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California Water District Fined by S.E.C. Over 'Enron Accounting.'

Enron was the huge energy and commodities company whose 2001 collapse revealed one of the largest accounting frauds in corporate history.

The S.E.C. said that Westlands had violated the section of the 1933 Securities Act covering misrepresentation. In a statement that neither admitted nor denied guilt, Westlands said its administrators had cleared the accounting changes with the district's auditor and noted that the settlement did not say the violation was intentional.

Westlands, based in Fresno, supplies irrigation water to a swath of farmland the size of Rhode Island, and its owners effectively control the district. It is the largest customer of the Interior Department's Bureau of Reclamation, which controls the distribution of federal water to farmers.

Westlands has been a powerful player not only in California politics but also in Washington, where it has been an influential voice at the Interior Department and in the development of water legislation in Congress.

Although the S.E.C. charge centers on a 2012 sale of $77 million in bonds, it is rooted in an accounting change two years before that, when the state's long drought had crimped the district's supply of federal water and cut deeply into its income from selling that water to farmers.

Under the terms of earlier municipal-bond sales, Westlands had promised to collect enough fees from its customers that its net revenue would not only pay its annual debt service, but leave a 25 percent cushion.

In 2010, however, the drought-induced dip in water fees had left the district roughly $9.8 million short of that 125 percent requirement — so short that it would be able to cover only 63 percent of its debt service without additional money. That could have led to a downgrade of Westlands's debt rating and to higher borrowing costs.

The straightforward solution would have been to raise the price of its water and other fees — but that would have meant an 11.6 percent price increase for the farmers who controlled the district. Instead, the district took $8.3 million from an account used to pay other expenses and $1.46 million from an account that held money dedicated to another bond issue 11 years earlier.

"We're not collecting any more money from the ratepayers," the S.E.C. settlement quoted Mr. Birmingham telling the district's board. "All we're doing is, we're taking money and saying we are reclassifying it from an account payable to income."

When Westlands sold more municipal bonds in 2012, it assured purchasers that it had met the 125 percent debt-service requirement for the previous five years. In fact, the S.E.C. said, the district not only had run short in 2010, but had changed its accounting methods in 2012 in a way that made the shortfall even greater.

Had it accurately stated its 2010 position, the commission said, it would have told bond buyers that it had only 11 percent of the money needed to service its debt — not 63 percent.

Responding on Thursday to the settlement, Fitch Ratings placed a negative ratings watch on $193.6 million in Westlands debt, indicating a higher chance that those AA bonds would be downgraded. It also placed a negative watch on $29.8 million in bonds issued by the San Luis and Delta-Mendota Water Authority, a collection of California water districts whose leading member and partial financier is Westlands.

THE BOND BUYER

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