five optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the full allowance in order to allow the member the ability to provide various benefits to a surviving spouse, domestic partner, or named beneficiary.

(c) Plan Membership

As of the June 30, 2022 and 2021, measurement dates for the June 30, 2023 and 2022 net pension liability (asset), pension plan membership, which consisted of Water and Power System members, consisted of the following:

	2023	2022
Retired members or beneficiaries currently receiving benefits	9,716	9,564
Vested terminated members entitled to, but not yet receiving, benefits	1,735	1,708
Active members	10,799	10,605
Total	22,250	21,877

(d) Contributions

The Department contributes $1.10 for each $1.00 contributed by participants plus an actuarially determined annual required contribution (ARC) as determined by the Plan's independent actuary. The required contributions are allocated between the Power System and the Water System based on the current year labor costs.

Employer contribution rates are adopted annually based upon recommendations received from the Plan's actuary after the completion of the annual actuarial valuation. The average employer contribution rates for fiscal years 2023, 2022, and 2021 (based on the July 1, 2022, 2021, and 2020 valuations) were 29.84%, 26.04%, and 33.55% of compensation, respectively. The average member contribution rates for fiscal years 2023, 2022, and 2021 (based on the July 1, 2022, 2021, and 2020 valuations) were 7.95%, 7.85% and 7.68% of compensation, respectively. Most Tier 1 members contribute at 6% of compensation and all Tier 2 members contribute at 10% of compensation. Employer contributions in fiscal years 2023, 2022, and 2021 amounted to $120 million, $106 million, and $126 million, respectively.

(e) Net Pension Liability (Asset)

At June 30, 2023 and 2022, the Water System reported a liability of $203 million and an asset of $538 million, respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022 and 2021 and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of the same dates. The Water System's proportion of the net pension liability (asset) was based on the Water System's projected compensation for the year following the measurement date, relative to the projected compensation for the same period for both the Water System and the Power System. At June 30, 2023, the Water System's proportion was 32.9% compared to 32.4% and 32.3% as of June 30, 2022 and 2021, respectively.

(f) Actuarial Assumptions

The Water System's net pension liability (asset) as of June 30, 2023 and 2022 was measured as of June 30, 2022 and 2021, using actuarial valuations as of July 1, 2022 and 2021, respectively. The actuarial assumptions used in the July 1, 2022 and 2021 valuations were based on the results of experience studies for the period from July 1, 2015 through June 30, 2021. The following assumptions were applied to all periods included in the measurement for the July 1, 2022 and 2021 actuarial valuations:

Actuarial assumptions	2022	2021
Inflation	2.50%	2.75%
Salary increases	4.25%–10.00%	4.50%–10.25%
Investment rate of return	6.50%	7.00%
Cost-of-living adjustments	2.75% (Actual increases are contingent upon CPI increases, with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.)	2.75% (Actual increases are contingent upon CPI increases, with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.)
Mortality	Postretirement: Pub-10 General Healthy Retiree Amount-Weighted Above Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021	Postretirement: Pub-10 General Healthy Retiree Amount-Weighted Above Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018

(g) Discount Rate

The discount rate used to measure the total pension liability was 6.50% and 7.00% as of June 30, 2022 and June 30, 2021, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability at June 30, 2023 and 2022.

(h) Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

	June 2023		June 2022	
Asset class	Target allocation	Long-term expected arithmetic real rate of return	Target allocation	Long-term expected arithmetic real rate of return
Large cap US equity	21.10 %	5.13 %	22.95 %	5.44 %
Small cap US equity	2.10	5.86	1.75	6.18
Developed international large	12.20	6.01	13.06	6.54
Developed international small	1.80	5.72	2.18	6.64
Global equity	2.70	5.94	2.90	6.45
Emerging market equity	5.10	8.16	5.16	8.73
TIPS	3.50	(0.23)	—	—
Real estate	7.00	4.60	8.00	4.60
Cash and equivalents	1.00	(0.77)	1.00	0.25
Commodities	1.50	2.77	—	—
Private equity	10.00	10.46	8.00	9.27
Private credit	2.40	5.94	—	—
Hedge funds	5.00	1.85	5.00	3.53
Non-core real estate	3.00	7.14	—	—
Custom fixed income	21.60	0.68	25.00	1.65
Custome real return	—	—	5.00	2.07
Total	100.00 %		100.00 %	

(i) Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Water System as of June 30, 2023 and 2022, calculated using the discount rate of 6.50% and 7.00%, respectively, as well as what the Department’s pension liability (asset) would be as of June 30, 2023 if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate (amounts in thousands):

Net pension liability (asset)		1% Decrease (5.50%)	Current discount rate (6.50%)	1% Increase (7.50%)
June 30, 2023	$	925,094	202,559	(392,217)

Net pension liability (asset)		1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
June 30, 2022	$	114,076	(538,006)	(1,076,147)

(j) Pension Plan Fiduciary Net Position

In addition to amortization expense of the regulatory assets discussed in note 4, the pension plan's fiduciary net position is determined based on the accrual basis of accounting, which is on the same basis of accounting as the Plan. Pension plan investments are recorded at fair value except for short-term investments, which are recorded at amortized cost. Benefit payments include costs as designated by the Plan document, refunds of employee contributions due to terminations and member deaths, and administrative expenses.

(k) Pension Expense, Deferred Outflow of Resources, and Deferred Inflow of Resources

The Water System recognized pension expense of $21,009 thousand and $(89,146) thousand for the years ended June 30, 2023 and 2022, respectively. Pension expense is recorded as operation and maintenance expense or construction work in progress depending on where the related payroll is charged. At June 30, 2023 and 2022, the Water System reported $275,154 thousand and $28,338 thousand, respectively, for deferred outflow of resources and deferred inflow of resources of $25,558 thousand and $605,215 thousand, respectively.

The below table summarizes the deferred inflow of resources and deferred outflow of resources related to pensions at June 30, 2023 and 2022 (amounts in thousands):

Deferred outflow of resources		June 30 2023	June 30 2022
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	6,651	8,346
Net difference between projected and actual earnings on pension plan investments		97,987	—
Difference between actual and expected experience in the total pension liability		14,173	18,461
Changes of assumptions and other inputs		156,343	1,531
Total deferred outflow of resources	$	275,154	28,338

Deferred inflow of resources		June 30 2023	June 30 2022
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	864	1,219
Net difference between projected and actual earnings on pension plan investments		—	576,787
Difference between expected and actual experience in the total pension liability		24,694	27,209
Total deferred inflow of resources	$	25,558	605,215

In addition to the deferred outflows noted above, there are also $119,613 thousand and $106,255 thousand of deferred outflows related to pension contributions made after the measurement date as of June 30, 2023 and 2022, respectively. These deferred outflows of resources are recognized as a reduction of the net pension liability in the subsequent fiscal year.

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows (in thousands):

Year		June 30 2023	June 30 2022
2023	$	—	(148,619)
2024		29,894	(127,113)
2025		22,522	(134,396)
2026		(7,662)	(164,179)
2027		158,841	111
2028		21,520	(2,681)
2029		24,239	—
2030		242	—
Total	$	249,596	(576,877)

(l) Overrecovered Costs – Pension

In connection with the recognition of the net pension liability under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* an amendment of GASB Statement No. 27, the Water System established a regulatory asset in the amount of $745.5 million, equal to the net pension liability reported at July 1, 2013. Amortization of this pension regulatory asset was recognized over the years as the difference between amounts paid toward actuarially determined contributions and actual pension expense. During fiscal year 2022, the difference between amounts paid toward actuarially determined contributions and actual pension expense exceeded the remaining balance in the pension regulatory asset and resulted in the recognition of overrecovered costs – pension in the amount of $90 million.

During fiscal year 2023, the amounts paid toward actuarially determined contributions exceeded actual pension expense by $99 million, resulting in an overrecovered costs – pension balance of $189.2 million.

(8) Other Postemployment Benefit Plans

(a) General Information About the Plan

The Department provides retirees medical and dental benefits and death benefits to active and retired employees and their dependents. The retiree healthcare plan and death benefit plan are administered by the Department. The Retirement Board and the Board of Commissioners have the authority to approve provisions and obligations. Eligibility for benefits for retired employees is dependent on a combination of age and service of the participants pursuant to a predetermined formula. Any changes to these provisions must be approved by the Retirement Board and the Board.

The retiree healthcare and death benefit plans are single-employer, defined-benefit plans. Plan assets are administered through irrevocable trusts for each fund used solely for the benefit of providing benefits to eligible participants in the Plan. Assets of the trust are legally protected from creditors and dedicated to providing postemployment reimbursement of eligible medical, dental, and vision expenses to current and eligible future retirees and their spouses in accordance with the terms of the Plan. Death benefits are provided to active and inactive employees in accordance with terms of the Plan.

The funds are administered in separate trust funds and presented as part of the retirement system financial statements. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 North Hope, Room 357, Los Angeles, California 90012.

(b) Benefits Provided

For retiree healthcare, a medical subsidy is computed by a formula related to years of service and attained age of retirement. The subsidy limit is applied to the combined medical carrier and Medicare Part B premium but not the dental premium. For Tier 1, the monthly medical subsidy ranges from $30.32 to $1,996.58 depending on age and service at retirement. For Tier 2, the monthly medical subsidy ranges from $30.32 to $998.29, depending on age and service at retirement. The monthly dental subsidy for most retirees is $33.82. The dental subsidy is not available to pay for premiums for married and surviving spouses or domestic partners. All members hired before January 1, 2014 are Tier 1. All members hired on or after January 1, 2014 are Tier 2.

The death benefit plan pays death benefits to the beneficiaries of eligible employees. Generally, to be eligible for the family death benefit allowance, an employee must be a full member of the Plan and contributing to the Plan at the time of death. If death occurs after retirement, then, the retired member must be receiving a monthly retirement allowance from the Plan and had at least five years of Department service at retirement. The Family Death Benefit plan pays a monthly allowance of $416 to the surviving spouse of a member with minor (or disabled) children plus $416 for each minor (or disabled) child up to a maximum monthly allowance of $1,170. In addition, the spouse’s portion will not be paid if the spouse is receiving a survivor’s optional death benefit allowance or an eligible spouse allowance from the retirement plan.

The Supplemental Family Death Plan, which is part of the Death Benefit Plan, is optional and subject to making additional member contributions. The Supplemental Family Death Benefit Plan pays a monthly allowance of $520 for each surviving spouse or child, in addition to the amounts payable from the Family Death Benefit Plan, subject to a maximum of $1,066 for the additional benefits. The insured lives death benefit plan for contributing members provides death benefits to employees who die while employed by the Department. Generally, to be eligible, an employee must be a full member of the Plan and contributing to the Plan at the time of death. The benefit paid from the death benefit fund is a single sum that is equal to 14 times the member’s monthly compensation with no maximum.

The insured lives death benefit plan for noncontributing members provides death benefits to employees who were employed by the Department for at least five years and death occurred after retirement. The death benefit is paid in a single sum that is equal to the lesser of 14 times the member’s monthly full retirement allowance or $20,000.

(c) *Employees Covered by Benefit Terms*

At the Department's measurement date of June 30, 2022 for the June 30, 2023 reporting period, the following employees were covered by the benefit terms:

Plan membership	Retiree healthcare	Death benefit
Beneficiaries currently receiving benefits	—	93
Retired members currently receiving benefits	8,557	7,760
Vested terminated members not receiving benefits	—	595
Active members	10,799	10,799
Total	19,356	19,247

At the Department's measurement date of June 30, 2021 for the June 30, 2022 reporting period, the following employees were covered by the benefit terms:

Plan membership	Retiree healthcare	Death benefit
Beneficiaries currently receiving benefits	—	82
Retired members currently receiving benefits	8,432	7,621
Vested terminated members not receiving benefits	—	599
Active members	10,605	10,605
Total	19,037	18,907

(d) *Contributions*

The Board of Commissioners establishes rates for retiree healthcare plan based on an actuarially determined rate. For the years ended June 30, 2023 and 2022, the Department's average contribution rate was 9.5% and 9.7%, respectively, of covered employee payroll. Employees are not required to contribute to the retiree healthcare plan. Water System contributions to the retiree healthcare plan were $37.3 million and $37.1 million including administrative expenses of $0.3 million and $0.3 million for the fiscal years ended June 30, 2023 and 2022, respectively.

The Department contributes to the death benefit fund based on actuarially determined contribution rates adopted by the Board of Administration. Employer contribution rates are adopted annually based on recommendations received from the Plan's actuary after the completion of the review of the death benefit fund. The employer and member contribution rates as of June 30, 2023 are as follows:

		Members	
	Department	**Active**	**Retired**
Total Death Benefit Fund	1.11% of payroll	N/A	N/A
Supplemental family death benefit insured lives		$2.25 biweekly	$4.90 monthly
Contributing		$1.00 biweekly	N/A
Noncontributing		N/A	N/A

Water System contributions to the death benefits plan were $5.4 million including administrative expenses of $0.7 million for the fiscal year ended June 30, 2023.

The employer and member contribution rates as of June 30, 2022 are as follows:

		Members	
	Department	**Active**	**Retired**
Total Death Benefit Fund	1.12% of payroll	N/A	N/A
Supplemental family death benefit insured lives		$2.25 biweekly	$4.90 monthly
Contributing		$1.00 biweekly	N/A
Noncontributing		N/A	N/A

Water System contributions to the death benefits plan were $4.9 million including administrative expenses of $0.6 million for the fiscal year ended June 30, 2022.

(e) Net OPEB Liability (Asset)

The Water System reported an asset of $6 million and $83 million for its proportionate share of the net OPEB liability (asset) for retiree healthcare plan and the death benefit plan as of the June 30, 2023 and 2022 reporting dates, respectively. The net OPEB liability (asset) for each of the plans was measured as of June 30, 2022 and 2021 and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by actuarial valuations as of June 30, 2022 and 2021. The Water System's proportion of the net OPEB liability (asset) was based on the Water System's projected compensation for the year following the measurement date, relative to the projected compensation for the same period for both the Water System and the Power System. At June 30, 2023 and 2022, the Water System's proportion of the retiree healthcare plan and the death benefit plan net OPEB liabilities (assets) was 32.9% and 32.4%, respectively.

(Continued)

The following table shows the Water System's proportionate share of the net OPEB liability (asset) for each of the plans as of June 30, 2023 and 2022 (amounts in thousands):

		2023	2022
OPEB liability (asset) for retiree healthcare plan	$	(42,801)	(113,151)
OPEB liability for death benefit plans		37,036	30,263
Net OPEB liability (asset)	$	(5,765)	(82,888)

The total OPEB liability in the June 30, 2022 actuarial valuations used for the Water System's June 30, 2023 financial statements was determined using the following actuarial assumptions:

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Investment rate of return	6.50 %	2.75 %	2.75 %	2.75 %	2.75 %
Inflation rate	2.50 %	2.50 %	2.50 %	2.50 %	2.50 %
Real across the board salary increases	0.50 %	0.50 %	0.50 %	0.50 %	0.50 %
Projected salary increase	4.25% to 10%	4.25% to 10.00%	4.25% to 10.00%	4.25% to 10.00%	4.25% to 10.00%
Mortality table	Pub-2010 mortality table reflected for mortality experience as of the measurement date	—	—	—	—
Medical cost trends:					
Non-Medicare medical plan	7.25%, graded down to 4.50% over 11 years	—	—	—	—
Medicare medical plans	6.50%, graded down to 4.50% over 8 years	—	—	—	—
Dental and Medicare Part B	3.00 and 4.50%	—	—	—	—
Member contribution rate	None	None	$2.25 per biweekly period or $4.90 per month if retired	$1.00 per biweekly payroll period	None
Department contribution rate	9.51%	1.11% of Payroll	—	—	—

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Age and service requirement	Tier 1 – Age 60 with 5 years of service; age 55 with 10 years of service in the last 12 years; any age with 30 years of service; or receiving permanent total disability benefits from the Plan. Tier 2 – Age 60 with 5 years of continuous service with the Plan immediately prior to reaching eligibility; or age 60 with 10 years. of service; or any age with 30 years of service; or receiving permanent total disability benefits from the Plan	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving a monthly retirement from WPERP with at least five years of service at retirement	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP	Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP	Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement
Monthly benefit	Tier 1 – $30.32 to $1,996.58. Tier 2 – $30.32 to $998.29	$416 per month to each surviving child plus $416 per month to eligible spouse	$520 per month to each surviving child plus $520 per month to eligible spouse	A single sum distribution equal to 14 times the monthly salary	A single sum distribution equal to 14 times the member's full retirement allowance up to $20,000
Participation rate	100% for medical and 100% for dental	—	—	—	—
Retirement rates	Based on 2022 experience study covering the period from July 1, 2018 through June 30, 2021	—	—	—	—

At June 30, 2023, mortality rates were based on the Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table increased by 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2021. The actuarial assumptions used in the June 30, 2022 valuation were based on the long-term expected rate of return on OPEB plan investments, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

At June 30, 2023, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for each fund:

Asset class	Targeted allocation	Long-term expected arithmetic real rate of return
Large cap U.S. equity	21.10 %	5.13 %
Small cap U.S. equity	2.10	5.86
Developed international large cap equity	12.20	6.01
Developed international small cap equity	1.80	5.72
Global equity	2.70	5.94
Emerging market equity	5.10	8.16
TIPS	3.50	(0.23)
Real estate	7.00	4.60
Cash and equivalents	1.00	(0.77)
Commodities	1.50	2.77
Private equity	10.00	10.46
Private credit	2.40	5.94
Hedge funds	5.00	1.85
Non-core real estate	3.00	7.14
Custom fixed income	21.60	0.68
Total	100.00 %	

	Targeted allocation	Long-term expected arithmetic real rate of return
Death benefit:		
Fixed income	100 %	0.36 %
Cash and cash equivalents	—	—
	100 %	

At June 30, 2023, for the retiree healthcare fund, the discount rate used to measure the total OPEB liability was 6.50% for the year ended June 30, 2023. The projection of cash flows used to determine the discount rate assumed that Department’s contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

At June 30, 2023, for the death benefit fund, projected investment earnings were based on the assumed investment rate of return of 2.75% per annum. The Plan Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. There is no projected “cross-over date” when projected benefits are not covered by projected assets. The long-term expected rate of return on Plan investments of 2.75% per annum was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2022.

The total OPEB liability in the June 30, 2021 actuarial valuations used for the Power System’s June 30, 2022 financial statements was determined using the following actuarial assumptions:

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Investment rate of return	7.00%	3.50%	3.50%	3.50%	3.50%
Inflation rate	2.75%	2.75%	2.75%	2.75%	2.75%
Real across the board salary increases	0.50%	0.50%	0.50%	0.50%	0.50%
Projected salary increase	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%
Mortality table	Pub-2010 mortality table reflected for mortality experience as of the measurement date	—	—	—	—
Medical cost trends:					
Non-Medicare medical plan	7.50%, graded down to 4.50% over 12 years	—	—	—	—
Medicare medical plans	6.50%, graded down to 4.50% over 8 years	—	—	—	—
Dental and Medicare Part B	4.00 and 4.50%	—	—	—	—
Member contribution rate	None	None	$2.25 per biweekly period or $4.90 per month if retired	$1.00 per biweekly payroll period	None

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Department contribution rate Total Death Benefit Fund	9.74%	1.12% of Payroll	—	—	—
Age and service requirements	Tier 1 – Age 60 with 5 years of service; age 55 with 10 years of service in the last 12 years; any age with 30 years of service; or receiving permanent total disability benefits from the Plan. Tier 2 – Age 60 with 5 years of continuous service with the Plan immediately prior to reaching eligibility; or age 60 with 10 years of service; or any age with 30 years of service; or receiving permanent total disability benefits from the Plan	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving a monthly retirement from WPERP with at least five years of service at retirement	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP	Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP	Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement
Per Capita Cost Development	The assumed per capita claims cost by age is calculated using age-based factors for retiree ranging from 90.4% to 122.7% and spouse ranging from 71.2% to 122.7% and applying these factors to premiums (eligible spouses and survivors are not eligible for DWP dental subsidy)	—	—	—	—

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Monthly benefit	Tier 1 – $30.32 to $1,870.87; Tier 2 – $30.32 to $935.44	$416 per month to each surviving child plus $416 per month to eligible spouse	$520 per month to each surviving child plus $520 per month to eligible spouse	A single sum distribution equal to 14 times monthly salary	A single sum distribution equal to 14 times the member's full retirement allowance up to $20,000
Participation rate	95% for medical and 95% for dental	–	–	–	–
Retirement rates	Based on 2019 experience study covering the period from July 1, 2015 through June 30, 2018	–	–	–	–

At June 30, 2022, mortality rates were based on the Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018. The actuarial assumptions used in the June 30, 2021 valuation were based on the long-term expected rate of return on OPEB plan investments, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

At June 30, 2022, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for each fund:

Asset Class	Targeted allocation	Long-term expected arithmetic real rate of return
Large cap U.S. equity	22.95 %	5.44 %
Small cap U.S. equity	1.75	6.18
Developed international large cap equity	13.06	6.54
Developed international small cap equity	2.18	6.64
Global equity	2.90	6.45
Emerging market equity	5.16	8.73
Real estate	8.00	4.60
Cash and equivalents	1.00	0.25
Private equity	8.00	9.27
Hedge funds	5.00	3.53
Custom fixed income	25.00	1.65
Custom real return	5.00	2.07
Total	100.00 %	

	Targeted allocation	Long-term expected arithmetic real rate of return
Death benefit:		
Fixed income	96 %	1.42 %
Cash and cash equivalents	4	0.25
	100 %	

At June 30, 2022, for the retiree healthcare fund, the discount rate used to measure the total OPEB liability was 7.00% for the year ended June 30, 2022. The projection of cash flows used to determine the discount rate assumed that Department’s contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

At June 30, 2022, for the death benefit fund, projected investment earnings were based on the assumed investment rate of return of 3.50% per annum. The Plan Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. There is no projected "cross-over date" when projected benefits are not covered by projected assets. The long-term expected rate of return on Plan investments of 3.50% per annum was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2021.

(f) Sensitivity of Net OPEB Liability (Asset) to Changes in the Discount Rate Rates

The following table represents the net OPEB liability (asset) of the Water System, calculated using the stated discount rate assumption as well as what the Water System's net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage-point higher than the current discount rate (amounts in thousands):

		June 30, 2023		
		1% decrease	**Current**	**1% increase**
Discount rate		5.50 %	6.50 %	7.50 %
Net OPEB liability (asset) – retiree healthcare plan	$	84,671	(42,801)	(147,051)
Discount rate		1.75 %	2.75 %	3.75 %
Net OPEB liability – death benefit plan	$	45,572	37,036	30,275

		June 30, 2022		
		1% decrease	**Current**	**1% increase**
Discount rate		6.00 %	7.00 %	8.00 %
Net OPEB liability (asset) – retiree healthcare plan	$	1,797	(113,151)	(207,767)
Discount rate		2.50 %	3.50 %	4.50 %
Net OPEB liability – death benefit plan	$	37,243	30,263	24,707

(g) Sensitivity to Net OPEB Liability (Asset) to Changes in Healthcare Cost Trend Rates

The following table represents the net OPEB liability (asset) of the Water System, calculated using the stated healthcare cost trend assumption as well as what the Water System's net OPEB liability (asset) would be if it were calculated using a healthcare cost trend that is one percentage point lower or one percentage point higher than the current healthcare cost trend rates (amounts in thousands):

		June 30, 2023		
		1% decrease	**Current***	**1% increase**
Net OPEB liability (asset) – retiree healthcare plan	$	(158,381)	(42,801)	102,644

* Current trend rates: 7.25% graded down to 4.50% over 11 years for non-Medicare medical plan costs; 6.50% graded down to 4.50% over 8 years for Medicare medical plan costs, and 3% for all years for dental subsidy costs and 4.50% for all years for Medicare Part B subsidy costs

There is no trend rate assumption used in valuing the death benefit plan.

		June 30, 2022		
		1% decrease	**Current***	**1% increase**
Net OPEB liability (asset) – retiree healthcare plan	$	(216,572)	(113,151)	15,482

* Current trend rates: 7.50% graded down to 4.50% over 12 years for non-Medicare medical plan costs; 6.50% graded down to 4.50% over 8 years for Medicare medical plan costs, and 4.00% for all years for dental subsidy costs and 4.50% for all years for Medicare Part B subsidy costs

There is no trend rate assumption used in valuing the death benefit plan.

(h) OPEB Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued plan financial report. The OPEB plans' fiduciary net positions are determined based on the accrual basis of accounting, which is on the same basis of accounting as the Plan. OPEB plan investments are recorded at fair value except for short-term investments, which are recorded at amortized cost. Benefit payments include costs designed by the plan document and administrative expenses.

(i) OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Water System recognized OPEB expense of $(9,082) thousand and $3,683 thousand for its proportionate share of the healthcare and death benefits plans, respectively. At June 30, 2022, the Water System recognized OPEB expense of $(28,495) thousand and $2,474 thousand for its proportionate share of the healthcare and death benefits plans, respectively. At June 30, 2023, the Water System reported deferred outflows and inflows of resources related to OPEB Plans from the following sources (in thousands):

	Retiree healthcare plan		Death benefits plan		Total	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Change in proportion and differences between employer category's contributions	$ 2,472	2,318	1,108	285	3,580	2,603
Changes of assumptions	22,272	11,822	4,964	1,792	27,236	13,614
Net difference between projected and actual earnings on OPEB plan investments	13,232	—	1,437	—	14,669	—
Differences between expected and actual experience	—	91,113	719	860	719	91,973
	37,976	105,253	8,228	2,937	46,204	108,190
Employer contributions subsequent to the measurement date	37,347	—	5,392	—	42,739	—
Totals	$ 75,323	105,253	13,620	2,937	88,943	108,190

For the year ended June 30, 2022, the Water System recognized OPEB expense of $(28,495) thousand and $2,474 thousand for its proportionate share of the healthcare and death benefits plans, respectively. At June 30, 2021, the Water System recognized OPEB expense of $8,478 thousand and $2,336 thousand for its proportionate share of the healthcare and death benefits plans, respectively. At

June 30, 2022, the Water System reported deferred outflows and inflows of resources related to OPEB Plans from the following sources (in thousands):

	Retiree healthcare plan		Death benefits plan		Total	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Change in proportion and differences between employer category's contributions	$ 3,139	2,834	904	382	4,043	3,216
Changes of assumptions	25,987	16,747	—	2,276	25,987	19,023
Net difference between projected and actual earnings on OPEB plan investments	—	102,498	—	169	—	102,667
Differences between expected and actual experience	—	89,721	341	1,133	341	90,854
	29,126	211,800	1,245	3,960	30,371	215,760
Employer contributions subsequent to the measurement date	37,086	—	4,920	—	42,006	—
Totals	$ 66,212	211,800	6,165	3,960	72,377	215,760

Contributions after the measurement date shown above will be recognized as deferred outflows of resources in the accompanying financial statements.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows (in thousands):

	For the year ended June 30, 2023		
	Retiree healthcare plan	Death benefits plan	Total
Year ending June 30:			
2024	$ (19,605)	410	(19,195)
2025	(15,322)	514	(14,808)
2026	(20,575)	735	(19,840)
2027	6,914	988	7,902
2028	(12,466)	875	(11,591)
2029	(3,795)	862	(2,933)
2030	(2,313)	817	(1,496)
Thereafter	(115)	90	(25)
	$ (67,277)	5,291	(61,986)

	For the year ended June 30, 2022		
	Retiree healthcare plan	Death benefits plan	Total
Year ending June 30:			
2023	$ (42,257)	(709)	(42,966)
2024	(39,584)	(778)	(40,362)
2025	(35,354)	(675)	(36,029)
2026	(40,540)	(458)	(40,998)
2027	(13,414)	(208)	(13,622)
2028	(11,525)	113	(11,412)
	$ (182,674)	(2,715)	(185,389)

(j) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. One key provision of the PPACA is the assessment of the excise tax on high-cost plans beginning in 2018. Under the PPACA, a 40% excise tax applies to plans with costs exceeding certain annual thresholds for non-Medicare retirees aged 55–64 ($11,850 for single coverage and $30,950 for family coverage).

For all other retirees, the thresholds in 2019 and 2018 were $10,200 for single coverage and $27,500 for family coverage. Significant uncertainties exist regarding the impact of the excise tax on high-cost plans without further regulatory guidance. Management estimated the potential impact of this tax on the liability is based on unadjusted thresholds and assuming the tax is shared between the Department and its participants in the same way that the current costs are shared. The estimated impact of the 40% excise tax provision on high-cost plans beginning in 2018, under the healthcare reform, is reflected in all actuarial valuation reports after July 1, 2010. Subsequent to the June 30, 2019 valuation, the excise tax was repealed and is no longer reflected.

(k) Disability Benefits

The Water System's allocated share of disability benefit plan costs and administrative expenses totaled $5 million and $6 million for fiscal years 2023 and 2022, respectively. Disability benefits are paid to active employees who qualify under the Plan's provisions and terminate with the employee's retirement.

(9) Other Long-Term Liabilities

The Water System has the following other long-term liabilities:

(a) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value when they are probable of occurrence and the amount can be reasonably estimated. The liability is actuarially determined based on an estimate of the present value of the claims outstanding and an amount for claim events incurred but not reported based on the Water System's loss experience, less the amount of claims and settlements paid to date. The discount rate used to calculate the accrued workers' compensation liability as presented in the statements of net position was 2% at both June 30, 2023 and 2022. The Water System has third-party insurance coverage for workers' compensation claims over $1 million.

Overall indicated reserves for workers' compensation claims for both the Water System and the Power System, undiscounted, have been estimated at $99 million and $84 million for both June 30, 2023 and 2022, respectively. Workers' compensation claims typically take longer than one year to settle and close out. The entire discounted liability is shown as long term on the statements of net position as of June 30, 2023 and 2022.

Changes in the Department’s undiscounted liability since June 30, 2021 are summarized as follows (amounts in thousands):

		June 30		
		2023	**2022**	**2021**
Balance at beginning of year	$	83,569	76,409	77,044
Current year claims and changes in estimates		48,526	34,548	25,430
Payments applied		(33,579)	(27,388)	(26,065)
Balance at end of year	$	98,516	83,569	76,409

The Water System’s portion of the discounted accrued workers’ compensation liability is estimated at $31 million and $26 million for the fiscal years ended June 30, 2023 and 2022, respectively.

(10) Commitments and Contingencies

(a) Purchase Water Commitments

As a member of the Metropolitan Water District (Metropolitan), the Water System purchases water from Metropolitan pursuant to water supply purchase orders entered into with Metropolitan for specific periods. In January 2015, the Water System and Metropolitan executed a new Purchase Order for Imported Water Supply Agreement (the Purchase Order Agreement), which requires the Water System to purchase at least 2,033,130 acre feet of water over a 10 year period commencing on January 1, 2015 and expiring on December 31, 2024. Some of the key terms of the Purchase Order Agreement include the following: (a) the Water System’s annual maximum Tier 1 allocation of water from Metropolitan is 335,663 acre feet per year, or 3,356,630 acre feet for the 10 year term of the Purchase Order Agreement; (b) any obligation to pay Metropolitan’s Tier 2 supply rate will only be assessed if a member agency exceeds its total 10 year Tier 1 allocation. Under the previous purchase order agreement, Tier 2 costs were assessed on an annual basis, with no ability for member agencies to carry over unused Tier 1 allocation from one year to the next; (c) opportunity to reset the base period demand using a five year rolling average; and (d) an appeals process for agencies with unmet purchase commitments has been established. This will allow each acre foot of unmet purchase order commitment to be reduced by the amount of production from a local resource project that commences operation on or after January 1, 2014, which will allow member agencies who successfully develop local supplies, not to be charged if production of these supplies negatively impacts their minimum purchase order commitment. As of June 30, 2023, the Water System has purchased 2,112,367 acre feet from Metropolitan under the current Purchase Order Agreement. The Water System has fulfilled its purchase order commitment of from Metropolitan, does not anticipate exceeding its maximum Tier 1 allocation, and expects to purchase 229,638 acre-feet of water over the next 1.5 years, which is estimated to cost $314 million.

(b) Environmental Liabilities

The Water System follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution and Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning.

The Water System estimates its environmental liabilities using the expected cash flow method as required by GASB 49. This method estimates the current value of outlays expected to be incurred measured as a sum of the probability weighted amounts in a range of possible estimated amounts. The Water System’s environmental liabilities relate primarily to its underground storage tanks. The Water System is working with the Los Angeles Regional Water Quality Control Board and the Lahontan Regional Quality Control Board, which have jurisdiction over these sites. The Water System’s estimated liability for these sites is $17.1 million and $16.7 million for the years ended June 30, 2023 and 2022, respectively, and includes remediation and ongoing operation and maintenance costs where estimable. This liability is recorded as part of the Water System’s accrued expenses. These estimates are reviewed and updated annually.

(c) Surface Water Treatment Rule

The State of California Surface Water Treatment Rule (SWTR) imposed increased filtration requirements at any open distribution reservoir exposed to surface water runoff. The Water System had four major reservoirs in its system subject to SWTR: Upper and Lower Hollywood, Lower Stone Canyon, and Encino. To comply with SWTR, the Water System designed projects to remove these reservoirs from regular service through construction of larger pipelines and alternate covered storage facilities.

The Hollywood Water Quality Improvement Project was completed in July 2002. Upper and Lower Hollywood Reservoirs were removed from service and functionally replaced by two 30 million-gallon tanks and additional pipelines. Construction of the Encino Water Quality Improvement Project was completed in December 2007. Construction of the Lower Stone Canyon Water Quality Improvement Project was completed in November 2008. Management believes the Water System is now in compliance with the SWTR.

(d) Stage 2 Disinfectants and Disinfection Byproduct Rule

In January 2006, the Environmental Protection Agency (EPA) published the Stage 2 Disinfectants and Disinfection Byproduct Rule (Stage 2 DBP Rule) in the federal register. The Stage 2 DBP Rule strengthens public health protection for customers by tightening compliance monitoring requirements for two groups of disinfection by products (DBPs): trihalomethanes and haloacetic acids. DBPs form when naturally occurring materials in water (e.g., decomposing plant material) combine with chemicals added to disinfect the water. DBPs are associated with cancer.

In order to comply with the requirements of the Stage 2 DBP Rule, the Water System changed its primary disinfectant from chlorine to chloramines. In order to convert to chloramines, the Department constructed an ultraviolet filtration plant, two chloramination stations, three ammoniation stations, and, two chlorination stations and has and will continue to install mixers in tanks and reservoirs. The Water System achieved compliance with the Stage 2 DBP Rule before the April 1, 2014 compliance date. Additional treatment facilities will be constructed as groundwater sources are improved and/or expanded. The cost of Stage 2 DBP compliance-related engineering studies and construction activities are expected to be approximately $461.9 million at completion. The actual expenditures to date are $363.4 million.

(e) Long-Term 2 Enhanced Surface Water Treatment Rule

In January 2006, the EPA published the Long Term 2 Enhanced Surface Water Treatment Rule (LT2) in the federal register. The LT2 builds upon the Safe Drinking Water Act and other earlier water quality rules to strengthen protection against microbial contaminants, especially cryptosporidium. Cryptosporidium is a significant concern in drinking water because it contaminates most watersheds used for the collection of drinking water and can cause gastrointestinal illness. All of the Department’s six open reservoirs are now compliant under the LT2. Santa Ynez, Elysian, and Upper Stone Canyon Reservoirs were covered. Silver Lake and Ivanhoe Reservoirs were removed from service. Construction of an ultraviolet treatment plant at the Los Angeles Reservoir was completed in January 2023. The cost of LT2 compliance related engineering studies and construction activities is expected to reach $1.670 billion at completion. The actual cost spent to date has been $1.576 billion.

(f) Owens Lake

Historically, the Owens River was the main source of water for Owens Lake. Diversion of water from the river, first by farmers in the Owens Valley and then by the City, resulted in the lake drying up. The exposed lakebed became a significant source of particulate matters of 10 micrometers or less in diameter (PM10), causing the U.S. EPA to classify the southern Owens Valley as a serious nonattainment area for PM10 in 1991. The EPA required the Great Basin Unified Air Pollution Control District (the District) to prepare a State Implementation Plan (SIP) to bring the region into compliance with the National Ambient Air Quality Standard (NAAQS). In 1998, the District adopted the first SIP for attainment of the NAAQS to bring the region into compliance.

The Water System has successfully constructed approximately 48.6 square miles of dust control facilities in 10 corresponding phases of construction in response to orders issued by the District over the past 22 years. In November 2014, the Department reached a historic agreement with the District. The agreement was memorialized in a stipulated judgment that provides several benefits to the Department, including provisions: (1) permitting the use of less water-intensive and completely waterless measures to control dust at the lakebed, resulting in more water available for customer use; (2) limiting the City’s liability for dust mitigation to no more than 53.4 square miles; (3) forming an Owens Lake Scientific Advisory Panel; (4) addressing the discovery of Native American artifacts on or around the lakebed; and (5) providing a clear path to reaching attainment of NAAQS.

The Water System completed construction of the Owens Lake Dust Mitigation Program – Phase 9/10 Project by the compliance deadline of December 31, 2017. The Phase 9/10 Project entailed mitigating

(Continued)

dust emissions from an additional 3.62 square miles of Owens Lake playa through use of Gravel Blanket, Managed Vegetation, and Shallow Flooding Best Available Control Measures at a cost of $268 million. At completion of Phase 9/10, the Department has now controlled dust emission on 48.6 square miles of Owens Lake playa, resulting in 99.4% overall reduction in PM10 emissions. In accordance with the 2014 Stipulated Judgement, and as modeled by the District in the 2016 SIP, the Owens Valley Planning Area (OVPA) reached the regulatory finish line necessary for attainment of NAAQS by the end of 2017. An attainment demonstration package prepared by LADWP, which employs EPA's Exceptional Events Rule from 2018 through 2020, was submitted to Great Basin Unified Air Pollution Control District (GBUAPCD) in early 2021 for their consideration. Despite this, GBUAPCD refuses to move the OVPA into attainment status, and has issued new dust mitigation contingency orders in 2021 and 2022 totaling approximately 120 acres in size. The estimated total cost of the recently ordered projects is approximately $14 million.

The annual cost of operating and maintaining all infrastructure constructed at Owens Lake in the last three years runs at an average of $37 million. The annual cost of regulatory fees, SCADA, capital water efficiency improvements, monitoring & productions wells, and regulatory consultant support is approximately $18.7 million per year. Over the next 10 years LADWP will be pursuing several large capital infrastructure rehabilitation projects to keep up with infrastructure replacement cycles accelerated by the corrosive nature of Owens Lake. All improvements made to Owens Lake as part of dust mitigation efforts are recorded as Utility Plant in the year made.

(g) Litigation

A number of claims and suits are pending against the Water System for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability, which may arise from these actions, is not expected to materially impact the Water System's net position, changes in net position, or cash flows as of June 30, 2023.

(h) Risk Management

The Water System is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Water System. For other significant business risks, however, the Water System has elected to self-insure. Management believes that exposure to loss arising out of self-insured business risks will not materially impact the Water System's net position, changes in net position, or cash flows as of June 30, 2023.

(i) Credit Risk

Financial instruments, which potentially expose the Water System to concentrations of credit risk, consist primarily of retail receivables. The Water System's retail customer base is concentrated among commercial, industrial, residential, and governmental customers located within the city. Although the Water System is directly affected by the City's economy, management does not believe significant credit risk exists at June 30, 2023 and 2022, except as provided in the allowance for losses. The Water System manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit risk.

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(j) FBI Investigation

Federal investigators conducted an investigation related to issues that arose over the class action litigation and settlement regarding the Department's billing system. The Department cooperated fully with the investigators in connection with their investigation and understands that the investigation is now closed.

The Department does not believe that the billing system related lawsuits will have a material adverse effect on the Department's operations or financial position.

(11) Subsequent Events

(a) Variable Rate Bonds

In November 2023, the Board authorized the Water System to execute a substitute standby agreement for the $126.2 million standby agreement expiring in January 2024. The substitute standby agreement will expire in January 2029.

(b) California Water and Wastewater Arrearage Payment Program

On July 10, 2023 Governor Gavin Newsome signed the budget trailer bill expanding the California Water and Wastewater Arrearage Payment Program (CWWAPP) by allocating the remaining $600 million in federal funding for this program. The new Extended Water and Wastewater Arrearage Payment Program extends the COVID Relief Period for Water System accounts receivable arrears created March 4, 2020 through December 31, 2022. The Water System expects to receive approximately $76 million in January 2024. These funds have not been reflected in the June 30, 2023 financial statements.

Schedule of the Water System's Proportionate Share of the Net Pension Liability (Asset)

Last 10 fiscal years*

(Amounts in thousands other than percentages)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Water System's proportion of the net pension liability (asset) collective	32.873 %	32.436 %	32.319 %	31.610 %	32.121 %	31.748 %	31.892 %	32.603 %	32.344 %	32.573 %
Water System's proportionate share of the collective net pension liability (asset)	$ 202,559	(538,006)	359,273	260,739	292,447	426,444	698,878	373,024	411,485	583,344
Water System's covered payroll	387,250	363,899	365,228	325,015	306,316	283,300	274,852	273,607	265,192	266,262
Water System's proportionate share of the collective net pension liability (asset) as a percentage of covered payroll	52 %	(148)%	98 %	80 %	95 %	151 %	254 %	136 %	155 %	219 %
Pension plan's fiduciary net position as a percentage of total pension liability (asset)	96 %	111 %	92 %	94 %	93 %	89 %	82 %	90 %	88 %	82 %

* The measurement period for each year presented is on a one-year lag and thus the measurement periods are June 30, 2013–2022 for the Water System's fiscal years June 30, 2014–2023.

See accompanying independent auditors' report.

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Required Supplementary Information

June 30, 2023

(Unaudited)

Schedule of the Department's Pension Contributions*

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date for Water System June 30[1]		Actuarially determined contributions[2]	Contributions in relation to the actuarially required contributions [3]	Contributions deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
2023	$	372,209	361,586	10,623	1,259,246	28.71 %
2022		302,800	318,874	(16,074)	1,178,016	27.07
2021		373,374	378,990	(5,616)	1,121,884	33.78
2020		424,375	422,017	2,358	1,130,066	37.34
2019		408,750	410,165	(1,415)	1,028,212	39.89
2018		425,512	433,413	(7,901)	953,636	45.45
2017		403,780	391,717	12,063	892,331	43.90
2016		368,600	362,360	6,240	861,819	42.05
2015		387,465	376,902	10,563	839,213	44.91
2014		387,824	384,266	3,558	819,924	46.87

(1) The measurement date under GASB Statement No. 68 is on a one-year lag.

(2) All actuarially determined contributions through June 30, 2014 were determined as the annual requirement under GASB Statements No. 25 and No. 27.

(3) Contributions do not include administrative expenses paid to the Plan.

* Information in this schedule was not separately available for the Water System.

See accompanying independent auditors' report.

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Required Supplementary Information

June 30, 2023

(Unaudited)

Schedule of Water System's Proportionate Share of the Net OPEB Liability (Asset) – Retiree Healthcare Plan

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date of employer	Measurement date	Proportionate share of net OPEB liability (asset)	Proportionate share of net OPEB liability (asset)	Projected compensation	Covered payroll	Proportionate share of the net OPEB liability (asset) as a percentage of covered payroll	Plan's fiduciary net position as a percentage of the total OPEB liability (asset)
June 30, 2018	June 30, 2017	31.75 %	$ 138,297	314,885	283,300	48.82 %	81.44 %
June 30, 2019	June 30, 2018	32.12	123,220	344,835	306,316	40.23	84.46
June 30, 2020	June 30, 2019	31.61	146,320	360,944	325,015	45.02	82.75
June 30, 2021	June 30, 2020	32.32	60,273	391,643	365,228	16.50	92.51
June 30, 2022	June 30, 2021	32.44	(113,151)	400,027	363,899	(31.09)	113.58
June 30, 2023	June 30, 2022	32.87	(42,801)	430,588	387,250	(11.05)	104.95

See accompanying independent auditors' report.

(Continued)

Schedule of Water System's Proportionate Share of the Net OPEB Liability – Death Benefit Plan

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date of employer	Measurement date	Proportionate share of net OPEB liability	Proportionate share of net OPEB liability	Projected compensation	Covered payroll	Proportionate share of the net OPEB liability as a percentage of covered payroll	Plan's fiduciary net position as a percentage of the total OPEB liability
June 30, 2018	June 30, 2017	31.75 %	$ 37,852	314,885	283,300	13.36 %	18.79 %
June 30, 2019	June 30, 2018	32.12	37,472	344,835	306,316	12.23	18.91
June 30, 2020	June 30, 2019	31.61	33,333	360,944	325,015	10.26	21.46
June 30, 2021	June 30, 2020	32.32	31,147	391,643	365,228	8.53	27.94
June 30, 2022	June 30, 2021	32.44	30,263	400,027	363,899	8.32	30.39
June 30, 2023	June 30, 2022	32.87	37,036	430,588	387,250	9.56	26.45

See accompanying independent auditors' report.

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
WATER SYSTEM

Required Supplementary Information

June 30, 2023

(Unaudited)

Schedule of Department Contributions – Retiree Healthcare Plan*

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date for the Water System June 30		Actuarially determined contributions(1)	Contributions in relation to the actuarially required contributions (2)	Contributions deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
2023	$	55,585	113,571	(57,986)	1,259,246	9.02 %
2022		49,688	112,081	(62,393)	1,178,016	9.51
2021		63,165	109,282	(46,117)	1,121,884	9.74
2020		95,375	109,401	(14,026)	1,130,066	9.68
2019		80,851	101,595	(20,744)	1,028,212	9.88
2018		85,339	95,233	(9,894)	953,635	9.99
2017		93,920	90,310	3,610	892,332	10.12
2016		61,971	79,896	(17,925)	861,819	9.27
2015		70,748	78,497	(7,749)	839,214	9.35
2014		58,453	74,106	(15,653)	819,924	9.04

(1) All actuarially determined contributions through June 30, 2016 were determined as the annual requirement under GASB Statements No. 43 and No. 45.

(2) Contributions do not include administrative expenses paid to the Plan.

* Information in this schedule was not separately available for the Water System.

See accompanying independent auditors’ report.

Schedule of Department Contributions – Death Benefit Plan*

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date for the Water System June 30	Actuarially determined contributions[1]	Contributions in relation to the actuarially required contributions	Contributions deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
2023	$ 15,237	14,632	605	1,259,246	1.16 %
2022	13,076	13,134	(58)	1,178,016	1.11
2021	12,565	12,899	(334)	1,121,884	1.15
2020	13,335	13,300	35	1,130,066	1.18
2019	7,260	7,260	—	1,028,212	0.71
2018	7,137	7,137	—	953,636	0.75
2017	7,138	7,138	—	892,332	0.80
2016	7,207	7,207	—	861,819	0.84

(1) Contributions do not include administrative expenses paid to the Plan.

* Information in this schedule was not available separately for the Water System.

See accompanying independent auditors' report.