Rating Action: Moody's assigns Aaa to Metropolitan Water District of Southern California's Waterworks GO Refunding Bonds, 2020 Series A

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New York, August 06, 2020 -- Moody's Investors Service has assigned a Aaa rating to the Metropolitan Water District of Southern California's (MWD) $13.9 million Waterworks General Obligation Refunding Bonds, 2020 Series A. Moody's maintains a Aaa rating on MWD's $37.3 million in outstanding general obligation unlimited tax (GOULT) debt and a Aa1 on MWD's $2.5 billion in outstanding senior lien water revenue bonds. In addition to outstanding senior lien revenue bonds, MWD has $1.4 billion outstanding subordinate lien water revenue bonds, which are not rated by Moody's. The outlook is stable.

RATINGS RATIONALE

The rating reflects MWD's immense assessed valuation spanning portions of six southern California counties, which will continue to expand despite some slowing as a result of the coronavirus pandemic. It is also supported by the district's solid fiscal position supported by ongoing rate increases, consistent coverage and healthy liquidity. The district's credit profile is enhanced by solid current water supplies that will enable it to manage California's current drought conditions and the ongoing pressure on Colorado River water supplies. The district's water system revenues support a very large debt profile that will grow as a result of major expected capital projects.

RATING OUTLOOK

The stable outlook reflects our expectation that MWD will maintain a consistent fiscal position inclusive of steady reserves and liquidity while managing challenges associated with the coronavirus crisis and variable water supplies. The outlook is also driven by our expectation that the district's assessed valuation will remain exceptionally large with continued growth.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Substantial deterioration of the tax base
- Material weakening of the district's cash or liquidity
- Significant reduction in water availability resulting in material effects on the fiscal profile

LEGAL SECURITY

The general obligation bonds are secured by ad valorem taxes which may be levied without limitation as to rate or amount upon all taxable real property within MWD.

USE OF PROCEEDS

The 2020 Series A bonds will refund MWD's outstanding 2010 Series A GO refunding bonds for estimated net present value savings of $7.1 million or close to 38% of the refunded bonds. There is not extension of debt service payments. Amortization of GO debt is rapid, with 59.2% of principal repaid within ten years.

PROFILE

Comprising 26 member agencies including 14 cities, 11 municipal water districts and one county water authority, MWD serves as a water wholesaler to a 5,200 square mile service area with over 19 million residents. MWD provides supplemental water to its member agencies that represent a critical portion of the members' water supply mix, with these supplies projected to represent roughly 50% of member agencies' water supplies over at least the next 25 years. While member agencies continue to develop their own water supplies from recycled and desalination supplies, reliance on MWD remains stable and in some cases will increase as a result of water quality regulations, underscoring the essentiality of MWD water to the region. The district serves exclusively as a wholesale supplier, with no direct retail customers.
METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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