

Rating Action: Moody's assigns Aa1 to Metropolitan Water District of Southern CA's water revenue refunding bonds, 2021 Series B; outlook stable

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New York, June 11, 2021 -- Moody's Investors Service has assigned a Aa1 rating to the Metropolitan Water District of Southern California's Water Revenue Refunding Bonds, 2021 Series B. The bonds will be issued for an estimated par amount of \$96.97 million. Moody's maintains a Aa1 rating on Metropolitan Water District of Southern California's ("MWD") \$2.6 billion in outstanding parity senior lien water revenue bonds and a Aaa rating on MWD's \$26.8 million in outstanding general obligation unlimited tax (GOULT) debt. In addition, MWD has close to \$1.4 billion outstanding subordinate lien water revenue bonds that are not rated by Moody's. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating reflects MWD's immense service area that includes over 300 cities across six counties within southern California. Despite California's severe drought, which is primarily impacting northern California and Central Valley areas, MWD does not currently expect negative impacts on its ability to meet water demands or maintain sound financial performance due in large part to robust levels of stored water. MWD's ongoing efforts to increase water storage and facilitate interstate agreements to ensure reliable supplies in the face of climate change are indicative of its strong management practices and support the favorable rating. MWD has sufficient water in storage, in excess of emergency supplies, to withstand a multi-year drought period, offsetting risks associated with variable hydrologic conditions. Over the past winter, largely as a result of additions to stored water in Lake Mead from the Colorado River, MWD successfully increased its stored water despite system precipitation levels that fell below long-term averages for the second consecutive year.

MWD's multi-year planning also serves to ensure consistent finances with sound debt service coverage and liquidity levels. Financial performance is enhanced by adopted policies, the availability of a rate stabilization reserve and measured, deliberate and consistent rate management. The rating also incorporates MWD's relatively high degree of leverage, with a balanced portfolio and favorable management of variable rate obligations and swap agreements.

RATING OUTLOOK

The stable outlook reflects our expectation that MWD will maintain sound financial performance with consistent debt service coverage and liquidity levels despite the long-term challenge of meeting the water demands of a growing population, the increasing cost pressures of regulatory requirements, and environmental risks that will reduce the reliability of available water supplies.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Material and sustained increase in debt service coverage and liquidity
- Long-term alleviation of water supply pressure including sustained growth in stored water supply and development of alternative water reuse projects

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Significantly weakened debt service coverage
- Prolonged drought period that significantly reduces available supplies
- Capital costs required to meet future supply or environmental requirements that significantly weaken financial performance

LEGAL SECURITY

MWD's revenue bonds are special limited obligations payable and secured solely from net operating revenues on parity with outstanding senior lien parity obligations. There is no reserve fund associated with the 2021

Series B bonds.

USE OF PROCEEDS

The 2021 Series B bonds will refund on a current basis \$127.8 million in outstanding par amount of MWD's 2011C, 2014C-3, and 2017B bonds for estimated net present value savings of close to \$22.3 million (17.4%) with no extension of debt service.

PROFILE

Comprising 26 member agencies including 14 cities, 11 municipal water districts and one county water authority, MWD serves as a water wholesaler to a 5,200 square mile service area with over 19 million residents. MWD provides supplemental water to its member agencies that represent a critical portion of the members' water supply mix, with these supplies projected to represent roughly 50% of member agencies' water supplies over at least the next 25 years. While member agencies continue to develop their own water supplies from recycled and desalination supplies, reliance on MWD remains stable and in some cases will increase as a result of water quality regulations, underscoring the essentiality of MWD water to the region. The district serves exclusively as a wholesale supplier, with no direct retail customers.

METHODOLOGY

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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