S&P Global
Ratings

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Summary:

Southern California Metropolitan Water District; General Obligation; Water/Sewer

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Credit Profile		
US$187.64 mil subordinate wtr rev rfdg bnds ser 2017 B dtd 07/03/2017 due 08/01/2022		
Long Term Rating	AA+/Stable	New
US$95.65 mil subordinate wtr rev rfdg bnds ser 2017 E dtd 07/03/2017 due 07/01/2037		
Short Term Rating	A-1+	New
US$95.65 mil subordinate wtr rev rfdg bnds ser 2017 D dtd 07/03/2017 due 07/01/2037		
Short Term Rating	A-1+	New
US$80.0 mil subordinate wtr rev bnds ser 2017C dtd 07/03/2017 due 07/01/2047		
Short Term Rating	A-1+	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the Metropolitan Water District of Southern California's (MWD, or the district) $187.6 million of 2017 series B subordinate water revenue refunding bonds (fixed-rate refunding bonds) and its 'A-1+' short-term ratings to the district's $80 million of 2017 series C subordinate water revenue bonds (index interest rate period), $95.7 million of 2017 series D subordinate water revenue refunding bonds (index interest rate period), and $95.7 million of series E subordinate water revenue bonds (index interest rate period). Because the scheduled purchase date for the 2017 series C, D, and E index tender bonds occur in less than 13 months, in accordance with our criteria, we are assigning a short-term rating to each of these series of bonds.

At the same time, we affirmed our ratings on MWD's existing revenue bonds, including:

- 'AAA' long-term rating and underlying rating (SPUR) on MWD's senior-lien bonds,
- 'AA+' long-term rating on MWD's subordinate-lien bonds, and
- 'A-1+' short-term rating on MWD's senior lien self-liquidity bonds (variable rate bonds without bank enhancement).

The outlook, where applicable, is stable.

The 'AAA' SPUR reflects our view that Southern California's continued dependence on MWD for water will likely remain strong, and that MWD's ability to supply needed water is critical to the health of the Southern California economy, creating a large political incentive to meet future water demand. Our rating also considers MWD's ability to draw water supplies from the Colorado River, the State Water Project, stored water, and supplemental water transfers to keep supplies and regional demands in balance. Management projects lower than budgeted water sales in fiscal 2017 as a result of the extremely wet weather conditions in California through this winter, however, MWD continues to exhibit good-to-strong financial performance, in our opinion.

We understand the court of appeal date in "San Diego County Water Authority (SDCWA) v. Metropolitan Water

District of Southern California, et al." occurred on May 10, 2017, and the court of appeal has 90 days to issue a ruling. If the courts ultimately rule against MWD, we would expect MWD to develop a funding plan which may result in the issuance of revenue debt, the use of existing cash reserves, or implementation of future rate adjustments to replenish any payments made to SDCWA under the ruling. In fiscal 2016, SDCWA was the district's largest water customer, representing 28.7% of MWD's water sales and 23.2% of MWD's water revenues; as the ruling relates to MWD's cost allocation methodologies in prior years, in our view, it is unknown how the ruling would MWD's future water sales, if at all.

As of April 10, 2017, MWD's water sales forecast for fiscal 2017 is 1.56 million acre-feet, 137,000 acre-feet under budget. The district's financial projections for fiscal 2017, based on preliminary financial results through March 31, 2017, and revised projections for the balance of fiscal 2017, reflect lower water sales revenues that are estimated to be $139 million, or 11%, below budget, based on the revised water sales projection. Overall projected expenses for the 12 months ending June 30, 2017 are $1.7 billion. This is $175 million, or 9%, less than budgeted expenses.

The combination of lower-than-budgeted water sales revenue and expenses result in projected fiscal 2017 all-in (aggregate senior and subordinate revenue bond) debt service coverage (DSC) to be 1.5x. As calculated by S&P Global Ratings, MWD's all-in DSC was 1.4x in fiscal 2016, down from an extremely strong 2.7x in fiscal 2015. At the same time, we understand MWD is also projecting all-in DSC to decline further to 1.1x in fiscal 2018, which we consider relatively thin for the current rating level, and below board policy. MWD's board policy is to maintain 2.0x annual senior-lien DSC by net operating revenue, which we view as strong, and 1.2x fixed-charge coverage (across both the senior and subordinate liens), which we view as good, especially for a wholesaler.

We base our 'AAA' rating on MWD's revenue base, which is primarily locally derived. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenue. This, coupled with operating expense flexibility, limits exposure to federal revenue.

Series 2017BCDE Plan of Finance

MWD's net operating revenue secures the subordinate series 2017B, C, and D bonds; repayment is subordinate to the debt service on MWD's $3.5 billion aggregate principal amount of senior bonds, which will be outstanding following the subordinate series B, C, D, and E transactions. Any draws on MWD's two short-term revolving credit agreements with U.S. Bank and Royal Bank of Canada, as well as certain potential swap repayments, are also senior to the subordinate-lien bonds.

The bonds will be on parity with $238 million of 2017 subordinate series A bonds and a $175 million direct purchase with Bank of America N.A. There is a 1.0x rate covenant and 1.0x additional bonds test for the subordinate-lien bonds. We view the master subordinate resolution bond provisions to be somewhat permissive. The resolution adjusts the "assumed" debt service for certain "covered obligations" in the rate covenant, such as any principal and interest payments under a revolving credit facility (as long as the facility is outstanding) and any mandatory tender payments of any index tender bonds (or potential variable-rate demand obligations [VRDOs]) to be issued on this lien. At the same time, failure to remarket the bonds on the scheduled mandatory tender date is now considered an event of default. The resolution also revises the assumed interest rate on variable-rate obligations for purposes of the subordinate-lien rate covenant to be equal to the average of the SIFMA municipal swap index for the 12-week period immediately preceding the calculation date.

The subordinate series 2017B, D, and E bonds are being issued to refund a portion of the senior series 2006A and series 2014G-2 bonds for debt service savings, and the senior series 2009A-2, 2011A-1, and 2011A-3 index tender bonds in advance of their scheduled mandatory tender date of July 10, 2017. The subordinate series 2017C bonds will be issued to fund upcoming capital needs of the district.

The subordinate series 2017B bonds are fixed-rate bonds which mature on Aug. 1, 2022. The subordinate series 2017C, D, and E bonds are Securities Industry and Financial Markets Association (SIFMA) index tender bonds, which are expected to be sold on June 20, 2017at a spread above the SIFMA Index. The series 2017C, D, and E bonds are expected to be sold with a call protection date and scheduled purchase date within 13 months of pricing, and a nominal final maturity ranging between July 1, 2033 and July 1, 2047.

A failed remarketing of the series C, D, and E index tender bonds would most likely occur as a result of something exogenous in the financial markets, unrelated to the credit quality of the district. We understand that if MWD can't cover any mandatory tenders with the proceeds of the remarketing of the index tender bonds, MWD would refund the bonds before the scheduled mandatory tender date, requiring future market access, or by temporarily drawing on available reserves of the district. MWD may also use available capacity (currently about $138 million) under its U.S. Bank and Royal Bank of Canada revolving credit agreements for this purpose. We understand MWD is currently evaluating the need for an additional draw of $50 million on these facilities (which are expected to be deposited in the district's unrestricted financial reserves if made) which would lower the available capacity to about $88 million.

MWD has historically held a strong liquidity position in part to serve as a natural hedge against its variable-rate debt exposure. MWD's total unrestricted reserve position (which consists of the Water Rate Stabilization Fund and the Revenue Remainder Fund) at the end of fiscal 2016 was $475 million, equivalent to 144 days' cash, down slightly from the prior-year balance of $485 million. We understand the district does not plan to spend down its cash reserves, and we view strong reserves (and the maintenance of the dedicated credit facilities) as necessary if the district can't refund or remarket (or is unsuccessful in doing so) the $315 million of senior-lien self-liquidity weekly VRDOs or $616 million of senior (and subordinate) index tender bonds. In addition to the $80 million of new money subordinate series C bonds to be sold next month, there are currently $536 million in total index tender bonds outstanding, including the $337 million to be refunded onto the subordinate lien as part of the subordinate series 2017 B, D, and E transactions.

Outlook

The stable outlook reflects our view that MWD will continue to take steps to reduce market access risk well in advance of the next scheduled purchase date for the subordinate series 2017 C, D, and E index tender bonds. The outlook additionally reflects our anticipation that MWD will raise rates sufficiently to manage through its capital needs during the next five years, as well as funding any possible settlement costs associated with the SDCWA ruling (if the court rules against the district). We could lower the rating or revise the outlook to negative in the unlikely event that MWD's DSC or liquidity position significantly deteriorate, or damages ultimately paid to SDCWA (if any) significantly exceed management's current estimates.

Ratings Detail (As Of June 13, 2017)		
Southern California Metro Wtr Dist wtr		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist spl var rate wtr rev rfdg bnds		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Southern California Metro Wtr Dist subordinate wtr rev rfdg bnds ser 2017 A dtd 06/01/2017 due 07/01/2027		
Long Term Rating	AA+/Stable	Affirmed
Southern California Metro Wtr Dist var rate wtr rev rfdg bnds		
Long Term Rating	AAA/A-1/Stable	Affirmed
Southern California Metro Wtr Dist var rate wtr rev rfdg bnds		
Long Term Rating	AAA/A-1/Stable	Affirmed
Southern California Metro Wtr Dist water rev rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist wtrwks GO rfdg bnds ser 2014A dtd 12/11/2014 due 03/01/2016-2021		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist wtr rev bnds ser 2017A due 06/30/2046		
Long Term Rating	AAA/A-1/Stable	Affirmed
Southern California Metro Wtr Dist wtr rev bnds (2008 Authorization) due 07/01/2024		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist wtr rev rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist wtr rev rfdg bnds		
Short Term Rating	A-1+	Affirmed
Southern California Metro Wtr Dist wtr rev rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist wtr (FGIC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of June 13, 2017) (cont.)		
Southern California Metro Wtr Dist WTRSWR		
Long Term Rating	AAA/Stable	Affirmed
The Metropolitan Water District of Southern California, Water Revenue Bonds, 2000 Authorization, Seriew B-3		
Long Term Rating	AAA/A-1/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.