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Fitch Rates Helix Water District, California's $23MM Wtr Rev Rfdg Bonds 'AA'; Outlook Stable

2009-09-24 22:35:02 -

Fitch Ratings assigns an 'AA' rating to Helix Water District, California's (the district) $22.9 million water revenue refunding bonds, series 2009. In addition, Fitch affirms the 'AA' rating on $22.3 million of the district's outstanding installment purchase certificates of participation (pre-refunding). The bonds will be used to refund the balance of the outstanding certificates, fund a debt service reserve fund, and pay costs of issuance. The bonds are secured by a senior lien on net revenues of the district. The Rating Outlook is Stable.

The 'AA' rating reflects the district's strong financial performance in terms of debt service coverage, low leverage ratios, manageable capital needs, and a stable and diverse service area. Debt service coverage is projected to remain strong as the district plans to continue to raise rates annually. Given the manageable capital needs, liquidity should also remain healthy. Purchased water costs, the largest operating expense, have been increasing rapidly which has led to above-average retail rates. Costs are projected to increase further and will likely continue to result in rate pressure.

For fiscal 2008, senior lien annual debt service was a solid 3.4 times (x). Coverage is expected to remain strong, averaging in the 4.4x range over the next five years. Liquidity for fiscal 2008 was also good with approximately 180 days cash on hand (DCOH). Given the district's continued practice of pay-go funding its capital improvement plan (CIP), liquidity is expected to remain at around 100 DCOH.

The district's five-year CIP totals $43 million. The bulk of the CIP is devoted to the district's cast iron replacement program, totaling $29 million over the next five years. The CIP is expected to be entirely funded with cash. The district's debt levels compare very favorably to similarly-rated credits and should continue to perform well over the five-year horizon given no additional borrowings are planned.

As with most southern California credits, user charges are expected to see steady increases. The district's water rates have been raised annually at an average of 4.4% over the last five years. To keep pace with rapidly increasing wholesale water rates, the district enacted its highest ever rate hike of 21% in fiscal 2010. Rate increases from fiscal 2011-2014 while averaging a more moderate 6.4% are still above-average when compared to other 'AA' category credits. However, the district's rates still rank second lowest with a bi-monthly residential bill averaging $119.50 (assuming 3/4 inch meter and usage of 30 hundred cubic feet) when compared to other water service providers in the area.

Approximately 92% of the district's raw water is purchased from the San Diego County Water Authority (SDCWA). SDCWA purchases 72% of its water from the Metropolitan Water District of Southern California (MWD). SDCWA may decrease its reliance on MWD (water revenue bonds rated 'AA+' and Negative Outlook by Fitch) for future water supplies, eventually increasing transfers from the Imperial Irrigation District and Coachella Canal Linings. It may also supplement its supplies with desalinated water from the Carlsbad Desalination Project to be operational in 2012.

The district was organized in 1913 and supplies water to the cities of La Mesa, El Cajon, Lemon Grove and surrounding unincorporated areas. The 50 square-mile service area in central San Diego County, is predominantly residential with no revenue concentration. Population gains have been a steady 1.1% since 2004, so growth-related pressures are limited. The county unemployment rate as of July 2009 was 10.3%, below state rate but above the national level.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, ' www.fitchratings.com : cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Fwww .. '.

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