



Finance and Insurance Committee

# CFO Report

Item 7a  
June 13, 2022

Bond  
Ratings are  
an Essential  
Component  
of Investor  
Credit  
Review

## Metropolitan Bond Credit Ratings

- As a part of our debt issuance process, we seek bond credit ratings from one or more nationally recognized credit rating agencies
- Metropolitan has ratings from
  - Standard & Poor's (S&P)
  - Moody's
  - Fitch
- The current drought and Climate Change broadly has posed a difficult credit obstacle

# Metropolitan's Current Bond Ratings Affirmed

Rating Agency	Metropolitan Lien and Mode	Rating Assigned	Rating Outlook
<b>S&amp;P Global Ratings</b>	General Obligation Bonds	AAA (highest)	Stable
	Senior Lien – Long-Term Bonds	AAA (highest)	Stable
	Subordinate Lien – Long-Term Bonds	AA+	Stable
	Short-Term Obligations – Senior and Subordinate Liens	A-1+ (highest)	Stable
<b>Moody's Ratings</b>	General Obligation Bonds	Aaa (highest)	Stable
	Senior Lien	Aa1	Stable
<b>Fitch Ratings</b>	General Obligation Bonds (2014A)	AA+	Stable
	Senior Lien and Subordinate Lien	AA+	Stable
	Short-Term Obligations	F1+ (highest)	Stable

# Key Credit Rating Highlights: S&P

Rating Agency	Rating Rationale	Rating Upgrade Factors	Rating Downgrade Factors
<b>S&amp;P Global Ratings</b>  <b>AAA (Senior Lien)</b>	<ul style="list-style-type: none"> <li>District's comprehensive resource planning, well-defined risk management practices and financial policies are cornerstone to its credit quality</li> <li>Management's prudent approach to mitigating the short and long-term credit risk associated with Climate Change and related water shortages</li> <li>District's ability to maintain steady financial metrics despite variability in water sales is a key credit strength</li> <li>Strategic importance of District to both its member base and service area economy--even as Southern California faces its third year of severe drought, which water officials believe may prove to be the state's driest year on record</li> </ul>	Not Applicable	<p>Not continuing emergency measures to bolster interconnections between SWP-dependent areas to infrastructure that would provide access to other supplies</p> <p>Not adjusting rates to maintain consistently strong financial performance</p> <p>Material underperformance to forecast</p> <p>District's policies and practices no longer support strong liquidity and DSC levels</p>

# Key Credit Rating Highlights: Moody's

Rating Agency	Rating Rationale	Rating Upgrade Factors	Rating Downgrade Factors
<b>Moody's Ratings</b>  <b>Aa1 (Senior Lien)</b>	<ul style="list-style-type: none"><li>• Consistent, annual rate increases</li><li>• Satisfactory Debt Service Coverage (DSC) and Liquidity</li><li>• Lowest-priced alternatives for water supplies in the region</li><li>• Strong management practices, particularly with respect to efforts to increase storage, facilitate interstate agreements and develop water-reuse capabilities in the face of climate change impacts</li></ul>	Long-term alleviation of water supply pressure (storage and water reuse)  Material and sustained increase in DSC and Liquidity	Continued drought conditions that strain supplies, stored water  Weakened financial performance and key metrics, including DSC, Liquidity and erosion of tax base

# Key Credit Rating Highlights: Fitch

Rating Agency	Rating Rationale	Rating Upgrade Factors	Rating Downgrade Factors
<b>Fitch Ratings</b>  <b>AA+ (Senior Lien)</b>	<ul style="list-style-type: none"> <li>• Very low debt service leverage (Debt/Net Revs)</li> <li>• Strong revenue defensibility, which includes independent rate-setting ability, fixed and variable revenues vs. fixed and variable costs</li> <li>• Manageable operating risk profile, which includes ability to control certain costs (e.g., O&amp;M, CIP)</li> <li>• Recognized significant regional demand for the District's water supply, which cannot be easily replaced</li> </ul>	<p>Sustained debt service leverage below 5.0x in Fitch's based and stress cases, assuming stability in the revenue defensibility and operating risk profiles</p>	<p>Sustained debt service leverage around 8.0x or above in Fitch's bases and stress cases (whether from lower water transactions or larger CIP costs)</p> <p>Sustained weakening in capital spending leading to higher life cycle ratio</p> <p>Significant weakening of Member Agency credit quality</p>





# Questions

