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Fitch Rtgs: Latest CA Wildfires Highlight Natural Disaster Risk for Remote Areas

Fitch Ratings-San Francisco-16 November 2018: Similar to past wildfires, Fitch Ratings sees no immediate credit impact on Fitch-rated U.S. public finance credits from the current California wildfires, which are ongoing both in Northern California in Butte County and Southern California in Ventura and Los Angeles Counties.

The primary areas affected by the latest fires are in Butte County (Camp Fire) and in and around the city of Thousand Oaks in Ventura County as well as adjacent areas of Los Angeles County (Woolsey Fire). The Camp Fire has burned over 142,000 acres and was reportedly 45% contained as of Nov. 16. The Woolsey Fire has burned over 98,000 acres and is 69% contained.

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 federal government declared a federal disaster on Nov. 12.

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. Economic damage, such as lost tourism income, and crop damage and lost revenue due to school closures, is likely to be temporary and followed by significant increases in economic activity as communities rebuild after fires or waived by the state in the case of lost school revenue due to fewer school days.

Individuals and local governments can seek assistance from the federal government. In addition, the state of California's fiscal 2019 enacted budget includes \$2.3 billion in the state's fund for economic uncertainty which can be tapped for unexpected events such as natural disasters. Despite the state and federal assistance available, the recurrence of wildfires in certain parts of the western states does point to the need to maintain reserves for economic or capital emergencies. Once federal and state assistance ends, if an isolated community such as Paradise does not rebuild, the reduction in tax revenues could cause an ongoing mismatch between revenues and expenditures.

Fitch does not rate any entities in Butte County; however, the devastation in Paradise points to the inherent asymmetric risk of natural disasters in smaller, remote areas where a single incident can devastate such a large proportion of a local or regional economy. The fire has reportedly destroyed over 90% of residences and 50% of the businesses in Paradise. The lost housing makes up about 10% of the entire county's housing stock. It is not clear if/when residents will be able to return and how many businesses will decide to remain.

Ventura County (Issuer Default Rating (IDR) 'AA+'), located north of Los Angeles County, is a mix of suburban, rural, tourism, military and agriculturally-oriented communities and had a 2017 population of over 850,000. Fitch expects any near-term budgetary fire-related impacts due to assessed valuation (AV) declines and the added cost of fire-fighting and clean-up to be manageable relative to the county's roughly \$1 billion general fund budget. Given its location within the greater

Los Angeles metropolitan area, Fitch expects most damaged property in affected communities in Ventura County to be rebuilt, which will maintain tax bases, rather than residents and businesses leaving the area.

Conejo Valley Unified School District ('A+'IDR/'AAA' 2018 general obligation bonds) is located in Thousand Oaks where the Woolsey Fire started. The district has closed all schools until Nov. 26 and reports that while no schools sustained any structural damage, all require some level of restoration and/or cleaning.

The following school districts were closed for one or more days due to air quality but are now all reopened:

- Hueneme Elementary School District ('AA-' IDR);
- Mesa Union School District ('AA' IDR);
- Simi Valley Unified School District ('A' IDR/'AAA' 2016 and 2017 GO bonds);
- Oxnard Union High School District ('AA-' IDR).

On Nov. 9, Tom Torlakson, the state's superintendent of public education announced that state assistance is available for any schools forced to close. State law allows local educational agencies to apply for a waiver to hold them harmless from the loss of Local Control Funding Formula (LCFF) funding based on attendance and state instructional time penalties, if they have to close because of a natural disaster such as floods, fires, or earthquakes.

On Nov. 16, schools, universities and other facilities throughout the Sacramento and Bay Areas are closed to due unhealthy air quality.

For more information on environmental risk considerations in Fitch's ratings, please see "Environmental Risk in U.S. State and Local Government Ratings" at <https://www.fitchratings.com/site/re/10031874>.

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