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Fitch: Southern California Wildfires Unlikely to Affect U.S. Public Finance Credit Quality.

Fitch Ratings-San Francisco-20 December 2017: As with the October 2017 wildfires in northern California, Fitch Ratings sees no immediate credit impact on U.S. public finance credits from the Southern California wildfires which continue to rage in Ventura and Santa Barbara Counties. However, Fitch believes there could be short-term budgetary pressure for the most impacted governments.

Fires this month have impacted communities in Los Angeles, San Diego, Santa Barbara and Ventura counties. All except the Thomas Fire in Ventura and Santa Barbara counties are under control. The Thomas Fire started on Dec. 4 near the city of Ventura but has moved northwest into Santa Barbara County. As of Dec. 20, the blaze has burned over 272,000 acres.

The Thomas fire appears to be largely in the Los Padres National Forest and, as a result, about 1000 structures have been destroyed compared to over 3,000 structures, mostly homes, in the Napa, Sonoma and Mendocino county fires which destroyed over 200,000 acres in aggregate. Nevertheless, with 55% contained and possibility for continued dry and windy conditions, the final outcome could be different. Full containment is not expected until Jan. 8, over two weeks from now.

As with most natural disasters, Fitch believes the fiscal impact of the fires on rated entities in Ventura and Los Angeles counties will be largely mitigated by their financial flexibility and support from federal and state governments and private insurance policies. The local governments affected by the fires are likely to use a combination of federal relief funds, state support and insurance claims to pay for most fire-related damage. The Dec. 5 federal disaster declaration for the State of California enables individuals and local governments to seek individual assistance from the federal government. According to FEMA's website, the declaration applies only to the Thomas fire in Ventura and Santa Barbara counties.

Fitch maintains an 'AA+' Issuer Default Rating (IDR) on Ventura County (population of 849,000), which incorporates an 'aaa' financial performance assessment based in part on its substantial available liquidity. Fitch expects near-term budgetary fire-related impacts due to assessed valuation (AV) declines and the added cost of fire-fighting and clean-up. However, the county is part of a very large and diverse regional economy that Fitch believes should begin to recover promptly once the fires have been put out. Overall, we expect most damaged property in affected communities to be rebuilt, which will maintain tax bases, rather than residents and businesses leaving the areas. While we expect recovery efforts to follow historical patterns of disaster recovery, we will analyze any significant developments that might affect credit quality.

In addition to damage to residential properties, the fires have reportedly damaged avocado and lemon groves, but it is too soon to estimate the extent of the damage. According to the county's most recent crop report (2015), the total value of agricultural production in the county was \$1.36 billion, with avocados and lemons combined representing about one third. Damaged trees could affect future years' output, though they would be eligible for crop insurance. However, the county's

revenues are concentrated in property taxes (about 33% of general fund revenues) and intergovernmental sources (43%), so any material impact of the fires on the county's financial operations would be due to lower AV. This is likely to be temporary as owners rebuild damaged property, although it could be more extended for agricultural property. The breakdown of AV by land use was not immediately available.

No Fitch-rated public schools were reported as damaged due to the fires. However, a number of local school districts have been forced to temporarily close due either to fire damage or very poor air quality, including Hueneme Elementary School District (IDR 'AA-/Stable Outlook) State law provides for school districts to be held harmless for impacts to attendance (on which state funding is based) due to natural disasters, including air quality.

Smaller fires broke out at the same time but have been largely contained: the Lilac fire in San Diego County (population of 3.3 million) burned 4,100 acres and damaged 157 structures, including a number of mobile homes. The Skirball fire in Bel-Air (Los Angeles County, population over 10 million) burned 422 acres and damaged or destroyed 18 acres. The Sylmar Fire (Los Angeles County) burned about 15,600 acres, and damaged or destroyed about 200 structures. The Rye fire near Santa Clarita (Los Angeles County) burned over 6,000 acres and six structures.

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