

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's assigns Aa3 to Central Basin Municipal Water District's (CA) Refunding Revenue Bonds; stable outlook assigned**

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Global Credit Research - 03 Sep 2014

#### **\$8.5M new refunding debt affected; ratings affirmed on outstanding COPs**

New York, September 03, 2014 --

Moody's Rating

Issue: Refunding Revenue Bonds, Series 2014A; Rating: Aa3; Sale Amount: \$8,500,000; Expected Sale Date: 10/1/2014; Rating Description: Revenue: Government Enterprise

Opinion

Moody's Investors Service has assigned an Aa3 rating to Central Basin Municipal Water District's (CA) Refunding Revenue Bonds, Series 2014A totaling approximately \$8.5 million. We have also affirmed the Aa3 rating on the district's outstanding Refunding Revenue Certificates of Participation, Series 2010A; and Adjustable Rate Refunding Certificates of Participation (2007 Project), Series 2008B (LOC). The COPs are ultimately secured by a senior lien on net revenues of the district, on parity with the district's swap payments. A stable outlook has been assigned to the district's ratings.

#### SUMMARY RATING RATIONALE

The Aa3 rating reflects forward-looking improvements to the district's operations and financial profile. The district had a precipitous decline in debt service coverage as calculated by Moody's in fiscal 2013 related to litigation surrounding one of the district's primary customers, but we expect that debt service coverage will increase in the fiscal 2014 audited results and afterward to levels consistent with the Aa3 rating category. Cash reserves also declined in fiscal 2013 after the district defeased outstanding COPs to reduce debt service requirements, though cash remained ample enough to provide for one year's operating requirements. We expect cash levels to improve in the near-term. The Aa3 rating also incorporates the district's large southeastern Los Angeles County service area and high, though manageable, debt levels.

The stable outlook relates to the litigation settlement with one of the district's primary customers and the expectation that the district will restore debt service coverage and cash reserves to historic levels. The litigation related to water sales to the Water Replenishment District (WRD) has been resolved and water supply agreements have been made with the disputing party. As such, the district expects to see increased water sales to WRD beginning in fiscal 2015, with water sales of various amounts to WRD continuing through fiscal 2017.

#### STRENGTHS

- Large service area
- Resolved litigation
- New management team

#### CHALLENGES

- Relatively high debt ratio
- Declining net working capital as % of operations and maintenance
- Low debt service coverage ratio as calculated by Moody's

#### WHAT COULD MOVE THE RATING-UP

- Trend of strong debt service coverage ratios

- Trend of increasing net working capital and unrestricted net assets

#### WHAT COULD MOVE THE RATING-DOWN

- Continued low debt service coverage ratios
- Significant amount of increased and complex debt issuances
- Trend of decreasing unrestricted net assets

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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