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SEC Issues Record Fine to California's Largest Agricultural Water District.

LOS ANGELES—California's sustained drought has set another record, this time with the U.S. Securities and Exchange Commission.

The SEC on Wednesday fined California's largest agricultural water district $125,000 to settle civil charges that it misled investors over its ability to pay debt on a $77 million bond. It is only the second time the SEC has fined a municipal bond issuer and represents the largest fine paid by an issuer.

According to SEC documents, the Westlands Water District, which serves central California, overstated its ability to make payments on a 2012 bond offering as the drought reduced water supply and depressed revenue.

During a 2010 board meeting discussing transactions meant to boost the district's revenue numbers to show investors it could meet its debt obligations, General Manager Thomas Birmingham joked that district officials were engaging in "a little Enron accounting," according to SEC documents.

Mr. Birmingham has agreed to pay a $50,000 penalty, and former Assistant General Manager Louie David Ciapponi has agreed to pay $20,000, the SEC said.

The district and its officials agreed to the settlements without admitting or denying wrongdoing, according to the district and the SEC.

"Westlands, [Messrs.] Birmingham and Ciapponi determined that entering into the settlement to fully resolve the matter was in the District's best interest," according to a statement from the district.

The SEC didn't allege the district or officials "intended to mislead potential purchasers" of the 2012 bond, the district statement said.

California has endured a drought that has pummeled the state and prompted Gov. Jerry Brown to mandate a 25% cut in water use in urban areas.

The Westlands Water District supplies water to more than 700 family-owned farms in western Fresno and Kings counties that produce $1 billion in crops each year, according to the district.

The district pulls water from the Sacramento-San Joaquin Delta and the San Luis Reservoir. According to the district's website, the total water available "is about 13% short" of what's needed to "to water the entire irrigable area" in the district.

The district assured investors it could still generate revenue equal to 125% of its debt-service payments, known as a debt coverage ratio. Investors use those assurances to make decisions about purchasing bonds. Failing to meet a debt covenant could put an issuer in technical default and drive up the cost of borrowing.

SEC investigators said Westlands “failed to disclose it had engaged in extraordinary accounting transactions” in 2010 to meet its debt coverage ratio without raising rates on customers.

District projections showed it would be about $10 million short of maintaining its ratio for fiscal year 2010, according to SEC documents.

“Westlands learned in 2010 that drought conditions and reduced water supply would prevent the water district from generating enough revenue to maintain” its debt ratio, according to an SEC statement.

To make up the difference the district reclassified cash from reserve and other accounts “to record additional revenue,” SEC documents say.

Before making the transactions, the district “consulted with its independent auditor,” who believed they were permissible, according to the district’s statement.

The transactions “benefited customers but left investors in the dark about Westlands Water District’s true financial condition,” said Andrew J. Ceresney, director of the SEC Enforcement Division.

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