PASADENA WATER AND POWER

MEMORANDUM

April 9, 2026

To: Mayor and City Council

From: Miguel Márquez
City Manager

David Reyes
General Manager, Water and Power

Subject: **FY 2027–2031 Capital Improvement Program — Carbon-Free Investment Analysis**

Executive Summary:

Pasadena Water and Power ("PWP") is spearheading the City's transformational transition of sourcing 100% carbon-free electricity by the end of 2030, as established by Resolution 9977. The proposed FY 2027–2031 Capital Improvement Program ("CIP") reflects that commitment in concrete dollar terms: approximately **$794 million in total investment** is either directly generating and storing clean energy or structurally enabling the distribution system to deliver the power in a safe and reliable manner. Solar plays a key role, while the scale of this undertaking goes even further — it is a wholesale rebuilding of Pasadena's electric infrastructure for a carbon-free future. Of that total, **$664 million is funded** through a combination of Power Revenue Bonds, Power Fund revenues, federal and state grants, and the Public Benefit Charge ("PBC"). The remaining **$130 million within the five-year CIP window** and up to $337 million when longer-horizon projects are included is currently shown as "unfunded." It is important to be precise about what that label means: these projects are not abandoned or deprioritized. They are *funding-source unidentified*; meaning PWP is actively evaluating the most strategic, financially responsible mechanism for each one, whether that is a future bond issuance, a state or federal grant, expanded PBC revenues, IRA direct-pay credits, or a public-private partnership. The phasing is intentional: issuing all bonds at once would strain debt service coverage ratios, compress financial flexibility, and risk upward pressure on customer rates.

The timing of this CIP also reflects a candid acknowledgment of where the City stands. The two-year rate plan adopted in the prior cycle was built around the FY 2026–2030 CIP. The Optimized Strategic Plan ("OSP"), which includes expanded municipal solar,

the Broadway Energy Storage project, and accelerated grid modernization, added significant new capital scope. PWP is working to bridge that gap: aligning capital priorities set by policy with rate structures designed to keep service affordable. The projects in this CIP represent the result of that balancing act, and the funding strategy for projects with unidentified funding sources to be developed in concert with the next rate review cycle.

To understand the scale of what changed, it helps to compare this plan directly to its predecessor. The FY 2026–2030 adopted CIP totaled $460 million across electric system projects planned FY2027 and beyond, which has now over $800 million. Four areas, in particular, illustrate how dramatically the investment picture has shifted.

Municipal-Owned Solar Program — $90 million, new CIP. The prior CIP did not identify municipal solar investment. The OSP provided an additional path forward. This program — deploying 20 MW of additional solar across City-owned properties in four tranches (2 MW, 4 MW, 6 MW, and 8 MW) between FY 2027 and FY 2031 — is a direct creation of the Council's December 2025 policy direction. The first 2 MW phase ($9 million) is funded through the Public Benefit Charge and will begin installations at libraries, the City Yards, and the Sunset Reservoir Complex. The remaining $81 million across the larger tranches is currently pending identification of funding sources, which is why a deliberate, phased approach to both deployment and financing is essential. This program results in Pasadena generating its own clean power on its own facilities at a meaningful scale.

T.M. Goodrich Intertie Transformer Upgrades — $4.2 million in the prior CIP, $65.2 million in the new CIP (+$61 million). This is the single largest project-level increase in the CIP. The T.M. Goodrich Receiving Station is Pasadena's primary connection point to the CAISO grid — the gateway through which virtually all imported electricity enters the City. The prior CIP-funded routine equipment upgrades. The new CIP adds a major feasibility study on increasing import capacity, reflecting a fundamental strategic shift: as local fossil generation is retired and carbon-free electricity must increasingly come from outside the City, the intertie importing that power from the grid becomes a critical constraint. Investing in its capacity is not an infrastructure upgrade; it is the enabling infrastructure for the entire carbon-free transition. Also, while this is a significant increase, the actual construction projections for further expansion for which estimates are in the hundreds of millions range. PWP is working to solidify planning figures.

Advanced Metering Infrastructure ("AMI") — $38.5 million in the prior CIP, $48.2 million in the new CIP (+$9.7 million). The AMI program — deploying smart meters, two-way communications infrastructure, and data management systems citywide — has been accelerated and expanded. The additional investment reflects both the expanded scope of the rollout and the increased urgency: AMI is foundational to nearly every carbon-free customer program PWP intends to offer. Without smart meters, there is no time-of-use pricing to shift load away from peak carbon hours, no real-time visibility into distributed solar generation, and no reliable platform for EV charging coordination. The

$9.7 million increase accelerates the completion of the AMI system, including its network infrastructure and meters, through FY 2029, to help meet the schedule of carbon-free by end of 2030 goal

Substation Upgrades — significantly expanded across multiple locations. The prior CIP carried modest placeholder funding for several substations. The new CIP reflects the real costs to modernize these facilities for a carbon-free grid. Chester Substation grew from $3.3 million to $21.5 million (+$18.2 million); Villa Substation from $2.9 million to $14.7 million (+$11.8 million); Oak Knoll from $3.0 million to $5.6 million (+$2.6 million). Wilson and Hastings substations — totaling $12.5 million — are entirely new to this CIP. Each of these projects is explicitly cited in the CIP as required to accommodate carbon-free power flow consistent with Resolution 9977. As more renewable power flows through Pasadena's distribution system, the substations that enable the transfer of power must be rebuilt to handle it. The combined substation investment across the new CIP represents a recognition that the "pipes and valves" of the clean energy system require the same level of commitment as the generation and storage resources they serve.

The following addresses five specific questions about this capital program in detail: 1) Which projects qualify as carbon-free investments; 2.) How much is currently funded versus pending a funding source; 3.) What the funding options are; 4.) How the operating budget supports carbon-free goals; and 5.) How the proposed Water and Power Headquarters project fits into this financial picture. Taken together, these questions and answers tell the story of a utility that has made extraordinary progress — and is managing a complex, multi-year transition with fiscal discipline and transparency. This analysis is based on the proposed FY 2027–2031 Capital Improvement Program, which has not yet been approved by the City Council and has not yet been presented to committee for discussion. All budget figures, project allocations, and program descriptions reflect proposed plans only and are subject to change pending City Council review and approval. The analysis of future debt issuances, bond financing scenarios, and debt service coverage ratio projections included herein is for illustrative purposes only and does not constitute a commitment, authorization, or recommendation to issue debt.

Question 1: Carbon-Free Projects & Projected Costs

Combined Carbon-Free Investment Summary

Category	Total Estimated Cost
Direct Carbon-Free Projects	$188,595,500
Indirect Carbon-Free Enablement Projects	~$605,089,790
COMBINED TOTAL	**~$793,685,290**

The breadth of this investment demonstrates that the vast majority of PWP's FY 2027–2031 capital program is either directly advancing or structurally enabling Pasadena's carbon-free goals.

Direct Carbon-Free Projects

The following projects have generating, storing, or enabling carbon-free energy as their primary purpose:

Project	CIP #	Total Est. Cost
Glenarm Energy Storage Systems	3206	$28,160,000
Broadway Energy Storage Systems	3275	$38,036,500
Municipal-Owned Solar Program (2–20 MW, FY27–FY30)*	Various	$90,000,000
Electric Vehicle Charging Infrastructure	3225	$27,162,000
Customer Solar/Storage System Interconnections	3287	$1,803,000
Emerging New Technology Development & Testing	3288	$204,000
Power Integrated Resource Plan 2023	3249	$1,680,000
Power Integrated Resource Plan 2028	—	$1,550,000
		$188,595,500

* The Municipal-Owned Solar Program consolidates four separate CIP solar projects spanning FY27–FY30: 2 MW ($9M, FY27–28), 4 MW ($18M, FY28–29), 6 MW ($27M, FY30–31), and 8 MW ($36M, FY30). Individual project CIP numbers are pending assignment for the 4 MW, 6 MW, and 8 MW phases. Combined total reflects the full program cost of $90,000,000 across all tranches.

Indirect Carbon-Free Enablement Projects

The following projects enable carbon-free power flow, support grid modernization, or are explicitly cited in the CIP as required to meet Resolution 9977 carbon-free goals:

Project	CIP #	Total Est. Cost	Ties to Carbon-Free Goals
Subtransmission Path 2 Upgrade	3282	$73,180,000	Explicitly required to partially remove importation limitations and transport carbon-free power; critical to meeting carbon-free goals. Also, a major project to increase system reliability.
Distribution System Voltage Conversion (4kV to 17kV)	3227	$33,868,571	Increases grid capacity for higher carbon-free power flows; reduces system losses and improves reliability
Advanced Metering Infrastructure (AMI)	3142	$48,206,356	Enables smart grid supporting distributed energy resources and

Project	CIP #	Total Est. Cost	Ties to Carbon-Free Goals
			carbon-free goals; supports EV charging and customer solar
Fair Oaks & Brookside Substation Upgrades	3267	$75,009,000	Cited as necessary to accommodate carbon-free power; NW Pasadena grid modernization directly supports clean energy delivery. Also, a major project to increase system reliability.
T.M. Goodrich Intertie Transformer Upgrades	3263	$65,210,031	Primary CAISO interconnection point; feasibility study and procurement initiation on increasing import capacity tied to importing more carbon-free power
Receiving Station 35kV Upgrades	3262	$26,674,758	Addresses obsolescence at key receiving stations carrying imported carbon-free power
Substation Switch Replacement Program	3284	$8,259,000	Maintains distribution reliability needed to carry increasing carbon-free imports
Wilson Substation Upgrade		$12,407,904	Cited as consistent with Resolution 9977; transformer upgrades supporting power flow including carbon-free resources
Substation Modernization Program	3235	$14,523,000	Upgrading substation transformer voltage control systems essential for managing distributed renewable resources
Distribution Switch Replacement Program	3231	$21,762,500	Maintains distribution reliability needed to carry increasing carbon-free imports
Conductor Replacement Program	3226	$13,994,427	Maintains distribution reliability needed to carry increasing carbon-free imports from distributed resources
Electrical Vault Replacement & Reinforcement	3229	$26,070,000	CPUC compliance and maintains distribution reliability needed to carry increasing carbon-free imports
Distribution Transformer	3237	$12,460,000	Cited as necessary to accommodate carbon-free power flow from

Project	CIP #	Total Est. Cost	Ties to Carbon-Free Goals
Replacement Program			distributed resources; supports load growth from electrification
Fire Threat Mitigation Tier 2 Areas	3258	$14,764,000	Supports ability to operate safely in wildfire zones; undergrounding required for system resilience as climate warms
Fire Threat Mitigation Tier 3 Areas	3257	$6,080,000	Extreme fire risk areas converted to underground service
Transmission System Enhancements	3195	$7,913,666*	Upgrades 220kV system — PWP's primary source of imported power including carbon-free sources; consistent with Resolution 9977
SCADA System Expansion	3245	$12,260,000	Monitoring and control of distribution and transmission systems; essential for integrating variable renewables
GIS Enhancements	3240	$3,448,500	Supports system planning and field operations needed for renewable integration
Distribution System GIS Enhancements	3246	$796,521	Supports Outage Management System and engineering decisions for carbon-free power distribution
Deteriorated Pole Replacement Program	3233	$27,995,556	Structural integrity of overhead infrastructure required to carry increasing loads from carbon-free imports
Power Facility Wastewater/Storm Water Capture	3270	$28,853,000	Environmental compliance at Glenarm and Broadway Plants; supports transition to clean energy site use
Subtransmission Line Upgrades & Replacements 35kV	—	$9,070,000	Designed to increase reliability and capacity of bulk power delivery for long-term load growth including carbon-free imports
Glenarm Receiving Station Upgrades	3266	$4,836,000	Consistent with Resolution 9977; upgrades protection and control for subtransmission lines supporting power flow including carbon-free resources

Project	CIP #	Total Est. Cost	Ties to Carbon-Free Goals
Santa Anita 35kV Receiving Station Upgrades	3260	$10,785,000	Addresses obsolescence risk at subtransmission receiving station carrying carbon-free imports
Distribution Power Quality & Protection Enhancement	3252	$4,697,000	Voltage stability and power quality required to integrate intermittent renewable resources at distribution level
Chester Substation Upgrades	3273	$21,507,000	Consistent with Resolution 9977; switchgear, and protection and control upgrades of subtransmission lines supporting power flow including carbon-free resources
Villa Substation Upgrades	3278	$14,712,000	Cited as consistent with Resolution 9977; switchgear, and protection and control upgrades of subtransmission lines supporting power flow including carbon-free resources
Oak Knoll Substation Upgrades	3277	$5,623,000	Cited as consistent with Resolution 9977; switchgear, and protection and control upgrades of subtransmission lines supporting power flow including carbon-free resources
Hastings Substation Upgrades	—	$123,000	Cited as consistent with Resolution 9977; transformer upgrades supporting power flow including carbon-free resources
		~$605,089,790	

* Transmission System Enhancements (3195) shows $0 in Total Estimated Cost due to a CIP formatting anomaly. The figure above represents appropriations through FY26. FY27–FY31 proposed funding of $500K/year brings the total to approximately $10.4M.

Question 2: How Much Is Identified as Funded?

Direct Carbon-Free Projects — Funding-Source Identified and Unidentified

Project	Total Cost	Funded	Unidentified
Glenarm Energy Storage	$28,160,000	$28,160,000	$0
Broadway Energy Storage	$38,036,500	$38,036,500*	$0*
Municipal-Owned Solar Program (combined)	$90,000,000	$20,000,000	$70,000,000**

Project	Total Cost	Funded	Unidentified
EV Charging Infrastructure	$27,162,000	$27,162,000	$0
Customer Solar/Storage Interconnections	$1,803,000	$1,803,000	$0
Emerging New Technology	$204,000	$164,000	$40,000***
Power IRP 2023	$1,680,000	$1,680,000	$0
Power IRP 2028	$1,550,000	$1,550,000	$0
DIRECT TOTALS	**$188,559,500**	**$118,555,500**	**$70,040,000**

* Broadway Energy Storage shows $38M in the Power Fund column, but the project table also lists ~$165.1M in Unidentified across FY28–FY31 and beyond as the Broadway Plant site is redeveloped into a much larger energy storage facility. Including that, Broadway's total funding-source unidentified exposure is ~$165M beyond what appears in the Power Fund.
** Municipal-Owned Solar Program: the 2 MW phase ($9M) is funded. The 4 MW phase ($18M) is partially funded with $11M appropriated and $7M unidentified. The 6 MW ($27M) and 8 MW ($36M) phases are pending identification of funding sources.
*** Emerging Technology has $40K unidentified in FY28, then approximately $42.5M unidentified in FY29–FY30 for future phases.

Indirect Carbon-Free Enablement Projects — Funding-Source Identified and Unidentified

Project	Total Cost	Funded	Unidentified
Subtransmission Path 2 Upgrade	$73,180,000	$73,180,000	$0
Distribution Voltage Conversion (4kV–17kV)	$33,868,571	$33,868,571	$0
Advanced Metering Infrastructure (AMI)	$48,206,356	$48,206,356	$0
Fair Oaks & Brookside Substation Upgrades	$75,009,000	$75,009,000	$0
T.M. Goodrich Intertie Transformer Upgrades	$65,210,031	$65,210,031	$0
Receiving Station 35kV Upgrades	$26,674,758	$26,674,758	$0
Substation Switch Replacement Program	$8,259,000	$8,259,000	$0
Substation Modernization Program	$14,523,000	$14,523,000	$0

Project	Total Cost	Funded	Unidentified
Distribution Switch Replacement Program	$21,762,500	$21,762,500	$0
Conductor Replacement Program	$13,994,427	$13,994,427	$0
Electrical Vault Replacement & Reinforcement	$26,070,000	$26,070,000	$0
Distribution Transformer Replacement Program	$12,460,000	$12,460,000	$0
Fire Threat Mitigation Tier 2 Areas	$14,764,000	$14,764,000	$0
Fire Threat Mitigation Tier 3 Areas	$6,080,000	$6,080,000	$0
Transmission System Enhancements	$7,913,666	$7,913,666	$0
SCADA System Expansion	$12,260,000	$12,260,000	$0
GIS Enhancements	$3,448,500	$3,448,500	$0
Distribution System GIS Enhancements	$796,521	$796,521	$0
Deteriorated Pole Replacement Program	$27,995,556	$27,995,556	$0
Power Facility Wastewater/Storm Water Capture	$28,853,000	$8,753,000	$20,100,000*
Subtransmission Line Upgrades 35kV	$9,070,000	$0	$9,070,000
Glenarm Receiving Station Upgrades	$4,836,000	$4,836,000	$0
Santa Anita 35kV Receiving Station Upgrades	$10,785,000	$10,785,000	$0
Distribution Power Quality & Protection Enhancement	$4,697,000	$4,697,000	$0
Chester Substation Upgrades	$21,507,000	$21,507,000	$0
Villa Substation Upgrades	$14,712,000	$985,000	$13,727,000**
Oak Knoll Substation Upgrades	$5,623,000	$1,421,000	$4,202,000**
Hastings Substation Upgrades	$123,000	$0	$123,000

Project	Total Cost	Funded	Unidentified
Wilson Substation Upgrades	$12,407,904	$0	$12,407,904
INDIRECT TOTALS	**$605,089,790**	**$545,459,886**	**$59,629,904**

* Power Facility Wastewater has $20.1M proposed in FY28 via Power Bond not yet appropriated.
** Villa and Oak Knoll show Power Fund amounts already appropriated but the bulk of their Power Bond allocations are in FY29–FY31 and not yet committed.

Consolidated Funded and Funding-Source Unidentified Summary

Category	Total Cost	Funded	Unidentified
Direct Carbon-Free Projects	$188,595,500	$118,555,500	$70,040,000
Indirect Carbon-Free Enablement Projects	$605,089,790	$545,459,886	$59,629,904
COMBINED TOTAL	**$793,685,290**	**$664,015,386**	**$129,669,904**

Note: Broadway Energy Storage carries an additional ~$165M in unidentified exposure beyond the FY27–31 window, and Emerging Technology carries ~$42.5M in unidentified funding source for future phases. Including these, total funding-source unidentified carbon-free exposure across the full program horizon approaches ~$337M.

Question 3: Funding-Source Unidentified Amounts & Possible Funding Sources

Funding-Source Unidentified Carbon-Free Projects Summary

Project	Type	Unidentified Amount	Notes
Municipal-Owned Solar Program (4 MW, 6 MW, 8 MW phases)	Direct	$70,000,000	4 MW partially funded ($7M gap); 6 MW and 8 MW unidentified
Broadway Energy Storage (beyond FY31)	Direct	~$165,100,000	Long-term unidentified horizon
Emerging New Technology (FY29–FY30)	Direct	~$42,540,000	Future phases unidentified
Subtransmission Line Upgrades 35kV	Indirect	$9,070,000	Awaiting funding identification
Power Facility Wastewater/Storm Water	Indirect	$20,100,000	FY28 Power Bond not yet appropriated

Project	Type	Unidentified Amount	Notes
Villa Substation Upgrades	Indirect	$13,727,000	FY29–FY31 Power Bond not yet committed
Oak Knoll Substation Upgrades	Indirect	$4,202,000	FY28 and FY31 Power Bond not yet committed
Hastings Substation Upgrades	Indirect	$123,000	Funding-source unidentified; to be created FY31
Wilson Substation Upgrades	Indirect	$12,407,904	Funding-source unidentified; to be created FY29
TOTAL UNIDENTIFIED (within CIP window)		**~$337,269,904**	

Possible Funding Sources

Funding Source	Applicability	Notes
Power Revenue Bonds	High — all types	Primary mechanism used across the CIP; natural fit for large infrastructure; already committed for most funded projects. All new bond issuances are sized and sequenced to maintain PWP's debt service coverage ratio at sustainable levels consistent with bond covenant requirements and financial policy targets.
Federal Grants	High — solar, storage, EV	IRA direct-pay tax credits now available to public agencies although at greatly narrowed scope since OBBB passage; DOE Grid Resilience grants applicable to subtransmission and substation work. Grant funding is particularly valuable because it reduces bond issuance needs and preserves debt coverage headroom. PWP consistently applies.
California CEC Grants	High — solar, storage	California Energy Commission offers grants and low-interest loans for municipal renewable projects; non-debt funding that does not affect coverage ratios.
Public Benefit Charge (PBC)	Medium — solar	Already funding 2 MW Solar; expanding PBC surcharge or redirecting existing PBC revenue could fund additional solar tranches

Funding Source	Applicability	Notes
		without requiring debt issuance. PBC rate can also be increased.
HQ Bond Reallocation	Medium — solar	If HQ project is deferred or scaled down, ~$33M in Power Bond capacity could be redirected to solar; total system debt service impact would be equivalent since the same bond capacity is being deployed.
Debt Restructuring/Refunding	Medium — all types	If existing bonds can be refunded at lower rates, freed-up debt service capacity creates room for new issuances while maintaining or improving coverage ratios. PWP is already pursuing this within existing workplan.
Public-Private Partnerships	Medium — EV, solar	Third-party ownership/PPA structures for EV chargers and rooftop solar reduce capital burden on PWP entirely, with no impact on debt levels or coverage ratios. Would be presented through the operating budget most likely.

Important Note on Debt Capacity and Coverage Ratios: The phasing of funding-source unidentified projects across FY28–FY31 and beyond is intentional. PWP's financial plan manages bond issuances to maintain a sustainable debt service coverage ratio, the ratio of net revenues to annual debt service, consistent with bond covenant requirements and financial policy targets. This means the full ~$337M funding-source unidentified carbon-free program cannot and should not be closed all at once. The sequencing of future bond issuances, grant awards, and PBC revenues must be modeled against projected net revenues each year to ensure coverage ratios remain at levels that protect PWP's credit rating, preserve access to the tax-exempt bond market at favorable rates, and keep customer rate impacts manageable. Grants, PBC revenues, and IRA direct-pay credits are especially valuable in this context because they fund capital investment without adding to debt service obligations.

Question 4: Operating Budget Allocation for Carbon-Free Goals

Rather than a separate carbon-free budget line, PWP's operating spending reflects a wholesale transition — fossil fuel procurement has been eliminated from future purchases, meaning the entire power procurement budget advances the carbon-free goal.

The PBC is already being split between capital and operating uses. The 2 MW Solar project draws $9M from PBC and Emerging Technology draws $60K from PBC, indicating PBC revenues flow to both sides of the ledger. The operating share of PBC directed toward carbon-free programs such as customer efficiency rebates, EV

incentives, and renewable energy education would need to be pulled from the operating budget document for a complete picture. There is also approximately 80% of the PBC fund in the operating budget being spent on energy efficiency programs and rebates furthering the carbon-free goals.

Question 5: Water & Power Headquarters — Financial Analysis Shows Significant Net Cost Savings

What Is the PWP Headquarters ("HQ") Project?

CIP #3285 — Water and Power Department Headquarters — proposes a needs assessment and eventual procurement of a permanent, consolidated headquarters for PWP office business units. Currently PWP operations are dispersed across multiple leased and City-owned locations. The project consolidates office business units into one site to improve coordination, customer service response, and emergency management. In FY27 the work is limited to continuing the needs assessment and identifying potential sites. The major capital commitment ($26M in FY28, $6.5M in FY29) represents acquisition and/or construction. The other portion (35%) is in the Water Fund as the facility would consolidate multiple operations into one site.

The bond analysis, debt service projections, and own vs. rent comparisons that follow are for illustrative purposes only and do not constitute a commitment, authorization, or recommendation to issue debt. All financing scenarios are subject to City Council approval.

CIP Allocation for HQ

Funding Source	Total	FY27	FY28	FY29	FY30
Power Bond	$33,280,000	$650,000	$26,000,000	$6,500,000	$130,000
Power Fund	$390,000	$390,000	$0	$0	$0
TOTAL	**$33,670,000**	**$1,040,000**	**$26,000,000**	**$6,500,000**	**$130,000**

Bond Analysis: $50M Building, 30-Year Bonds at 4.5%

Annual debt service on a $50M, 30-year municipal bond at 4.5%, using the standard annuity formula:

$$\text{Annual Payment} = P \times [r(1+r)^n] / [(1+r)^n - 1]$$

P = $50,000,000 | r = 4.5% | n = 30 years → Annual Debt Service ≈ $3,070,000/year

Own vs. Rent Comparison (3% Annual Rent Escalation)

Year	Annual Rent	Annual Debt Service	Annual Savings
Year 1	$4,000,000	$3,070,000	$930,000
Year 5	$4,508,000	$3,070,000	$1,438,000
Year 10	$5,226,000	$3,070,000	$2,156,000
Year 15	$6,059,000	$3,070,000	$2,989,000
Year 20	$7,022,000	$3,070,000	$3,952,000
Year 25	$8,144,000	$3,070,000	$5,074,000
Year 30	$9,430,000	$3,070,000	$6,360,000
30-Year Total	**~$190,000,000**	**~$92,100,000**	

At the end of 30 years, PWP owns a fully paid-off asset worth $50M or more. The financial case for owning is compelling from year one and strengthens significantly over time.

Debt Coverage Ratio Consideration — HQ and Solar

Whether PWP procures an HQ or continues to lease, the debt service coverage ratio is affected differently by each path:

Scenario	Debt Service Impact	Operating Expense Impact	Net Coverage Ratio Effect
Build HQ via $50M bond	+ $3.07M/year debt service	- $4.0M+/year rent eliminated	Net neutral to slightly positive — bond service is less than current rent, so net revenues available for coverage actually improve over time as rent savings grow
Continue leasing, redirect bond capacity to solar	No new debt service from HQ bond	$4.0M+/year rent continues and escalates	Rent continues to escalate, reducing net revenues available for debt coverage; solar bond adds ~$3.07M debt service but may generate operating savings through avoided power purchase costs

Key Insight: Eliminating $4M+/year in escalating lease expense through an HQ bond actually improves net revenues available for debt service coverage over time, whereas continuing to pay rent slowly erodes that coverage headroom. This means the HQ bond

would not compete with solar bonds for coverage ratio capacity — it would instead create additional coverage headroom that enables future solar bond issuances.

Key Considerations

Factor	Own HQ/Office Consolidation
Annual carrying cost	~$3.07M debt service
Operating cost savings	Avoided cost of leasing ~$4M+/year escalating
Asset at end of period	$50M+ building owned free and clear
Resolution 9977 alignment	Indirect — supports operations efficiency
Coverage ratio impact	Neutral to positive — rent savings offset debt service and grow over time
Timing flexibility	FY28 is first major commitment — this budget cycle is the decision point

No major HQ capital commitment is locked in until FY28, giving PWP a full budget cycle to model the full debt service coverage ratio impact of each scenario before any major decisions are made. Given that owning provides immediate cost savings over renting at $4M/year and that eliminating lease expense strengthens the net revenue base that supports debt coverage, owning a facility improves PWP's long-term financial position relative to the status quo.