

## **FITCH AFFIRMS SAN JUAN WATER DISTRICT, CA'S REVS AT 'AA+'; OUTLOOK STABLE**

Fitch Ratings-San Francisco-30 June 2011: In the course of routine surveillance, Fitch Ratings has affirmed its 'AA+' rating on the following San Juan Water District, CA (the district or SJWD) water revenue certificates of participation (COPs):

--\$30.1 million series 2009A COPs; and  
--\$17.9 million series 2003.

The Rating Outlook is Stable.

### **RATING RATIONALE:**

--The district provides essential services to a sizeable suburban service area as a retail and wholesale water provider.  
--The district's financial performance has been consistently strong with solid debt service coverage and ample liquidity maintained through a period of economic recession and declining water demand.  
--The district has consistently raised rates to maintain strong financial performance.  
--The debt burden is quite low, and the district has no further bond issuance plans.  
--The current capital improvement plan is manageable and will be funded on a pay-as-you-go basis.  
--Water supply appears adequate to meet the future needs of a largely built-out service area.  
--While the Sacramento regional economy is suffering a deep cyclical economic downturn, the district's service area has above-average incomes and appears to be weathering the downturn better than the region.

### **KEY RATING DRIVER:**

--Continued strong financial performance with solid debt service coverage and ample liquidity.

### **SECURITY:**

The certificates are secured by installment purchase payments from the district to the San Juan Suburban Water District Financing Corp. Installment payments are an absolute and unconditional obligation of the district and backed by a pledge of net water revenues after payment of operating and maintenance expense.

### **CREDIT SUMMARY:**

The SJWD provides retail and wholesale water services to 196,000 residents in a 46-square-mile suburban service area, located next to Folsom Lake about 25 miles northeast of downtown Sacramento. The district has significant rights to water from the American River, which feeds the lake, California's ninth largest reservoir. SJWD provides retail services to 10,400 accounts and wholesale services to the Citrus Heights Water District, Fair Oaks Water District, Orange Vale Water Co., and the city of Folsom. The district's service area is largely residential and nearly fully built out.

SJWD's financial performance has been strong in recent years, despite a deep economic recession and a sharp drop in water sales. Debt service coverage (net revenues available for debt service divided by debt service) averaged a very strong 3.05 times (x) over the past three fiscal years (2008 to 2010), and coverage was a solid 2.4x in fiscal 2010. The district forecasts that coverage will be 1.8x or better over the next five fiscal years. Coverage is expected to dip below 2.0x for two years amid a temporary jump in debt service obligations in fiscal years 2012 and 2013.

The district's operating revenues have grown gradually in recent years, although the volume of water sales has declined substantially amid conservation efforts and economic weakness. Rising water rates and a significant fixed component of charges have largely offset variable demand

conditions. The district raised retail rates by an average of 6.7% in the last four years through fiscal 2011. While significant, the rate increases helped the district maintain financial performance as water consumption declined more than 20% from fiscal 2008 to 2010. Retail water bills appear affordable at about 0.6% of median household income, suggesting some rate flexibility remains. The district expects smaller rate increases going forward with no increase in fiscal 2012 and 3% increases thereafter.

SJWD also has significant financial reserves and healthy liquidity. Days operating cash has averaged a strong 336 days over the last three fiscal years. Unrestricted cash and investments declined to just \$6.6 million, or 193 days cash, at the end of fiscal 2010 due to a significant, nonrecurring pension payment which will save the district money over time. The district expects to replenish the cash by the end of fiscal 2011 with days cash projected to rise to 325.

The district also maintains significant reserves to support its ongoing capital improvement program (CIP). Various capital reserve funds - largely funded from excess operating revenues - are expected to have balances of about \$20.4 million at the end of fiscal 2011, allowing the district to maintain an active CIP with no immediate plans for more borrowing. The district has regularly maintained and improved its infrastructure with capital expenditures regularly outpacing depreciation.

The debt burden is quite low at just \$706 per customer and \$253 per capita. With no further borrowing planned, the debt ratios will fall to \$591 per customer and \$212 per capita in five years. Amortization of the district's outstanding debt is slow with just 22% repaid in 10 years and 53% repaid in 20 years.

The district benefits from its location in the large Sacramento metropolitan statistical area, but the regional economy is currently in a deep cyclical downturn due to a sharp contraction in the residential real estate market and budget cuts that have reduced the pay of state workers through unpaid furloughs. The region's unemployment rate was significantly above the national average at 12% in April 2011. The district's service area includes several cities with very high median household incomes and lower unemployment rates, although full income and employment data do not exist for the district as a whole. The district tax base has been relatively resilient with just a 1.3% drop in assessed value between 2008 and 2010, further suggesting it has been less hard hit by the regional downturn than other communities in the region.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'

In addition to the sources of information identified in Fitch's Water and Sewer Revenue Bond Rating Guidelines, this action was additionally informed by information from Creditscope and IHS Global Insight.

Applicable Criteria and Related Research:

- 'Revenue-Supported Rating Criteria', dated June 20, 2011;
- 'Water and Sewer Revenue Bond Rating Guidelines', dated Aug. 6, 2008;
- '2010 Water and Sewer Medians', dated April 6, 2010;
- '2010 Water and Sewer Sector Outlook', dated Feb. 10, 2010.

For information on Build America Bonds, visit [www.fitchratings.com/BABs](http://www.fitchratings.com/BABs).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=637130](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130)

Water and Sewer Revenue Bond Rating Guidelines

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=395918](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=395918)

2010 Water and Sewer Medians

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=509146](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=509146)

2010 Water and Sewer Sector Outlook

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=499482](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=499482)

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