

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: California Water Rules to Create Winners and Losers.

Fitch Ratings-New York-22 September 2014: Legislation signed by the governor of California last week will benefit municipal water agency credits in the long-term by stabilizing supply and raising drought resiliency, Fitch Ratings says. However, the 10- to 20-year phase-in of the requirements comes too late to mitigate the supply pressures caused by the current severe drought and could hurt ratings of agricultural water agencies in the state in the mid-term.

The legislation requires local agencies to create and adhere to plans for sustainable groundwater management to battle chronic overdraft conditions. It creates agencies with the authority to require reductions in pumping and charge fees to support groundwater projects.

The long-term implementation of this legislation will not change existing supply pressure on California's water credits, but it should be positive for urban water providers in the long term. The new rules create incentives for California water agencies to invest in alternative water supplies like groundwater recharge, maximizing usage of surface water rights, conjunctive use, waste water recycling, and conservation. These investments will boost debt levels and water bills but will be more than offset for most issuers by supply reliability improvements. If well implemented, the legislation also will lower the risk that water agencies investments in stable supplies will be negated by overuse by neighboring communities through unadjudicated basins.

Over the long term, Fitch believes the legislation will pressure some agricultural water agencies by forcing some farmland out of production, weakening customer bases. The legislative call to more effectively manage groundwater will raise the value of the agricultural water agencies' services and stimulate investments in sustainable supplies. However, adapting to these changes will be very difficult for those that lack rate setting flexibility. We expect pressures on them to emerge sooner.

Fitch does not expect the legislation to have widespread impact on tax-supported credit ratings, even in heavily agricultural regions. While some agricultural land may be lost, it generally produces small amounts of tax revenue. Fitch also believes the impact of loss of agricultural jobs is likely to be very gradual and would be masked by broader cyclical economic factors in all but the smallest, most narrow agricultural economies that tend to lack public bond ratings.

The groundwater legislation continues a long tradition of state water policymaking in which droughts force the state and its local water agencies to make major investments in long-term supply reliability. In our view these investments are among the main reasons the current extreme drought impact has had little impact on credit ratings. However, the potential for greater impacts remains as the drought lingers.

Contact:

Andrew Ward
Director
U.S. Public Finance
+1 415 732-5617

650 California Street
San Francisco, CA

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com