Summary:
Southern California Metropolitan Water District; General Obligation

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Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Southern California Metropolitan Water District's (MWD) general obligation (GO) refunding bonds and affirmed its 'AAA' rating on the district's GO bonds outstanding. The outlook is stable.

The rating reflects our view of the district's:

- Broad service area economy that covers multiple counties in Southern California;
- Extremely large tax base, with extremely strong market value per capita;
- Very strong liquidity; and
- Moderate debt burden.

Unlimited ad valorem taxes levied on taxable property (except certain personal property, which is taxable at limited rates) within the district secure the GO bonds.

The MWD is the primary wholesaler of water to 26 member agencies in Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties in Southern California. The district, with an estimated population of 18.4 million, covers a very large, 5,200-square-mile service area and provides 40% to 60% of the water within its service area, depending on water conditions.

Recessionary pressures did impact the district's tax base moderately, but due to a rebounding market assessed value (AV) grew by 4% and 6% for fiscal 2014 and fiscal 2015, respectively, to reach $2.3 trillion, or $125,812 per capita, which we consider extremely strong. Los Angeles County represents about 48% of the district's total AV; Orange County represents 20%; San Diego County represents 17%; and Riverside, Ventura, and San Bernardino counties each represent 6% or less. In our view, median household income levels for the counties in the district are generally average to above average, and Los Angeles County's median household effective buying income was 107% for 2013, which we consider good.

The overall net debt burden is 3.2% of market value, which we consider moderate. Overall net debt excludes about $4 billion of the district's water revenue bonds outstanding as of Nov. 1, 2014. There is no authorized unissued GO debt,
and additional authorization would require two-thirds voter approval. Management informed us it currently has no plans to issue additional GO debt.

MWD's board policy is to maintain 2x annual debt service coverage (DSC) by net operating revenue, which we view as strong, and 1.2x fixed-charge coverage, which we view as good, especially for a wholesaler. With the full effect of recent rate increases, the district reported DSC of 2.5x and fixed-charge coverage of 2.1x for fiscal 2014. Economic conditions, water supply restrictions, and conservation pushed DSC to less-than-policy levels in audited fiscal years 2008 through 2012; however, DSC during this period remained strong, between 1.5x and 1.8x. Rate increases and stronger demand as a result of reduced rainfall and snowpack have since led to stronger water demand, which led to 2.4x and 1.8x DSC and fixed charge coverage, respectively, in fiscal 2013. Fixed-charge coverage includes an analysis of fixed State Water Project capital costs. The total reserve position strengthened to $536 million, or 247 days of operations, in fiscal 2013, largely because of increased water sales.

For more information on the district's operations, see the revenue bond ratings report published July 8, 2014, on RatingsDirect.

**Outlook**

The stable outlook reflects our view of the district's deep tax base and strong financial profile, and the unlikelihood of additional GO issuances. We do not anticipate lowering the rating during the current two-year outlook time frame given the exceptional depth of the district's six-county regional economy and our opinion that MWD will be able to manage its supply to meet long-term rising demand while maintaining its very strong financial position.

**Related Criteria And Research**

**Related Criteria**

- USPF Criteria: GO Debt, Oct. 12, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.