

## **Fitch Rates Mesa Consolidated Water District's \$16MM Refunding COPs 'AA'; Outlook Stable**

AUSTIN, Texas--([BUSINESS WIRE](#))--Fitch Ratings assigns an 'AA' rating to Mesa Consolidated Water District's (the district) \$15.8 million refunding certificates of participation (COPs), series 2009. The certificates will refund the district's outstanding 1998 COPs. The certificates are secured by a senior lien on net revenues of the district and have a 1.15 times (x) rate covenant, 1.15x additional bonds test and fully funded debt service reserve. The certificates are expected to sell via a negotiated sale the week of July 30, 2009. The Rating Outlook is Stable.

The 'AA' rating reflects the district's strong financial performance in terms of annual debt service coverage (ADS) and liquidity, low debt levels even with estimated future debt issuances, good management practices and stable and diverse service area. The rating also considers the district's decreased reliance on imported water and expansion of its Colored Water Treatment Facility (CWTF) to meet long-term needs. Credit concerns include rate affordability driven by rising capital and operating costs, although capital plans in the medium term appear very manageable.

For fiscal 2008, senior lien ADS was a solid 2.2x. Projected ADS coverage is expected to produce strong results as well, averaging 3.8x over the next five years. Liquidity for fiscal 2008 was good with close to 290 days cash on hand. Reserves should continue to remain favorable over the next several years given forecasted surplus revenues surpass anticipated annual pay-as-you-go capital funding. The district also maintains adequate rate flexibility to absorb additional capital spending with the average monthly bill equaling just \$48, a moderate 0.8% of median household income.

Management practices of the district are good. The district has raised rates as needed, while maintaining a healthy balance between rate affordability and capital infrastructure renewal and replacement needs. In addition, the district's usage charge is comprised of five components designed to cover specific costs: water supply, water quality, water system, capital improvements and energy. The components are evaluated annually or as conditions change.

Lastly, the district is currently in the process of revising its reserve policies to ensure adequate financial margins and increase its rate covenant and additional bonds test from 1.10x to 1.15x ADS.

The district serves over 114,000 people in Orange County, including the Cities of Costa Mesa and Newport Beach. Water supply is a mix of groundwater, imported, and recycled water. Groundwater wells are capable of producing 100% of supply to meet demand, if necessary. The wells are located within the Orange County groundwater basin, which is non-adjudicated but managed by the Orange County Water District (OCWD). OCWD establishes a basin pumping percentage (BPP) of water supply from the basin and imposes a replenishment assessment (RA) fee on every acre-foot of groundwater pumped from the basin as well as an additional RA (ARA) per acre-foot for purveyors exceeding the BPP. With rainfall and snowpack continuing at below average levels, OCWD has been reducing the BPP in recent years, forcing users to increase their use of costlier imported water supplies or pay ARAs. While the district is required to pay the replenishment assessment fee for groundwater pumped up to the BPP, it is exempt from paying the penalty for pumping in excess of the BPP if the additional supply is pumped from the lower aquifer, which contains colored water.

The CWTF was constructed to treat this colored water for clarity and mild odor; the CWTF currently has a capacity equal to around 5.8 million gallons per day (sufficient to meet the annual consumptive needs of over 30,000 people). The district is evaluating changing the technology and expanding the CWTF as these improvements would allow the district to eliminate its use of imported supplies. Currently, supplemental potable water accounts for 15% of the district's water supply, down from over 50% in 2006. The district plans to reduce imported water supplies to 0% by fiscal 2012.

The district's 2009-2011 capital improvement plan (CIP) currently totals a manageable \$11 million and is expected to be funded entirely by surplus revenues. An additional \$11-\$14 million for expansion of the CWTF is expected to be added to the CIP within the next one to three years once costs are known; the expansion is anticipated to be primarily debt financed. Debt ratios compare very favorably with comparable ratings, with total outstanding long-term debt per customer at around \$740 for fiscal 2008 versus the 'AA' category median which nears \$1,290. Projected debt per customer over the next five

years is also expected to remain below the 'AA' medians, even assuming issuance of debt for the CWTF expansion. Amortization is well above average for the sector with principal payout at 97% and in 10 years.

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