

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: CA Court Decision Limited, May Pressure a Few Utilities.

Fitch Ratings-New York-28 April 2015: A court ruling reinforcing the requirement that California water utilities link their tiered fees to the cost of providing water may reduce revenue and increase compliance costs slightly for a few but will likely have limited credit impact, Fitch Ratings says.

Nearly all Fitch-rated water utilities in the state use tiered water rate pricing. Those that have sufficiently justified their tiered water pricing based on direct cost recovery of capital, conservation programs, higher treatment, and purchased water costs will see limited impacts. However, some may be required to re-examine their rate structures, undergo more rigorous analysis of cost of service, and provide greater rate transparency going forward.

Further, Fitch expects utilities to raise rates to account for the higher cost of providing services and reduced revenues, if they have not already done so, in response to the state's recently announced mandatory 25% reduction in water usage.

California's 4th District Court of Appeal ruled in the case of the city of San Juan Capistrano last week that tiered rates are allowable but must be tied to the cost of service, as required by Proposition 218, passed in 1996.

If a utility's rate structure does not comply with the requirements of Proposition 218 and reiterated by the court ruling, a reduction in revenues is possible. However, that reduction would likely be managed in the following fiscal year through reasonable budget modification as well as a change in rate structure and associated public notice and hearing (a legal requirement for local utilities in the state proposing changes to fees).

California water utilities developed a tiered-fee structure because they use a combination of groundwater, surface water, imported water, recycled water, stored water reserve agreements and brackish groundwater. The costs of these supplies vary widely. Desalination, slated to become a more significant component of the state's water supply mix, will be among the most expensive sources. Tiered rate structures can be used to allocate higher cost supplies to higher usage customers, whose above-average demand has resulted in the need for adding costlier supplies.

Contact:

Kathryn Masterson
Senior Director
U.S. Public Finance
+1 512 215-3730

Shannon Groff
Director
U.S. Public Finance
+1 415 732-5628

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159

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

Additional information is available on www.fitchratings.com.

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com