

# Fitch Rates Southern California Water Replenishment District's 2008 COPs 'AA'

Last update: 4:57 p.m. EST Nov. 4, 2008

AUSTIN, Texas, Nov 04, 2008 (BUSINESS WIRE) -- Fitch Ratings has assigned an 'AA' rating to the Water Replenishment District of Southern California's (the district) \$17.6 million 2008 revenue certificates of participation (COPs). In addition, Fitch has affirmed the 'AA' rating to the district's \$14.8 million outstanding COPs. The Rating Outlook is Stable.

Scheduled for negotiated sale during the week of Nov. 10, the COPs represent an absolute and unconditional obligation of the district, payable from the district's net revenues, and are not subject to annual appropriation. Proceeds will be used to finance the acquisition, construction and installation of certain clean water and replenishment projects and the improvement of the District's administration building, to fund a reserve fund for the COPs, and pay issuance costs.

The 'AA' rating reflects the district's essential role in maintaining an adequate and good quality drinking water supply in the Los Angeles basin and sound level of projected debt service coverage enhanced by its financial flexibility provided by its diverse water sources. The district also has rate flexibility relative to alternative surface water supply costs, although this is somewhat limited by the legislative imposed reserve limitation. Fitch expects that recent adoption of financial reporting improvements should result in the continuance of the district's historically strong financial performance. The Stable Outlook is based on the district's moderate capital needs and a court decision to uphold the legal status of the district's responsibilities and operations after they were challenged in 2001.

Established by popular vote in 1959 to counteract the overpumping of water from two major ground water basins, the district covers approximately 420 square miles within Los Angeles County and serves 43 cities including Los Angeles and Long Beach. The district acts as the groundwater manager for the two basins by enforcing the terms of adjudications stemming from a series of lawsuits between municipalities in the 1960s. The district replenishes ground water resources through capture of storm water runoff and by purchasing recycled or imported water and injecting it into the aquifers or spreading it on the surface to percolate down to the basins.

Users of the aquifers pump approximately 235,000 acre-feet of water per year from the two basins. The district derives the majority of its annual revenue through a replenishment assessment on each of the users, based on their annual extraction from the basins. The assessment is established at the beginning of the district's fiscal year, based on the total estimated amount of water expected to be extracted from the basins. Once approved, this rate may not be changed until the next fiscal year.

Between fiscal years 1999 and 2004, the district reduced its reserves in response to state audits that found that reserves were too high and that the district had overcharged customers in prior years. After restoring its ability to increase replenishment assessments in fiscal 2005, the district's financial position has improved despite reporting a notable operating loss in fiscal 2007 that resulted in a decrease of reserves from \$14.4 million at the end of fiscal 2006, to \$7.5 million at the end of fiscal 2007. However, this significant drop was attributable to the purchase of 30,000 acre feet (af) of excess interruptible spreading water from a regional wholesaler during fiscal year 2007. Of this amount, 18,000 af was carryover water replenishment due from the

prior year and 12,000 af was pre-purchased prior to a rate increase by the wholesaler for fiscal 2008 replenishment. The district subsequently recovered its cost of pre-purchased water in the fiscal 2008 replenishment assessment fees.

Unaudited results for fiscal 2008 reflect a \$14.3 million increase to retained earnings due to the district's opportunity to take advantage of pre-purchasing available water during the prior fiscal year before the wholesale cost of water increased and an 8% increased assessment. Pledged net revenues, as defined in the indenture, exclude water purchases, which generates substantial coverage ratios. Based on the district's five-year financial projections, which are based on a 2.5% average annual increase in charges for service, coverage on a net revenue basis should exceed 11.7 times (x). When annual water projections are factored in, a more conservative evaluation that Fitch used in the rating process, coverage is projected at 1.25x from fiscal years 2010-13. By the same methodology, the district's budgeted coverage for fiscal 2009 is 2.3x.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, [www.fitchratings.com](http://www.fitchratings.com). Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

**SOURCE: Fitch Ratings**

Fitch Ratings

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