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Fitch: Revenue Bond Vote May Slow or Stop California Water Fix.

Fitch Ratings-San Francisco-04 November 2016: Approval of Proposition 53 by California voters next week would likely slow or prevent a \$17.1 billion water project known as the California Water Fix, Fitch Ratings says. The project's timing and cost are important to the state's water and sewer utilities. Even if Proposition 53 is not approved, the long-term plan for the project will remain controversial.

Proposition 53, if approved, would require revenue bonds issued by the state of California exceeding \$2 billion dollars to be approved by two-thirds of voters. General obligations bonds, which are paid with taxpayer dollars, already require voter approval. Revenue bonds, which are paid by user fees including water rates, do not.

The timing and cost of the California Water Fix (the Fix), formerly known as the Bay Delta Conservation Project, are important to California's water and sewer utilities as they will likely pay for it and pass those costs on to end users. However, the process used to implement rate increases in California can be lengthy and many utilities are already passing on other costs due to drought-related conservation and other regulatory changes.

The State Water Control Resources Board eased its conservation mandates in May 2016. The statewide mandate of 25% was largely met, resulting in lower water sales and revenues for utilities. In fiscal 2016 many water issuers experienced weaker metrics and sought rate increases or alternate rate structures to mitigate the financial impact.

Issuers that already had rate structures with high fixed components in place or other structures that allowed them to adjust quickly were better positioned to absorb the decline in demand.

The Fix's cost is estimated at \$17.1 billion. This figure includes mitigation, operations and maintenance and would be paid by the public water agencies that use the water it supplies. The cost to end users is anticipated at approximately \$5 per month.

The Fix is intended to increase the reliability of water supplies through the Bay Delta via the State Water Project. The California Department of Water Resources and US Bureau of Reclamation released a revised biological assessment in July and an incidental intake permit application last month. The plan proposes the construction of two 45-mile long tunnels and three intakes on the Sacramento River and may produce an average annual yield of 4.9 million acre-feet.

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