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Fitch Affirms Water Replenishment Dist. of Southern California's Rev COPs at 'AA+'; Outlook Stable

SAN FRANCISCO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the following ratings for the Water Replenishment District of Southern California:

--\$14.12 million 2004 water revenue certificates of participation (COPs) at 'AA+';

--\$18.19 million 2008 water revenue COPs at 'AA+'.

The Rating Outlook is Stable.

RATING RATIONALE:

--The district's essential role in maintaining an adequate and good quality drinking water supply in the Los Angeles basin;

--The district's considerable financial flexibility due to its ability to defer or pre-purchase water and rate flexibility relative to alternative water supply costs;

--Sound debt service coverage and moderate capital needs.

KEY RATING DRIVER:

--Continued ability to manage water purchases relative to replenishment assessment adjustments.

SECURITY:

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.

CREDIT SUMMARY:

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. In 2001 a court upheld the legal status of the district's responsibilities after they were challenged by a group of the district's groundwater extractors.

Users of the aquifers pump approximately 243,000 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. The district was able to restore its ability to increase replenishment assessments in fiscal 2005. It increased the assessment rate by 2.7% in fiscal 2009, 18.9% in fiscal 2010, and 12.7% in fiscal 2011.

The district is still operating under state legislation limiting its reserves to \$10 million, which is adjusted each year based on the percentage change of the blended cost of water. The law allows amounts above the limit to be used to reduce the replenishment assessment or purchase of water in the succeeding fiscal year. The district assesses its cash needs annually and will request a change in the law if needed.

District finances have improved with audited results for fiscals 2009 and 2008 showing increases to retained earnings of \$8.4 million and \$13.1 million, respectively. The decrease from 2008 to 2009 was due to the purchase of additional injection water at the seawater barriers and an increase in general and administrative expenses in fiscal 2009. Pledged net revenues, as defined in the indenture, exclude water purchases, which generates substantial coverage ratios. Coverage on a net revenue basis was 12.9 times (x) and 18.5x for fiscals 2009 and 2008, respectively. When annual water purchases are factored in coverage was 1.45x and 2.25x in fiscals 2009 and 2008. Days cash on hand increased to 655 in fiscal 2009 from 298 in fiscal 2008.

Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:

'Revenue-Supported Rating Criteria', dated Oct. 8, 2010;

'Water and Sewer Revenue Bond Rating Guidelines', dated Aug. 6, 2008.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565

Water and Sewer Revenue Bond Rating Guidelines

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=395918

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