



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

Financial Statements and
Required Supplementary Information

June 30, 2022 and 2021

(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 years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, the 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 Department of Water and Power of the City of Los Angeles' 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 4-16 and the other required supplementation information on pages 84-89 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 audits 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 November 29, 2022 on our consideration of the Department of Water and Power of the City of Los Angeles' internal control over financial reporting of the Water System 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 Department of Water and Power of the City of Los Angeles' internal control over financial reporting of the Water System or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the



Department of Water and Power of the City of Los Angeles' internal control over financial reporting of the Water System and compliance.

KPMG LLP

Los Angeles, California
November 29, 2022

**DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
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Management's Discussion and Analysis

June 30, 2022 and 2021

(Unaudited)

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, 2022 and 2021. 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 17.

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, 2022 and 2021. 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, 2022 and 2021.

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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, 2022, 2021, and 2020:

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

(Amounts in millions)

Assets and Deferred Outflows	June 30		
	2022	2021	2020
Utility plant, net	\$ 10,128	9,482	8,926
Investments	53	54	53
Other noncurrent assets	927	553	517
Current assets	1,202	1,293	1,116
Deferred outflows	210	359	320
Total assets and deferred outflows	\$ 12,520	11,741	10,932
Net Position			
Net position:			
Net investment in capital assets	\$ 3,213	2,835	2,625
Restricted	162	126	122
Unrestricted	542	724	647
Total net position	3,917	3,685	3,394
Liabilities and Deferred Inflows			
Long-term debt, net of current portion	6,707	6,592	6,199
Other long-term liabilities	122	474	465
Current liabilities	875	807	711
Deferred inflows	899	183	163
Total liabilities and deferred inflows	8,603	8,056	7,538
Total net position, liabilities, and deferred inflows	\$ 12,520	11,741	10,932

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

(Amounts in millions)

	Year ended June 30		
	2022	2021	2020
Operating revenues:			
Residential	\$ 674	635	538
Multiple-dwelling units	500	460	402
Commercial and industrial	352	301	253
Other	100	86	85
Uncollectible accounts	(19)	(19)	(2)
Total operating revenues	<u>1,607</u>	<u>1,463</u>	<u>1,276</u>
Operating expenses:			
Purchased water	(346)	(296)	(160)
Maintenance and other operating expenses	(635)	(573)	(600)
Depreciation and amortization	(219)	(207)	(198)
Total operating expenses	<u>(1,200)</u>	<u>(1,076)</u>	<u>(958)</u>
Operating income	<u>407</u>	<u>387</u>	<u>318</u>
Nonoperating revenues (expense):			
Net investment income (loss)	(34)	—	39
Federal bond subsidies	14	15	17
Other nonoperating revenues, net	11	4	6
Debt expense, net	(207)	(208)	(218)
Total nonoperating expense, net	<u>(216)</u>	<u>(189)</u>	<u>(156)</u>
Income before capital contributions	191	198	162
Capital contributions	41	93	47
Increase in net position	232	291	209
Beginning balance of net position	<u>3,685</u>	<u>3,394</u>	<u>3,185</u>
Ending balance of net position	<u>\$ 3,917</u>	<u>3,685</u>	<u>3,394</u>

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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 2022 and 2021, the Water System's net utility plant increased \$646 million and \$556 million, respectively. Net utility plant consists of significant investments in water infrastructure less accumulated depreciation.

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.

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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, 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 2022, accumulated depreciation, net of retirements, increased \$197 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.

During fiscal year 2021, utility plant additions totaled \$778 million. Approximately \$461 million of the \$778 million in additions were CWIP expenditures and \$316 million, comprises direct additions by utility plant categories. Approximately \$56 million in CWIP projects were transferred from CWIP to plant accounts. Major CWIP additions/expenditures during the year included: \$115 million for Tujunga and North Hollywood centralized treatment to remove contamination, \$34 million for River Supply Conduit Upper Reach unit 7, \$32 million for Century Trunk Line rehabilitation, \$27 million for City Trunk Line South unit 3 installation, \$19 million for Headworks West reservoir to replace Ivanhoe and Silver Lake reservoir, \$17 million for North Hollywood West Wellhead treatment plant, \$14 million for Coronado Trunk Line new regulator station, \$11 million to replace pipes at Foothill Trunk Line, and \$11 million for LA Reservoir Ultraviolet Light treatment plant. Approximately \$53 million and \$3 million of additions were transferred from CWIP to distribution plant accounts and general plant accounts, respectively. Major projects transferred from CWIP included \$39 million for mainline replacement at various water districts, \$11 million for tanks/reservoirs nitrification control program, \$3 million for downtown water recycling project, and \$3 million for water service connections and meter replacements.

Approximately \$197 million of the additions are for improvements to the distribution system. During fiscal year 2021, the Water System invested \$158 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, \$5 million was invested in improvements to facilities and yards that support water distribution and \$4 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 \$14 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.

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Source of supply additions totaled \$29 million in fiscal year 2021 and were primarily attributable to improvements in Owens Lake efficiency measures to reduce the use of water on regulatory requirements and improvements to south aqueduct system and LA groundwater systems. During fiscal year 2021, the balance of general plant assets increased by \$52 million due to purchases of approximately \$28 million of computers/hardware, 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 \$11 million of fleet equipment, \$7 million for building improvements for safety codes and fire regulation, and \$5 million in improvements to northern district yards.

During fiscal year 2021, accumulated depreciation, net of retirements increased \$189 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 Department has installed to help ensure an adequate supply of water. The Department 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 2022, 2021, and 2020**

	Fiscal year 2022		Fiscal year 2021		Fiscal year 2020	
	Millions of gallons	Percentage	Millions of gallons	Percentage	Millions of gallons	Percentage
Source:						
Aqueduct	18,843	12 %	39,815	24 %	89,613	58 %
Wells	17,324	11	17,855	11	11,088	7
Purchases	119,875	75	103,268	63	50,083	33
Recycled water	3,920	2	3,680	2	3,136	2
	<u>159,962</u>	<u>100 %</u>	<u>164,618</u>	<u>100 %</u>	<u>153,920</u>	<u>100 %</u>

The Aqueduct provided 12% of the total water supply in fiscal year 2022 compared to 24% in fiscal year 2021.

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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 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.

During fiscal year 2021, other noncurrent assets had a net increase of \$36 million primarily due to the increase of construction funds of \$87 million and decreases in regulatory assets associated with pension and OPEB of \$36 million. Decreases in regulatory assets related to pension and OPEB were due to actual expense being less than actuarially determined contributions and thus the excess was used to amortize these assets as planned.

Current Assets

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.

During fiscal year 2021, current assets increased \$177 million mostly due to a \$114 million increase in unrestricted cash as a result of increase in cash provided by operating activities, \$58 million increase in accounts receivable due to COVID-19, and a \$5 million increase in other current assets. The \$5 million increase in other current assets includes an \$11 million increase in restricted cash due to debt payment scheduled for July 2021, an increase of \$2 million in securities lending transactions, a \$9 million increase in materials and supplies, a \$1 million decrease in prepayments, and a \$16 million decrease in underrecovered costs due to a higher revenue compared to expenses.

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Net Position, Liabilities, and Deferred Inflows

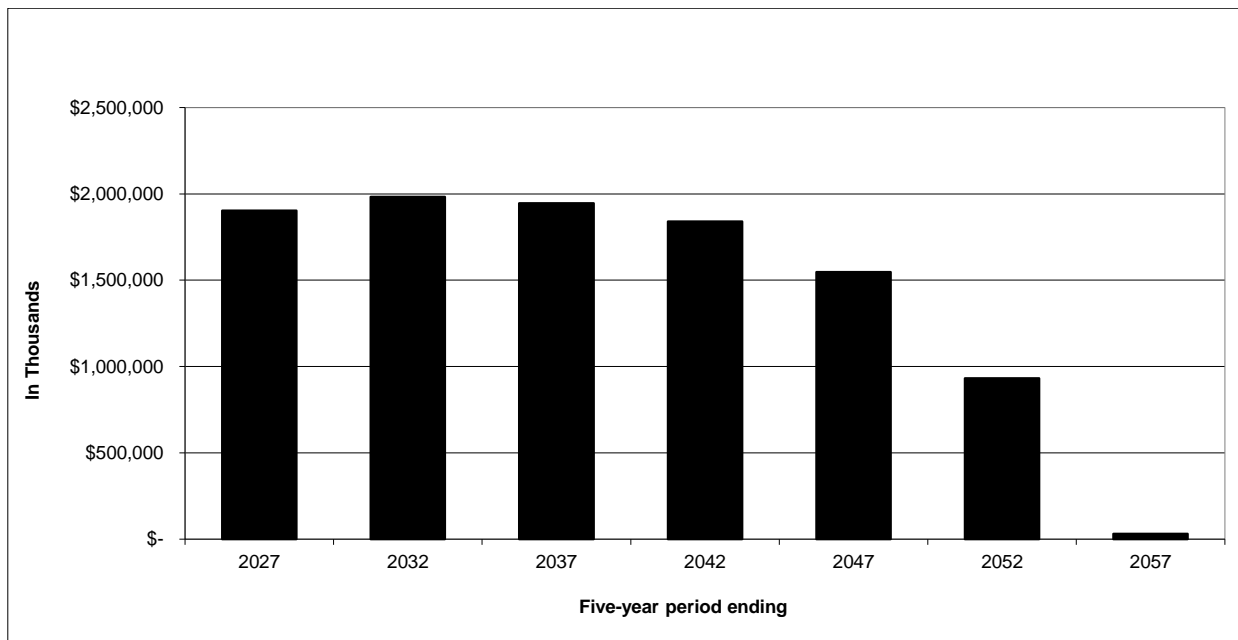
Long-Term Debt

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.

As of June 30, 2021, the Water System's total outstanding long-term debt balance, including the current portion, was approximately \$6.74 billion. The increase of \$406 million over the previous year's balance was due to \$926 million in new debt issuance at par in fiscal year 2021, \$224 million in issue premiums, \$85 million in loans from the SWRCB, offset by scheduled maturities of \$90 million, defeasance of \$674 million, and \$65 million in amortization on premiums and discounts. One bond issuance was to finance capital improvements, two bond issuances were to defease existing debt, and two bond issuances were used to defease debt and finance capital improvements.

Scheduled payments of principal, plus scheduled interest as of June 30, 2022, are shown in the chart below:

Chart: Debt Service Requirements



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In May 2022, Moody's Investors Service, Fitch Ratings, Kroll Bond Rating Agency, S&P Global Ratings affirmed the Water System's bond rating of Aa2, AA, AA+, and AA+, respectively. The Kroll Bond Rating Agency Water System bond rating of AA+ was assigned in August 2020.

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 2021–2022 was 1.84.

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 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 a increase of \$6 million in other noncurrent liabilities.

During fiscal year 2021, other long-term liabilities had a net increase of \$9 million primarily due to a decrease in workers' compensation liability of \$1.5 million, a \$88 million reduction of the net OPEB and death benefits liabilities due to favorable investment and premium renewal experience, and a \$99 million increase in net pension liability as a result of actual investment income on plan investments of 3.55% as compared to projected investment income of 7% during the measurement year.

Current Liabilities

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.

During fiscal year 2021, current liabilities increased \$96 million primarily due to a \$41 million increase in accrued water purchases, an increase of \$19 million in sewer and refuse fees payable to the City, an increase of \$19 million in the interfund balance due to the Power System, an increase of \$16 million in other accounts payable and accrued expenses, an increase of \$14 million in accrued employee expenses, an increase of \$7 million in long-term debt current portion, a \$6 million increase in current portion of variable rate demand bond liquidity, an increase of \$2 million in obligations under securities lending transactions, and a \$28 million decrease in customer deposits.

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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 2022, 2021, and 2020:

Table 4 – Revenue and Percentage of Revenue by Customer Class

(Amounts in thousands)

	<u>Fiscal year 2022</u>		<u>Fiscal year 2021</u>		<u>Fiscal year 2020</u>	
	<u>Revenue</u>	<u>Percentage</u>	<u>Revenue</u>	<u>Percentage</u>	<u>Revenue</u>	<u>Percentage</u>
Type of customer:						
Residential	\$ 673,926	42 %	\$ 634,785	43 %	\$ 537,610	42 %
Multiple-dwelling units	500,162	31	460,541	32	402,017	32
Commercial and industrial	351,707	22	301,159	20	253,165	20
Other	99,832	5	86,109	5	84,711	6
Uncollectible accounts	(18,949)	—	(18,813)	—	(2,436)	—
	<u>\$ 1,606,678</u>	<u>100 %</u>	<u>\$ 1,463,781</u>	<u>100 %</u>	<u>\$ 1,275,067</u>	<u>100 %</u>

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Residential and multiple-dwelling units customers provided between 73% to 75% of the Water System's revenue for the 2022, 2021, and 2020 fiscal years, representing the largest class of customers. As of June 30, 2022, the Water System had approximately 694,000 customers. As shown in table 5 below, 71% of total customers were in the residential customer class as of June 30, 2022, 2021, and 2020:

Table 5 – Number of Customers and Percentage of Customers by Customer Class

(Numbers in thousands)

	Fiscal year 2022		Fiscal year 2021		Fiscal year 2020	
	Number	Percentage	Number	Percentage	Number	Percentage
Type of customer:						
Residential	496	71 %	494	71 %	493	71 %
Multiple-dwelling units	123	18	122	18	121	18
Commercial	61	9	61	9	61	9
Industrial	6	1	6	1	6	1
Other, including uncollectible accounts	8	1	8	1	8	1
	694	100 %	691	100 %	689	100 %

During fiscal year 2022, operating revenue increased by \$143 million, or 9.8% from fiscal year 2021. The increase is primarily due to a higher commercial and industrial billing rate per unit billing rate per HCF and accrued unbilled revenue that resulted from increased purchased water cost due to the drought.

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 2022, the Water System increased its purchased water costs by \$50 million, or 17%, due to a 53% decrease in water supplied by the aqueduct and runoff available from snowfall, which increased 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.

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Table 6 below summarizes the Water System's operating expenses for fiscal years 2022, 2021, and 2020:

Table 6 – Operating Expenses and Percentage of Expense by Type of Expense

(Amounts in thousands)

	<u>Fiscal year 2022</u>		<u>Fiscal year 2021</u>		<u>Fiscal year 2020</u>	
	<u>Expenses</u>	<u>Percentage</u>	<u>Expenses</u>	<u>Percentage</u>	<u>Expenses</u>	<u>Percentage</u>
Type of expense:						
Purchased water	\$ 346,568	29 %	\$ 296,261	28 %	\$ 160,228	17 %
Other operating expenses	430,889	36	388,556	36	392,993	41
Maintenance expense	204,086	17	184,774	17	206,710	22
Depreciation and amortization	218,599	18	207,264	19	197,835	20
	<u>\$ 1,200,142</u>	<u>100 %</u>	<u>\$ 1,076,855</u>	<u>100 %</u>	<u>\$ 957,766</u>	<u>100 %</u>

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.

Fiscal Year 2021

During fiscal year 2021, maintenance and other operating expenses were \$26 million lower as compared to the prior year. The decrease is primarily comprised of a decrease in total maintenance of \$21.9 million and other operating expenses of \$4.1 million. Other operating expenses included a net decrease due to source of supply, distribution, purification, and administrative and general corporate expenses.

Nonoperating Revenue and Expenses

Fiscal Year 2022

Fiscal year 2022's 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**

Management's Discussion and Analysis

June 30, 2022 and 2021

(Unaudited)

Fiscal Year 2021

Fiscal year 2021's nonoperating revenue (expense), net was \$33 million lower than in fiscal year 2020. The \$33 million decrease in nonoperating income (loss) can be primarily attributed to a \$39 million decrease in investment income, decrease in overall other nonoperating income of \$3 million, a decrease of \$10 million in debt expenses, and an increase in nonoperating expenses of \$1 million.

Debt expenses decreased \$10 million from last fiscal year. The \$10 million net decrease resulted from an \$8 million decrease in amortization of debt expense and a \$1.8 million decrease in interest on debt.

Capital contributions increased by \$46 million from prior year and can be primarily attributed to an increase of \$27 million from service installations, a \$12 million increase in distribution mains installations, and a \$7 million increase in fire hydrant installation primarily due to recognizing contributions from customers for capital projects.

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

Statements of Net Position

June 30, 2022 and 2021

(Amounts in thousands)

Assets and Deferred Outflows	2022	2021
Noncurrent assets:		
Utility plant:		
Source of water supply	\$ 2,644,656	2,498,576
Pumping	451,623	440,542
Purification	970,873	877,090
Distribution	6,531,041	6,149,489
General	<u>1,047,200</u>	<u>990,954</u>
Total	11,645,393	10,956,651
Accumulated depreciation	<u>(3,656,298)</u>	<u>(3,459,623)</u>
Total	7,989,095	7,497,028
Construction work in progress	<u>2,139,016</u>	<u>1,984,834</u>
Total	10,128,111	9,481,862
Investments	53,174	53,749
Cash and cash equivalents – restricted	84,864	152,632
Regulatory assets – other	156,524	167,269
Regulatory asset – OPEB	60,495	127,859
Regulatory asset – pension	—	105,055
Net pension asset	538,006	—
Net OPEB asset	82,888	—
Long-term lease receivable	<u>3,470</u>	<u>—</u>
Total noncurrent assets	<u>11,107,532</u>	<u>10,088,426</u>
Current assets:		
Cash and cash equivalents – unrestricted	570,654	733,243
Cash and cash equivalents – restricted	227,937	204,997
Cash collateral received from securities lending transactions	11,220	6,563
Customer and other accounts receivable, net of \$64,560 and \$54,322 allowance for losses for 2022 and 2021, respectively	117,476	162,052
Underrecovered costs	206,445	125,008
Materials and supplies	37,939	34,915
Prepayments and other current assets	<u>30,586</u>	<u>26,679</u>
Total current assets	<u>1,202,257</u>	<u>1,293,457</u>
Total assets	<u>12,309,789</u>	<u>11,381,883</u>
Deferred outflows – debt refunding	3,191	7,753
Deferred outflows – pension	28,338	136,115
Deferred outflows – OPEB	30,371	49,377
Deferred outflows – pension contributions made after measurement date	106,255	125,635
Deferred outflows – OPEB contributions made after measurement date	<u>42,006</u>	<u>39,745</u>
Total deferred outflows	<u>210,161</u>	<u>358,625</u>
Total assets and deferred outflows	<u>\$ 12,519,950</u>	<u>11,740,508</u>

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

Statements of Net Position

June 30, 2022 and 2021

(Amounts in thousands)

Net Position, Liabilities, and Deferred Inflows	2022	2021
Net position:		
Net investment in capital assets	\$ 3,213,602	2,834,989
Restricted:		
Debt service	113,555	90,115
Other purposes	48,216	36,000
Unrestricted	<u>541,864</u>	<u>723,549</u>
Total net position	<u>3,917,237</u>	<u>3,684,653</u>
Long-term debt, net of current portion	<u>6,706,501</u>	<u>6,592,366</u>
Other noncurrent liabilities:		
Accrued workers' compensation claims	25,878	22,879
Net pension liability	—	359,273
Net OPEB liability	—	91,420
Overrecovered costs – pension	89,955	—
Other noncurrent liability	<u>6,449</u>	<u>—</u>
Total other noncurrent liabilities	<u>122,282</u>	<u>473,572</u>
Current liabilities:		
Current portion of long-term debt	110,014	89,569
Current portion of variable rate demand bond liquidity advance not made	58,230	58,230
Accounts payable and accrued expenses	203,672	204,446
Due to Power System	53,751	20,131
Accrued employee expenses	85,197	79,118
Accrued interest	109,933	118,942
Obligations under securities lending transactions	11,220	6,563
Customer deposits	<u>242,521</u>	<u>230,280</u>
Total current liabilities	<u>874,538</u>	<u>807,279</u>
Total liabilities	<u>7,703,321</u>	<u>7,873,217</u>
Deferred inflows – debt refunding	75,208	26,974
Deferred inflows – pension	605,215	30,103
Deferred inflows – OPEB	215,760	125,561
Deferred inflows – leases	<u>3,209</u>	<u>—</u>
Total deferred inflows	<u>899,392</u>	<u>182,638</u>
Total net position, liabilities, and deferred inflows	<u>\$ 12,519,950</u>	<u>11,740,508</u>

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, 2022 and 2021

(Amounts in thousands)

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Residential	\$ 673,926	634,785
Multiple-dwelling units	500,162	460,541
Commercial and industrial	351,707	301,159
Other	99,832	86,109
Uncollectible accounts	<u>(18,949)</u>	<u>(18,813)</u>
Total operating revenues	<u>1,606,678</u>	<u>1,463,781</u>
Operating expenses:		
Purchased water	346,568	296,261
Maintenance and other operating expenses	634,975	573,330
Depreciation and amortization	<u>218,599</u>	<u>207,264</u>
Total operating expenses	<u>1,200,142</u>	<u>1,076,855</u>
Operating income	<u>406,536</u>	<u>386,926</u>
Nonoperating revenues (expenses):		
Net investment income (loss)	(34,325)	(677)
Federal bond subsidies	14,641	15,163
Grant revenues	73,985	—
Other nonoperating income	<u>18,235</u>	<u>13,370</u>
Total nonoperating revenue	72,536	27,856
Grant expenses	(73,441)	—
Other nonoperating expenses	<u>(7,219)</u>	<u>(8,226)</u>
Nonoperating revenues (expenses), net	<u>(8,124)</u>	<u>19,630</u>
Debt expenses:		
Interest on debt	<u>206,965</u>	<u>208,656</u>
Total debt expense	<u>206,965</u>	<u>208,656</u>
Income before capital contributions	191,447	197,900
Capital contributions	<u>41,137</u>	<u>92,739</u>
Increase in net position	232,584	290,639
Net position:		
Beginning of period	<u>3,684,653</u>	<u>3,394,014</u>
End of period	<u>\$ 3,917,237</u>	<u>3,684,653</u>

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, 2022 and 2021

(Amounts in thousands)

	2022	2021
Cash flows from operating activities:		
Cash receipts:		
Cash receipts from customers	\$ 1,534,735	1,472,475
Cash receipts from customers for other agency services	716,874	685,121
Cash receipts from interfund reimbursements	630,743	630,284
Other cash receipts	9,515	—
Cash disbursements:		
Cash payments to employees	(391,409)	(401,340)
Cash payments to suppliers	(417,872)	(315,177)
Cash payments for interfund reimbursements	(803,511)	(713,684)
Cash payments to other agencies for fees collected	(697,732)	(665,484)
Cash payments for property taxes	(19,212)	(18,155)
Other cash payments	—	(16,871)
Net cash provided by operating activities	562,131	657,169
Cash flows from noncapital financing activities:		
Proceeds from grant receipts	73,985	—
Net cash provided by noncapital financing activities	73,985	—
Cash flows from capital and related financing activities:		
Additions to plant and equipment, net	(849,132)	(746,418)
Capital contributions	53,353	55,972
Principal payments and maturities on long-term debt	(75,080)	(65,985)
Proceeds from issuance of bonds	306,184	475,801
Proceeds from California Department of Water Resources loan	34,993	85,284
Payment of California Department of Water Resources loan	(30,001)	(24,366)
Debt interest payments	(264,695)	(246,291)
Federal bond subsidies	14,641	15,163
Net cash used in capital and related financing activities	(809,737)	(450,840)
Cash flows from investing activities:		
Purchases of investment securities	(52,663)	(77,154)
Sale of investment securities	52,333	76,412
Investment loss	(33,466)	(124)
Net cash used in investing activities	(33,796)	(866)
Net increase (decrease) in cash and cash equivalents	(207,417)	205,463
Cash and cash equivalents:		
Beginning of period	1,090,872	885,409
Ending of period	\$ 883,455	1,090,872

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

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Amounts in thousands)

	2022	2021
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 406,536	386,926
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	218,599	207,264
Provision for losses on customer and other receivables	18,949	18,813
Changes in assets and liabilities:		
Customer and other accounts receivable	(51,782)	(77,304)
Underrecovered costs	(81,437)	16,440
Due to power system	33,620	18,523
Materials and supplies	(3,024)	(9,477)
Regulatory asset – other	(4,118)	(6,800)
Regulatory asset – OPEB	67,364	28,049
Regulatory asset – pensions	105,055	7,956
Overrecovered costs – pension	89,955	—
Other noncurrent liability	6,449	—
Accounts payable and accrued expenses	(1,626)	111,796
Prepayment and other current assets	(3,907)	901
Customer deposits	569	(28,071)
Accrued employee expenses	6,079	14,481
Deferred outflows	143,902	(51,032)
Net pension asset/liability	(897,279)	98,534
Net OPEB asset/liability	(174,308)	(88,233)
Deferred inflows – pensions & OPEB	665,311	4,725
Deferred inflows – leases	3,209	—
Accrued workers' compensation claims and other	14,015	3,678
Net cash provided by operating activities	\$ 562,131	657,169

Supplemental disclosure of noncash capital and relating financing activities:

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.

During the year ended June 30, 2021, the Water System issued revenue bonds to refund previously issued debt. The \$82.8 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of \$82.8 million of debt. Additionally, \$591.1 million of proceeds were deposited immediately to a paying agent for the redemption of \$591.1 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in \$15.2 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

Accounts payable related to capital expenditures totaled \$60.1 million and \$59.3 million during fiscal years 2022 and 2021, respectively.

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2022 and 2021

(1) Summary of Significant Accounting Policies

The City of Los Angeles Department of Water and Power (the Department) exists as a separate proprietary 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. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022 and 2021, 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 (see note 4f), regulatory assets, and deferred outflows in the statement 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.

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

Notes to Financial Statements

June 30, 2022 and 2021

(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. Effective July 1, 2019, the Water System adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (see note 2c).

(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 statement 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 statement 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 expense 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, 2022 and 2021, respectively.

(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

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

Notes to Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021, restricted cash and cash equivalents include the following (amounts in thousands):

	June 30	
	2022	2021
Bond redemption and interest funds	\$ 207,471	196,747
Other restricted funds	20,466	8,250
Restricted cash and cash equivalents – current portion	227,937	204,997
Self-insurance fund	27,750	27,750
Bond redemption funds	16,078	12,370
Construction funds	41,036	112,512
Restricted cash and cash equivalents – noncurrent	84,864	152,632
Total restricted cash and cash equivalents	\$ 312,801	357,629

(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.

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

Notes to Financial Statements

June 30, 2022 and 2021

At June 30, 2022 and 2021, customer and other accounts receivable include the following (amounts in thousands):

	June 30	
	2022	2021
Customer and other accounts receivable	\$ 182,036	216,374
Allowance for losses	(64,560)	(54,322)
Customer and other accounts receivable, net	\$ 117,476	162,052

(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 1p).

(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. Such investments include U.S. government and governmental agency securities. 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. The stated fair value of investments is generally based on published market prices or quotations from major investment dealers (see note 5).

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

Notes to Financial Statements

June 30, 2022 and 2021

(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, 2022 and 2021 (amounts in thousands):

	June 30	
	2022	2021
Type of expense:		
Accrued payroll	\$ 16,442	16,006
Accrued vacation	47,365	42,386
Accrued sick time	8,525	8,447
Compensatory time	12,865	12,279
Total	\$ 85,197	79,118

(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 one 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 \$243 million and \$230 million as of June 30, 2022 and 2021, respectively, for all customer deposits collected.

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

Notes to Financial Statements

June 30, 2022 and 2021

(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 \$90 million and \$9 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, 2022 and 2021, respectively (see note 4). The remaining portion of underrecovered costs of \$116 million relates to accrued unbilled amounts related to costs incurred during the years ending June 30, 2022 and 2021 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 covers a five-year period. 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.

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

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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.

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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

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(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.

(2) Recent Accounting Pronouncements

(a) GASB Statement No. 87

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

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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 year ended June 30, 2022 reflect the implementation of this statement. The Water System's financial statements for the fiscal year ended June 30, 2021 have not been restated to reflect the implementation of Statement 87 as the Department does not believe the effects of this statement have a material effect on the presentation of these financial statements.

The Water System is both a lessor and a lessee:

(i) Lessor

The Water System is a lessor for various noncancelable leases covering 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.

As a lessor, the Water System's long-term Ranch Leases (land) cover a period of 5 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.

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.

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.

The lease term includes the noncancelable period of the lease plus any additional periods covered by either the Water System or lessee'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 lessee have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.

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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 2022.

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 2022 (amounts in thousands):

	Balance 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-to-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 \$100,000 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

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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 noncancelable period of the lease, plus any additional periods covered by either the Water System or lessor'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 lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the 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 2022.

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 2022 (amounts in thousands):

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

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

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

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

	<u>Principal</u>	<u>Interest</u>
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	<u>\$ 8,784</u>	<u>2,257</u>

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 obligation 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 \$127,000 during fiscal year 2022.

As of June 30, 2022, the Water System, DWP as lessee, has a lease agreement that has not yet commenced, primarily for office space in the form of a building, located at 233 South Beaudry Avenue. This lease is scheduled to commence in fiscal year 2023 with the lease term of ten years with one extension option for five years. The total undiscounted basis cost of the full ten-year term of this lease, including initial tenant improvements is \$23.3 million.

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

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conveyed to another legal entity; hence, these types of lease agreements should not be reported as leases in the Water System's financial statements.

(b) GASB Statement No. 96

In May 2020, the GASB issued Statement No. 96 (GASB 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. Management has not yet determined the impact of GASB 96 on the Water System's financial statements, but plans to adopt new GASB 96 standards in fiscal year 2023.

(3) Utility Plant

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

	<u>Balance, June 30, 2021</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Transfers</u>	<u>Balance, June 30, 2022</u>
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	<u>2,185,013</u>	<u>523,613</u>	<u>(6,024)</u>	<u>(359,933)</u>	<u>2,342,669</u>
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	<u>10,756,472</u>	<u>336,358</u>	<u>(11,023)</u>	<u>359,933</u>	<u>11,441,740</u>
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	—	(2,063,200)
General	(485,783)	(33,742)	5,937	—	(513,588)
Total accumulated depreciation	<u>(3,459,623)</u>	<u>(207,698)</u>	<u>11,023</u>	<u>—</u>	<u>(3,656,298)</u>
Total utility plant, net	<u>\$ 9,481,862</u>	<u>652,273</u>	<u>(6,024)</u>	<u>—</u>	<u>10,128,111</u>

Depreciation and amortization expense during fiscal year 2022 was \$218.6 million.

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The Water System had the following activity in utility plant during fiscal year 2021 (amounts in thousands):

	<u>Balance, June 30, 2020</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Transfers</u>	<u>Balance, June 30, 2021</u>
Nondepreciable utility plant:					
Land and land rights	\$ 199,742	437	—	—	200,179
Construction work in progress	1,587,837	460,987	(7,807)	(56,183)	1,984,834
Total nondepreciable utility plant	<u>\$ 1,787,579</u>	<u>461,424</u>	<u>(7,807)</u>	<u>(56,183)</u>	<u>2,185,013</u>
Depreciable utility plant:					
Source of water supply	\$ 2,353,098	29,386	—	13	2,382,497
Pumping	427,547	10,898	—	—	438,445
Purification	857,813	10,391	—	—	868,204
Distribution	5,865,993	197,142	(5,024)	53,249	6,111,360
General	904,306	68,480	(19,741)	2,921	955,966
Total depreciable utility plant	<u>10,408,757</u>	<u>316,297</u>	<u>(24,765)</u>	<u>56,183</u>	<u>10,756,472</u>
Accumulated depreciation:					
Source of water supply	(517,383)	(36,876)	—	—	(554,259)
Pumping	(154,315)	(9,498)	—	—	(163,813)
Purification	(273,901)	(18,464)	—	—	(292,365)
Distribution	(1,865,874)	(102,553)	5,024	—	(1,963,403)
General	(458,830)	(33,547)	6,594	—	(485,783)
Total accumulated depreciation	<u>(3,270,303)</u>	<u>(200,938)</u>	<u>11,618</u>	<u>—</u>	<u>(3,459,623)</u>
Total utility plant, net	<u>\$ 8,926,033</u>	<u>576,783</u>	<u>(20,954)</u>	<u>—</u>	<u>9,481,862</u>

Depreciation and amortization expense during fiscal year 2021 was \$207.3 million.

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.

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

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
Description	June 30, 2020	Additions	Reductions	June 30, 2021
Assets:				
(a) Regulatory assets – water conservation rebates	\$ 113,176	5,901	(11,619)	107,458
(b) Regulatory assets – stormwater capture program	49,215	897	(1,612)	48,500
(c) Regulatory assets – customer care and billing system	12,676	—	(1,365)	11,311
Regulatory assets – other	175,067	6,798	(14,596)	167,269
(d) Regulatory assets – pension	113,011	—	(7,956)	105,055
(e) Regulatory assets – OPEB	155,908	—	(28,049)	127,859
(f) Underrecovered costs	40,058	9,378	(40,058)	9,378
Total	\$ 484,044	16,176	(90,659)	409,561

(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.

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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 10-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. The pension regulatory asset is expected 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 pension expense and totaled \$195 million and \$7.9 million for the years ended June 30, 2022 and 2021, respectively. During the year ended June 30, 2022, the difference between amounts paid toward actuarially determined contributions and actual pension benefit exceeded the remaining balance in the regulatory asset and resulted in the recognition

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of overrecovered costs – pension in the amount of \$90 million which are reported separately in the accompanying statements of net position.

(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 \$67.4 million and \$28.0 million for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the regulatory asset related to current underrecovered costs of \$90 million and \$9.4 million, respectively, were composed of the following:

	As of June 30	
	2022	2021
Underrecovered balancing accounts – regulatory asset	\$ 121,162	48,134
Less overrecovered balancing accounts – regulatory liability	(31,183)	(38,756)
Net underrecovered balancing accounts – regulatory asset	\$ 89,979	9,378

(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	
	2022	2021
Water Expense Stabilization Fund	\$ 53,174	53,749

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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, 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	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	—	—	—
	<u>\$ 53,174</u>	<u>5,002</u>	<u>3,690</u>	<u>29,164</u>	<u>15,318</u>

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As of June 30, 2021, the Water System's investments and their maturities are as follows (amounts in thousands):

<u>Type of investments</u>	<u>Fair value</u>	<u>Investment maturities</u>			
		<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 365 days</u>	<u>366 days to 5 years</u>
U.S. government securities	\$ 4,165	—	1,003	1,006	2,156
U.S. government agencies	13,382	1,000	996	350	11,036
Supranationals	3,910	826	—	—	3,084
Medium-term corporate notes	7,107	—	—	—	7,107
Commercial paper	1,000	1,000	—	—	—
Negotiable CDs	4,391	1,000	—	3,391	—
Bankers acceptances	2,000	1,000	1,000	—	—
California local agency bonds	10,742	—	4,496	2,247	3,999
California state bonds	2,000	1,000	—	1,000	—
Other state bonds	5,048	—	981	3,049	1,018
Money market fund	4	4	—	—	—
	<u>\$ 53,749</u>	<u>5,830</u>	<u>8,476</u>	<u>11,043</u>	<u>28,400</u>

(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 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, \$6.9 million and \$4.2 million as of June 30, 2022 and 2021, 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

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of June 30, 2022 and 2021, the U.S. government agency securities in the portfolio carry the following credit ratings by the NRSROs that rated them (amounts in thousands):

<u>Categories</u>	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Securities</u>	<u>Percentage</u>	<u>Securities</u>	<u>Percentage</u>
AAA or AA	\$ 14,196	100 %	\$ 12,382	92 %
Not rated	—	—	1,000	8
	<u>\$ 14,196</u>	<u>100 %</u>	<u>\$ 13,382</u>	<u>100 %</u>

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, 2022 and 2021, 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, 2022 and 2021 were rated in the category of A or its equivalent or better by at least one NRSRO as follows (amounts in thousands):

<u>Categories</u>	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Corporate Notes</u>	<u>Percentage</u>	<u>Corporate Notes</u>	<u>Percentage</u>
AAA	\$ 995	13 %	\$ —	— %
AA	—	—	1,037	15
A	6,921	87	6,070	85
	<u>\$ 7,916</u>	<u>100 %</u>	<u>\$ 7,107</u>	<u>100 %</u>

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, 2022 and 2021, 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, 2022 and 2021, 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, 2022,

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there were no investments in banker's acceptances. As of June 30, 2021, all of the Water System's investments in banker's acceptances 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 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, 2022 and 2021 were rated in the following categories by at least one NRSRO as follows (amounts in thousands):

Categories	June 30, 2022		June 30, 2021	
	Municipal bonds	Percentage	Municipal bonds	Percentage
AAA	\$ 250	4 %	\$ 1,783	17 %
AA	6,288	96	8,359	78
A	—	—	600	5
	<u>\$ 6,538</u>	<u>100 %</u>	<u>\$ 10,742</u>	<u>100 %</u>

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, 2022 and 2021, 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):

Categories	June 30, 2022		June 30, 2021	
	State of California obligations	Percentage	State of California obligations	Percentage
AAA	\$ —	— %	\$ —	— %
AA	739	42	—	—
A	1,018	58	2,000	100
	<u>\$ 1,757</u>	<u>100 %</u>	<u>\$ 2,000</u>	<u>100 %</u>

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, 2022 and 2021 were rated in

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the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

<u>Categories</u>	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Other state obligations</u>	<u>Percentage</u>	<u>Other state obligations</u>	<u>Percentage</u>
AAA	\$ 1,996	46 %	\$ 1,018	20 %
AA	—	—	2,049	41
A	<u>2,327</u>	<u>54</u>	<u>1,981</u>	<u>39</u>
	<u>\$ 4,323</u>	<u>100 %</u>	<u>\$ 5,048</u>	<u>100 %</u>

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, 2022 and 2021, 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, 2022 and 2021 in securities issued by U.S. government agencies are as follows (amounts in thousands):

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Securities</u>	<u>Percentage</u>	<u>Securities</u>	<u>Percentage</u>
Federal Farm Credit Bank	\$ 5,912	11 %	\$ 5,371	10 %
Federal Home Loan Mortgage Corp.	3,903	7	4,995	9
Federal Home Loan Bank	3,417	6	2,015	4
Federal National Mortgage Association	964	2	—	—
Federal Agricultural Mortgage Corp.	—	—	1,000	2
	<u>\$ 14,196</u>	<u>26 %</u>	<u>\$ 13,381</u>	<u>25 %</u>

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(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.

	June 30, 2022	(In thousands) Fair value using			Not classified
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
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	<u>46,012</u>	<u>6,988</u>	<u>39,024</u>	<u>—</u>	<u>—</u>
Other:					
Commercial paper	2,997	—	2,997	—	—
Certificate of deposit	4,161	—	4,161	—	—
Money market funds	4	—	—	—	4
Total other	<u>7,162</u>	<u>—</u>	<u>7,158</u>	<u>—</u>	<u>4</u>
Total investments	<u>\$ 53,174</u>	<u>6,988</u>	<u>46,182</u>	<u>—</u>	<u>4</u>

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		(In thousands)			
		Fair value using			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Not classified
June 30, 2021		June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2021
Investments by fair value level:					
Debt securities:					
U.S. government securities	\$ 4,165	4,165	—	—	—
U.S. government agencies	13,382	—	13,382	—	—
Supranationals	3,910	—	3,910	—	—
Medium-term corporate notes	7,107	—	7,107	—	—
California state bonds	2,000	—	2,000	—	—
California local agency	10,742	—	10,742	—	—
Other state bonds	5,048	—	5,048	—	—
Total debt securities	<u>46,354</u>	<u>4,165</u>	<u>42,189</u>	<u>—</u>	<u>—</u>
Other:					
Commercial paper	1,000	—	1,000	—	—
Certificate of deposit	4,391	—	4,391	—	—
Bankers acceptances	2,000	—	2,000	—	—
Money market funds	4	—	—	—	4
Total other	<u>7,395</u>	<u>—</u>	<u>7,391</u>	<u>—</u>	<u>4</u>
Total investments	<u>\$ 53,749</u>	<u>4,165</u>	<u>49,580</u>	<u>—</u>	<u>4</u>

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 pool (the Pool). As of June 30, 2022 and 2021, the Water System's share of the City's general and special investment pool was \$894.7 million and \$1.09 million, respectively, which represents approximately 6.2% and 8.4% of the Pool, respectively. Amounts pooled in the City Treasury's general and special investment pool 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.

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

	As of June 30	
	2022	2021
Cash and cash equivalents – unrestricted	\$ 570,654	733,243
Cash and cash equivalents – restricted	227,937	204,997
Cash and cash equivalents – restricted noncurrent	84,864	152,632
Subtotal cash and cash equivalents	883,455	1,090,872
Cash – securities lending transactions	11,220	6,563
	\$ 894,675	1,097,435

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, 2022, 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 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>.

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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 \$11.2 million and \$6.6 million in the City's securities lending program as of June 30, 2022 and 2021, 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 2022, 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.

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(6) Long-term Debt

Long-term debt outstanding as of June 30, 2022 and 2021 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	
				2022	2021
Revenue bonds:					
Issue of 2001, Series B	02/28/01	Variable	2036	\$ 182,300	182,300
Issue of 2009, Series C	12/03/09	3.844	2040	314,960	346,090
Issue of 2010, Series A	12/14/10	4.374	2051	392,710	392,710
Issue of 2012, Series A	06/06/12	4.319	2044	—	276,765
Issue of 2012, Series B	08/09/12	4.023	2044	—	322,000
Issue of 2012, Series C	08/09/12	2.483	2023	9,350	92,715
Issue of 2013, Series A	05/30/13	2.797	2035	66,565	72,450
Issue of 2013, Series B	12/05/13	3.836	2036	318,725	331,425
Issue of 2014, Series A	11/20/14	3.987	2045	260,895	264,435
Issue of 2016, Series A	04/21/16	3.184	2047	540,795	545,835
Issue of 2016, Series B	06/09/16	3.111	2047	262,965	265,730
Issue of 2017, Series A	05/11/17	3.825	2048	525,575	526,705
Issue of 2018, Series A	03/01/18	3.576	2049	231,000	231,000
Issue of 2018, Series B	11/29/18	3.802	2049	414,860	418,840
Issue of 2019, Series A	07/01/19	Variable	2050	200,000	200,000
Issue of 2020, Series A	07/01/20	3.031	2051	200,560	204,255
Issue of 2020, Series B	09/01/20	0.624	2031	120,465	120,465
Issue of 2020, Series C	01/05/21	2.502	2042	237,355	242,570
Issue of 2021, Series A	01/26/21	Variable	2052	200,000	200,000
Issue of 2021, Series B	06/29/21	2.897	2052	158,730	158,730
Issue of 2022, Series B	04/05/22	3.182	2053	494,670	—
Issue of 2022, Series C	06/30/22	3.629	2053	326,905	—
Total principal amount				5,459,385	5,395,020
Unamortized premiums and discounts				670,283	605,061
Revenue bonds, net				6,129,668	6,000,081
Debt due within one year, long-term debt				(94,860)	(75,080)
Debt due within one year, variable rate demand bond liquidity advance not made				(58,230)	(58,230)
Revenue bonds, noncurrent, net				5,976,578	5,866,771

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Bond issues	Date of issue	Effective interest rate %	Fiscal year of last scheduled maturity	Principal outstanding	
				2022	2021
Other long-term debt:					
Loans payable to California State Water Resources Control Board:					
SRF10CX103	06/24/10	—	2035	28,105	30,448
SRF10CX104	06/24/10	—	2033	5,026	5,505
SRF11CX105	06/30/11	—	2035	14,920	16,114
SRF10CX116	06/30/11	—	2033	10,500	11,500
SRF10CX117	06/30/11	—	2033	5,250	5,750
SRF12CX105	06/30/12	—	2046	97,582	101,824
SRF12CX106	06/30/12	—	2046	25,213	26,309
SRF13CX104	06/26/13	—	2051	94,211	84,488
SRF13CX105	06/26/13	—	2048	85,342	88,755
SRF14CX102	06/26/14	2.085	2047	7,036	7,254
SRF14CX103	06/26/14	2.085	2047	47,045	48,503
SRF14CX104	06/26/14	2.085	2047	14,882	15,344
SRF14CX105	06/26/14	2.085	2047	29,344	30,253
SRF14-310-550	06/19/15	1.663	2040	88,203	87,849
SRF D15-02014	09/29/15	1.663	2036	2,844	3,030
SRF D17-02079	10/02/18	1.800	2050	24,598	25,300
SRF D17-02080	10/01/18	1.800	2050	7,140	7,344
SRF D17-02081	10/01/18	1.800	2052	149,919	136,390
SRF D17-02082	07/31/18	1.800	2049	6,917	7,124
Loans payable to California Department of Water Resources Calconserve					
	09/19/18	—	2043	1,000	1,000
Total principal amount				745,077	740,084
Amount due within one year				(15,154)	(14,489)
Loans payable, noncurrent				729,923	725,595
Total long-term debt, bonds, and loans, net				<u>\$ 6,706,501</u>	<u>6,592,366</u>

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.

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(a) Long-term Debt Activity

The Water System had the following activity in long-term debt during fiscal years 2022 and 2021 (amounts in thousands):

	<u>Balance June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2022</u>
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)
	<u>5,395,020</u>	<u>821,575</u>	<u>(757,210)</u>	<u>5,459,385</u>
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)
	<u>605,061</u>	<u>166,739</u>	<u>(101,517)</u>	<u>670,283</u>
Revenue bonds, net	6,000,081	988,314	(858,727)	6,129,668
Loans from SWRCB and DWR ¹	<u>740,084</u>	<u>34,993</u>	<u>(30,000)</u>	<u>745,077</u>
Total	<u>\$ 6,740,165</u>	<u>1,023,307</u>	<u>(888,727)</u>	<u>6,874,745</u>

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.

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	<u>Balance</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>
Revenue bonds:				
Principal:				
Beginning balance	\$ 5,148,980	—	—	5,148,980
Issuances	—	410,000	—	410,000
Refunding bonds	—	516,020	—	516,020
Scheduled maturities	—	—	(65,985)	(65,985)
Refunded/defeased bonds	—	—	(613,995)	(613,995)
	<u>5,148,980</u>	<u>926,020</u>	<u>(679,980)</u>	<u>5,395,020</u>
Premium (discount):				
Beginning balance	446,086	—	—	446,086
Issuances	—	64,610	—	64,610
Refunding bonds	—	159,033	—	159,033
Scheduled amortization	—	—	(38,535)	(38,535)
Written off due to refunding	—	—	(26,133)	(26,133)
	<u>446,086</u>	<u>223,643</u>	<u>(64,668)</u>	<u>605,061</u>
Revenue bonds, net	5,595,066	1,149,663	(744,648)	6,000,081
Loans from SWRCB and DWR ¹	<u>739,034</u>	<u>85,284</u>	<u>(84,234)</u>	<u>740,084</u>
Total	<u>\$ 6,334,100</u>	<u>1,234,947</u>	<u>(828,882)</u>	<u>6,740,165</u>

¹ During fiscal year 2021, the Water System did not enter into any new loan agreements with the SWRCB or DWR. Existing SWRCB loans received \$85.3 million to fund water quality capital improvements and made principal payments of \$24.4 million. A portion of SWRCB loans was refinanced in the amount of \$59.9 million.

(b) New Issuances

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.

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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.

Fiscal Year 2021

In July 2020, the Water System issued \$204.3 million of Water System Revenue Bonds, 2020 Series A. The net proceeds of \$263.5 million, including \$59.2 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, 2010 Series A, amounting to \$100.0 million, and refinance a portion of the outstanding loans from the State Water Resources Control Board (SWRCB), amounting to \$59.9 million. The transaction resulted in a net present value savings of \$31.1 million.

In September 2020, the Water System issued \$120.5 million of Water System Revenue Bonds, 2020 Series B. The net proceeds of \$151.5 million, including a \$31.0 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Water System Revenue Bonds, 2001 Series B, amounting to \$142.7 million, and all of the \$8.8 million outstanding Water System Revenue Bonds, 2003 Series B. The transaction resulted in a net present value savings of \$1.2 million and a net loss for accounting purposes of \$902.2 thousands, which was capitalized as deferred outflows on debt refunding and is being amortized over the life of the refunded bonds.

In January 2021, the Water System issued \$242.6 million of Water System Revenue Bonds, 2020 Series C. The net proceeds of \$324.0 million, including a \$81.4 million issue premium net of underwriter's discount, were used to refund all of the \$279.7 million outstanding Water System Revenue Bonds, 2011 Series A, and a portion of the outstanding Water System Revenue Bonds, 2016 Series A, amounting to \$44.2 million. The transaction resulted in a net present value savings of \$111.9 million and a net gain for accounting purposes of \$10.8 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

In January 2021, the Water System issued \$200.0 million of Water System Variable Rate Demand Revenue Bonds, 2021 Series A. The net proceeds of \$199.8 million were used to pay for budgeted capital improvements.

In June 2021, the Water System issued \$158.7 million of Water System Revenue Bonds, 2021 Series B. The net proceeds of \$209.1 million, including a \$50.4 million issue premium net of underwriter's discount, were used to pay for budgeted capital improvements and refund a portion of the outstanding Water System Revenue Bonds, 2016 Series A, amounting to \$38.6 million. The transaction resulted in a net present value savings of \$1.2 million and a net gain for accounting purposes of

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\$5.3 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, 2022, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues	Principal outstanding
Issue of 1998 R	\$ 66,040
Issue of 2012 A	276,765
Issue of 2012 B	322,000
Issue of 2012 C	83,365
	\$ 748,170

(d) Variable Rate Bonds

As of June 30, 2022 and 2021, 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 0.27% to 0.90% as of June 30, 2022 and 0.01% to 0.03% as of June 30, 2021. 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, 2022. The extended standby agreements expire in January 2023 for \$200.0 million, January 2024 for \$126.2 million, and January 2026 for \$256.1 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 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

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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, 2022 and 2021, 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 December 14, 2018, the Water System entered into an Amended and Restated Revolving Credit Agreement (Amended RCA) and the related 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. The Department can request loans for Water System improvements, Power System improvements, and/or such other lawful purposes of the Department. The interest charge for tax-exempt loans is based on SIFMA plus a spread of 0.50% or 75% of one-month LIBOR plus a spread of 0.45%. The interest charge for taxable

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loans is based on one-month LIBOR plus a spread of 0.45%. The Amended RCA expires in December 2023. As of June 30, 2022 and 2021, the Water System has no obligations outstanding under the Amended RCA.

(f) Scheduled Principal Maturities and Interest

As of June 30, 2022, annual principal maturities and interest on an accrual basis for bonds and loans are as follows (amounts in thousands):

	<u>Principal</u>	<u>Interest and amortization</u>
Fiscal year(s) ending June 30:		
2023	\$ 110,014	202,549
2024	136,642	198,039
2025	143,228	193,131
2026	149,658	187,908
2027	152,558	183,344
2028–2032	948,939	831,364
2033–2037	1,115,741	671,235
2038–2042	1,272,872	470,003
2043–2047	1,271,622	243,161
2048–2052	873,150	51,314
2053–2057	30,040	—
Total requirements	<u>\$ 6,204,464</u>	<u>3,232,049</u>

The interest and amortization are net of \$742.3 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 2023, \$116.5 million in each of the fiscal years 2024 through 2027, and \$58.2 million in fiscal year 2028. 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 2023, 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, 2022 averages 0.52%. Should the tender options be exercised, the interest would be payable at the rate in effect at the time the standby agreements are activated.

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(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.

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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.

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(c) Plan Membership

As of the June 30, 2021 and 2020 measurement dates for the June 30, 2022 and 2021 net pension liability (asset), pension plan membership, which consisted of Water and Power System members, consisted of the following:

	2022	2021
Retired members or beneficiaries currently receiving benefits	9,564	9,443
Vested terminated members entitled to, but not yet receiving, benefits	1,708	1,690
Active members	10,605	10,778
Total	21,877	21,911

(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 2022, 2021, and 2020 (based on the July 1, 2021, 2020, and 2019 valuations) were 26.04%, 33.55%, and 37.97% of compensation, respectively. The average member contribution rates for fiscal years 2022, 2021, and 2020 (based on the July 1, 2021, 2020, and 2019 valuations) were 7.85%, 7.68% and 7.43% 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 2022, 2021, and 2020 amounted to \$106 million, \$126 million, and \$140 million, respectively.

(e) Net Pension Liability (Asset)

At June 30, 2022 and 2021, the Water System reported an asset of \$538 million and a liability of \$359 million, respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021 and 2020 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, 2022, the Water System's proportion was 32.4% compared to 32.3% and 31.6% as of June 30, 2021 and 2020, respectively.

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(f) Actuarial Assumptions

The Water System's net pension liability (asset) as of June 30, 2022 and 2021 was measured as of June 30, 2021 and 2020, using actuarial valuations as of July 1, 2021 and 2020, respectively. The actuarial assumptions used in the July 1, 2020 and 2019 valuations were based on the results of an experience study for the period from July 1, 2015 through June 30, 2018. The following assumptions were applied to all periods included in the measurement for the July 1, 2021 and 2020 actuarial valuations:

<u>Actuarial assumptions</u>	<u>2021</u>	<u>2020</u>
Inflation	2.75%	2.75%
Salary increases	4.50%–10.25%	4.50%–10.25%
Investment rate of return	7.00%	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-2018	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 7.00% as of June 30, 2021 and 2020. 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, which is estimated to be 104 years, to determine the total pension liability at June 30, 2022 and 2021.

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(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 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:

<u>Asset class</u>	<u>June 2022</u>		<u>June 2021</u>	
	<u>Target allocation</u>	<u>Long-term expected arithmetic real rate of return</u>	<u>Target allocation</u>	<u>Long-term expected arithmetic real rate of return</u>
Large Cap US Equity	22.95 %	5.44 %	22.95 %	5.44 %
Small Cap US Equity	1.75 %	6.18 %	1.75 %	6.18 %
Developed International Large	13.06 %	6.54 %	13.06 %	6.54 %
Developed International Small	2.18 %	6.64 %	2.18 %	6.64 %
Global Equity	2.90 %	6.45 %	2.90 %	6.45 %
Emerging Market Equity	5.16 %	8.73 %	5.16 %	8.73 %
Real Estate	8.00 %	4.60 %	8.00 %	4.60 %
Cash and Equivalents	1.00 %	0.25 %	1.00 %	0.25 %
Private Equity	8.00 %	9.27 %	8.00 %	9.27 %
Hedge Funds	5.00 %	3.53 %	5.00 %	3.53 %
Custom Fixed Income	25.00 %	1.65 %	25.00 %	1.65 %
Custom Real Return	5.00 %	2.07 %	5.00 %	2.07 %
Total	<u>100.00 %</u>		<u>100.00 %</u>	

(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, 2022 and 2021, calculated using the discount rate of 7.00% and 7.00%, respectively, as well as what the Department's pension liability (asset) would be as of June 30, 2022 if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts in thousands):

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

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Net pension liability	1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
June 30, 2021	\$ 986,440	359,273	(158,672)

(j) Pension Plan Fiduciary Net Position

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 \$(89,146) thousand and \$117,501 thousand for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the Water System reported \$28,338 thousand and \$136,115 thousand, respectively, for deferred outflow of resources and deferred inflow of resources of \$605,215 thousand and \$30,103 thousand, respectively.

The below table summarizes the deferred inflow of resources and deferred outflow of resources related to pensions at June 30, 2022 and 2021 (amounts in thousands):

Deferred outflow of resources	June 30	
	2022	2021
Changes in proportion and differences between entity contributions and proportionate share of contributions	\$ 8,346	9,267
Net difference between projected and actual earnings on pension plan investments	—	75,145
Difference between actual and expected experience in the total pension liability	18,461	22,855
Changes of assumptions and other inputs	1,531	28,848
Total deferred outflow of resources	\$ 28,338	136,115

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<u>Deferred inflow of resources</u>	<u>June 30</u>	
	<u>2022</u>	<u>2021</u>
Changes in proportion and differences between entity contributions and proportionate share of contributions	\$ 1,219	2,495
Net difference between projected and actual earnings on pension plan investments	576,787	—
Difference between expected and actual experience in the total pension liability	27,209	27,608
Total deferred inflow of resources	<u>\$ 605,215</u>	<u>30,103</u>

In addition to the deferred outflows noted above, there are also \$106,255 thousand and \$125,635 thousand of deferred outflows related to pension contributions made after the measurement date as of June 30, 2022 and 2021, 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):

<u>Year</u>	<u>June 30</u>	
	<u>2022</u>	<u>2021</u>
2022	\$ —	2,574
2023	(148,619)	20,134
2024	(127,113)	41,562
2025	(134,396)	34,303
2026	(164,179)	4,628
2027	111	2,811
2028	(2,681)	—
Total	<u>\$ (576,877)</u>	<u>106,012</u>

(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.

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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 \$1,870.87 depending on age and service at retirement. For Tier 2, the monthly medical subsidy ranges from \$30.32 to \$935.44 depending on age and service at retirement. The monthly dental subsidy for most retirees is \$37.58. 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 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.

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(c) Employees Covered by Benefit Terms

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:

<u>Plan membership</u>	<u>Retiree healthcare</u>	<u>Death benefit</u>
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	<u>19,037</u>	<u>18,907</u>

At the Department's measurement date of June 30, 2020 for the June 30, 2021 reporting period, the following employees were covered by the benefit terms:

<u>Plan membership</u>	<u>Retiree healthcare</u>	<u>Death benefit</u>
Beneficiaries currently receiving benefits	—	88
Retired members currently receiving benefits	8,321	7,472
Vested terminated members not receiving benefits	—	619
Active members	10,778	10,778
Total	<u>19,099</u>	<u>18,957</u>

(d) Contributions

The Board of Commissioners establishes rates for retiree healthcare plan based on an actuarially determined rate. For the years ended June 30, 2022 and 2021, the Department's average contribution rate was 9.7% 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 \$37.1 million and \$34.9 million including administrative expenses of \$0.3 million and \$0.3 million for the fiscal years ended June 30, 2022 and 2021, respectively.

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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, 2022 are as follows:

	<u>Department</u>	<u>Members</u>	
		<u>Active</u>	<u>Retired</u>
Total Death Benefit Fund	1.12% of payroll		
Family death benefit		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.

The employer and member contribution rates as of June 30, 2021 are as follows:

	<u>Department</u>	<u>Members</u>	
		<u>Active</u>	<u>Retired</u>
Total Death Benefit Fund	1.18% of Payroll		
Family death benefit		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 \$4.8 million including administrative expenses of \$0.7 million for the fiscal year ended June 30, 2020.

(e) Net OPEB Liability (Asset)

The Water System reported an asset of \$83 million and a liability \$91 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, 2022 and 2021 reporting dates, respectively. The net OPEB liability (asset) for each of the plans was measured as of June 30, 2021 and 2020 and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by actuarial valuations as of June 30, 2021 and 2020. 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

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the same period for both the Water System and the Power System. At June 30, 2022 and 2021, the Water System's proportion of the retiree healthcare plan and the death benefit plan net OPEB liabilities was 32.4% and 32.3%, respectively.

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, 2022 and 2021 (amounts in thousands):

	2022	2021
OPEB liability (asset) for retiree healthcare plan	\$ (113,151)	60,273
OPEB liability for death benefit plans	30,263	31,147
Net OPEB liability (asset)	\$ (82,888)	91,420

The total OPEB liability in the June 30, 2021 actuarial valuations used for the Water 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

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	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)	—	—	—	—

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	<u>Retiree healthcare plan</u>	<u>Family death benefit</u>	<u>Supplemental death benefit</u>	<u>Insured lives benefit (contributing active members)</u>	<u>Insured lives death benefit (noncontributing members)</u>
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 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. 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.

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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:

<u>Asset class</u>	<u>Targeted allocation</u>	<u>Long-term expected arithmetic real rate of return</u>
Large cap US equity	22.95 %	5.44 %
Small cap US 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	<u>100.00 %</u>	
	<u>Targeted allocation</u>	<u>Long-term expected arithmetic real rate of return</u>
Death benefit:		
Fixed income	96 %	1.42 %
Cash and cash equivalents	4	0.25
	<u>100 %</u>	

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.

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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.

The total OPEB liability in the June 30, 2020 actuarial valuations used for the Water System’s June 30, 2021 financial statements was determined using the following actuarial assumptions:

	<u>Retiree healthcare plan</u>	<u>Family death benefit</u>	<u>Supplemental death benefit</u>	<u>Insured lives benefit (contributing active members)</u>	<u>Insured lives death benefit (noncontributing members)</u>
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	6.75, graded down to 4.50% over 9 years				
Medicare medical plans	6.25, graded down to 4.50% over 7 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

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	<u>Retiree healthcare plan</u>	<u>Family death benefit</u>	<u>Supplemental death benefit</u>	<u>Insured lives benefit (contributing active members)</u>	<u>Insured lives death benefit (noncontributing members)</u>
Department contribution rate	9.68%				
Total Death Benefit Fund		1.18% of Payroll			
Age and service requirements	<p>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.</p> <p>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</p>	<p>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</p>	<p>Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP</p>	<p>Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP</p>	<p>Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement</p>
Per Capita Cost Development	<p>The assumed per capita claims cost by age is calculated using age-based factors for retiree ranging from 77.6% to 123.4% and Spouse ranging from 71.3% to 122.8% and applying these factors to premiums (eligible spouses and survivors are not eligible for DWP dental subsidy)</p>	—	—	—	—

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	<u>Retiree healthcare plan</u>	<u>Family death benefit</u>	<u>Supplemental death benefit</u>	<u>Insured lives benefit (contributing active members)</u>	<u>Insured lives death benefit (noncontributing members)</u>
Monthly benefit	Tier 1 – \$30.32 to \$1,821.26; Tier 2 – \$30.32 to \$910.63	\$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, 2021, mortality rates were based on the Pub-2010 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. The actuarial assumptions used in the June 30, 2020 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, 2021, 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:

<u>Asset class</u>	<u>Targeted allocation</u>	<u>Long-term expected arithmetic real rate of return</u>
Retiree healthcare:		
Domestic equity	25 %	5.44 %
Developed international equity	15	6.54
Fixed income	25	1.65
Real estate	8	4.60
Real return	5	2.07
Private equity	16	9.27
Covered calls	5	3.53
Cash and equivalents	1	0.25
	<u>100 %</u>	

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	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, 2021, for the retiree healthcare fund, the discount rate used to measure the total OPEB liability was 7.00% for the year ended June 30, 2021. 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, 2021, 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, 2020.

(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, 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

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	June 30, 2021		
	1% decrease	Current	1% increase
Discount rate	6.00 %	7.00 %	8.00 %
Net OPEB liability – retiree healthcare plan	\$ 171,190	60,273	(31,002)
Discount rate	2.50 %	3.50 %	4.50 %
Net OPEB liability – death benefit plan	\$ 38,076	31,147	25,633

(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, 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.

	June 30, 2021		
	1% decrease	Current	1% increase
Net OPEB liability (asset) – retiree healthcare plan	\$ (39,543)	60,273	184,351

* Current trend rates: 5.90% graded down to 4.50% over 9 years for non-Medicare medical plan costs; 4.30% graded down to 4.50% over 7 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

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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, 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):

	<u>Retiree healthcare plan</u>		<u>Death benefits plan</u>		<u>Total</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
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
	<u>29,126</u>	<u>211,800</u>	<u>1,245</u>	<u>3,960</u>	<u>30,371</u>	<u>215,760</u>
Employer contributions subsequent to the measurement date	37,086	—	4,920	—	42,006	—
Totals	<u>\$ 66,212</u>	<u>211,800</u>	<u>6,165</u>	<u>3,960</u>	<u>72,377</u>	<u>215,760</u>

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For the year ended 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, 2020, the Water System recognized OPEB expense of \$14,468 thousand and \$2,555 thousand for its proportionate share of the healthcare and death benefits plans, respectively. At June 30, 2021, the Water System reported deferred outflows and inflows of resources related to OPEB Plans from the following sources (in thousands):

	<u>Retiree healthcare plan</u>		<u>Death benefits plan</u>		<u>Total</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Change in proportion and differences between employer category's contributions	\$ 3,806	2,692	970	480	4,776	3,172
Changes of assumptions	31,851	19,837	—	2,773	31,851	22,610
Net difference between projected and actual earnings on OPEB plan investments	12,619	—	—	491	12,619	491
Differences between expected and actual experience	—	97,874	132	1,413	132	99,287
	<u>48,276</u>	<u>120,403</u>	<u>1,102</u>	<u>5,157</u>	<u>49,378</u>	<u>125,560</u>
Employer contributions subsequent to the measurement date	<u>34,899</u>	<u>—</u>	<u>4,846</u>	<u>—</u>	<u>39,745</u>	<u>—</u>
Totals	<u>\$ 83,175</u>	<u>120,403</u>	<u>5,948</u>	<u>5,157</u>	<u>89,123</u>	<u>125,560</u>

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

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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, 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)
Thereafter	(11,525)	113	(11,412)
	\$ (182,674)	(2,715)	(185,389)
	For the year ended June 30, 2021		
	Retiree healthcare plan	Death benefits plan	Total
Year ending June 30:			
2022	\$ (17,978)	(752)	(18,730)
2023	(11,766)	(819)	(12,585)
2024	(9,124)	(888)	(10,012)
2025	(5,179)	(786)	(5,965)
2026	(9,847)	(570)	(10,417)
2027	(12,463)	(254)	(12,717)
2028	(5,771)	14	(5,757)
	\$ (72,128)	(4,055)	(76,183)

(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

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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.

(k) Disability Benefits

The Water System's allocated share of disability benefit plan costs and administrative expenses totaled \$6 million for both fiscal years 2022 and 2021. 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, 2022 and 2021. 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 \$84 million and \$76 million for both June 30, 2022 and 2021, 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, 2022 and 2021.

Changes in the Department's undiscounted liability since June 30, 2020 are summarized as follows (amounts in thousands):

	June 30		
	2022	2021	2020
Balance at beginning of year	\$ 76,409	77,044	88,240
Current year claims and changes in estimates	34,548	25,430	17,635
Payments applied	(27,388)	(26,065)	(28,831)
Balance at end of year	<u>\$ 83,569</u>	<u>76,409</u>	<u>77,044</u>

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The Water System's portion of the discounted accrued workers' compensation liability is estimated at \$26 million and \$23 million for the fiscal years ended June 30, 2022 and 2021, 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, 2022, the Water System has purchased 1,892,914 acre feet from Metropolitan under the current Purchase Order Agreement. The Water System expects to fulfill the remaining commitment of 140,217 acre feet of water from Metropolitan over the next 2.5 years, which is estimated to cost \$251 million, or approximately \$100 million per year.

(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 postclosure 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

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liability for these sites is \$16.7 million and \$11.9 million for the years ended June 30, 2022 and 2021, 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 \$393.1 million at completion. The actual expenditures to date are \$360.5 million.

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(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 2022. The cost of LT2 compliance related engineering studies and construction activities is expected to reach \$1.535 billion at completion. The actual cost spent to date has been \$1.490 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 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 reached the regulatory finish line necessary for attainment of NAAQS by the end of 2017. The annual cost of operating and maintaining all infrastructure constructed at Owens Lake in the last three years runs at an average of \$34 million. All improvements made to Owens Lake as part of dust mitigation efforts are recorded as Utility Plant in the year made.

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(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.

(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.

(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, 2022 and 2021, 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.

(j) FBI Investigation

In July 2019, the Federal Bureau of Investigation (FBI) began conducting an investigation of the Department and the Office of the City Attorney. The Department is cooperating fully with the investigators. The Department has been requested by the investigating agency to exercise confidentiality with respect to the investigation. The Department can generally state that the search warrants served by the FBI on the Department and the Office of the City Attorney relate to issues that have arisen over the class action litigation and settlement regarding the Department's billing system and the lawsuit against PricewaterhouseCoopers LLP. Based on the Department's understanding of the nature of the investigation and the current status of the lawsuits relating to the new billing system, the Department does not believe that the investigation or the billing-system-related lawsuits will have a material adverse effect on the Department's operations or financial position.

(11) Subsequent Events

- (a) In November 2022, the Board authorized the Water System to execute a substitute standby agreement for the \$200 million standby agreement expiring in January 2023. The substitute standby agreement will expire in January 2027.
- (b) In November 2022, the Board authorized the Water System to issue up to \$478.1 million of revenue bonds, the 2022 Series D. The net proceeds will be used to refund certain outstanding indebtedness of the Water System and to partially fund capital improvements. The pricing is scheduled for December 2022.

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Required Supplementary Information

June 30, 2022

(Unaudited)

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

Last 10 years*

(Amounts in thousands other than percentages)

	<u>2022</u>	<u>2021**</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water System's proportion of the net pension liability (asset) collective	32.436 %	32.319 %	31.610 %	32.100 %	31.748 %	31.892 %	32.603 %	67.656 %	67.427 %
Water System's proportionate share of the collective net pension liability (asset)	\$ (538,006)	359,273	260,739	292,447	426,444	698,878	373,024	860,748	1,207,513
Water System's covered payroll	363,899	365,228	325,018	306,316	283,300	274,851	273,607	554,731	551,159
Water System's proportionate share of the collective net pension liability (asset) as a percentage of covered payroll	(147.84)%	98.37 %	80.22 %	95.47 %	150.53 %	254.27 %	136.34 %	155.16 %	219.08 %
Pension plan's fiduciary net position as a percentage of total pension liability (asset)	111.05 %	92.32 %	94.03 %	93.10 %	89.39 %	82.17 %	89.80 %	88.41 %	82.30 %

* The Water System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment to GASB Statement 27, effective July 1, 2013; therefore, no information is available for the measurement periods prior to June 30, 2013.

** The measurement period for each year presented is on a one-year lag and thus the measurement periods are June 30, 2014–2021 for the Water System's fiscal years June 30, 2014–2022.

See accompanying independent auditors' report.

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Required Supplementary Information

June 30, 2022

(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
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
2013	376,668	368,426	8,242	817,421	45.07

(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.

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Required Supplementary Information

June 30, 2022

(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)

<u>Reporting date of employer</u>	<u>Measurement date</u>	<u>Proportionate share of net OPEB liability (asset)</u>	<u>Proportionate share of net OPEB liability (asset)</u>	<u>Projected compensation</u>	<u>Covered payroll</u>	<u>Proportionate share of the net OPEB liability (asset) as a percentage of covered payroll</u>	<u>Plan's fiduciary net position as a percentage of the total OPEB liability (asset)</u>
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

See accompanying independent auditors' report.

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June 30, 2022

(Unaudited)

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)

<u>Reporting date of employer</u>	<u>Measurement date</u>	<u>Proportionate share of net OPEB liability</u>	<u>Proportionate share of net OPEB liability</u>	<u>Projected compensation</u>	<u>Covered payroll</u>	<u>Proportionate share of the net OPEB liability as a percentage of covered payroll</u>	<u>Plan's fiduciary net position as a percentage of the total OPEB liability</u>
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

See accompanying independent auditors' report.

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Required Supplementary Information

June 30, 2022

(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
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
2013	36,908	67,563	(30,655)	817,421	8.27

(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.

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Required Supplementary Information

June 30, 2022

(Unaudited)

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
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.