

# RatingsDirect®

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**Summary:**

## Indian Wells Valley Water District, California; Water/Sewer

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## Summary:

# Indian Wells Valley Water District, California; Water/Sewer

### Credit Profile

US\$7.5 mil series 2024 wtr rev bnds (Indian Wells Vy Wtr Dist) due 04/01/2054

*Long Term Rating* A+/Stable New

Indian Wells Vy Wtr Dist ws

*Long Term Rating* A+/Stable Affirmed

Indian Wells Vy Wtr Dist ws (AGM)

*Unenhanced Rating* A+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

### Credit Highlights

- S&P Global Ratings assigned its 'A+' rating to Indian Wells Valley Water District, Calif.'s approximately series 2024 water revenue bonds.
- At the same time, we affirmed our long-term rating on the district's series 2018 water revenue certificates of participation (COPs).
- The outlook is stable.

### Security

The bonds are secured by the net revenues of the district's water system through installment payments to be paid by the district. We continue to view the bond provisions, which include a rate covenant of at least 1.2x net revenues, as adequate. Although there is no debt service reserve for the bonds, we believe the district's current and projected cash position offsets this as a negative credit factor. With the series 2024 bonds, the district will have approximately \$37 million in debt outstanding.

### Credit overview

The rating reflects our view of management's historically proactive management of near-term costs associated with the implementation of Indian Wells Valley Groundwater Authority's (GA) Groundwater Sustainability Plan (GSP). The local and critically overdrafted Indian Wells Valley Groundwater Basin is the district's sole source of water supply, and since June 2016, the district has managed to reduce annual consumption by more than 20% while building cost-recovery mechanisms into its rate structure, including through adopted replenishment and extraction fees that became effective in 2021 as well as other fixed costs. The GA's existing extraction fee is passed through to the district's primarily residential customers by a fee of \$0.24 per hundred cubic foot (hcf) of use, while the replenishment fee is applied to district customers who use higher amounts of water (tier 2 water use) to finance imported groundwater replenishment.

Also supporting the rating is the district's track record of regularly adjusting rates to address capital needs, thereby helping it to achieve credit-supportive financial metrics. Management's recently approved rate plan will enact rate

adjustments ranging from 6% to 8% annually through 2027, which it expects will support the additional debt and coverage of at least 1.6x, as well as additional revenue-funded capital projects. Over the long term, we view key credit risks as concerning uncertainties related to water supply costs, based on the magnitude of potential cutbacks to local supply due to the implementation of the GSP and the effect on the district's legal pumping allotments. The cost to develop new supplies could exceed \$200 million; however, the portion that would be funded by the district, if any, is uncertain, as portions could be federally funded or shared with local partners.

Other key credit factors include the district's:

- Economic concentration with the China Lake Naval Air Weapons facility, which is a dominant local employer that provides a stabilizing economic presence as a government employer;
- Heathy reserves, which are projected to remain well above its reserve policy of six months' operating expenses, with no plans to materially spend cash on capital or other costs;
- Moderate debt leverage at year-end fiscal 2022, with a debt-to-capitalization ratio of about 50% with the inclusion of the series 2024 bonds;
- Manageable capital plan of an estimated \$26 million for fiscal 2024 through 2029, which will be funded with revenues, grant funding, and the series 2024 bond proceeds, though the district's capital plans could change once an alternate water source and project are agreed upon; and
- Operational and financial policies and practices we consider credit-supportive, including long-term capital and financial planning; multiyear rate plans, which take regulatory and capital needs into account; and formalized debt and reserve policies, supported by a seasoned and proactive management team.

### **Environmental, social, and governance**

Our rating incorporates the district's elevated physical risks due to the region's susceptibility to chronic and frequent droughts, as well as pollution and seismic risks. Due to the implementation of the Sustainable Groundwater Management Act (SGMA), groundwater basins considered to be in critical overdraft, such as the Indian Wells Valley, were required to develop a GSP. The district is party to the Indian Wells Valley Groundwater Authority, along with the city of Ridgecrest and Kern, Inyo, and San Bernardino counties. The U.S. Navy and Bureau of Land Management are nonvoting members to reduce the effect of overpumping in the basin. The authority's GSP was approved by the California Department of Water Resources in 2022, and as the plan is implemented, the district continues to face potential significant future costs until projects are decided upon. We view the district's lawsuits pertaining to the adjudication, or legal pumping allotments, for users of the groundwater basin as a factor that could influence cost allocations of future capital projects. Additionally, while we understand that the district has not paid any fines or penalties for regulatory violations, the district continues to successfully treat certain wells for elevated arsenic levels.

The district continues to make repairs as a result of the 2019 Ridgecrest earthquakes (the mainshock was the largest to occur in California in the last 20 years), though we understand that there was no disruption in service given existing water system redundancy, and nearly all of the repairs to date have been reimbursed by state funding, with the exception of some outstanding capital that is included in the district's current capital plan and is being financed by the bonds.

Even with the approved rate increases, we believe the district's water supply will remain affordable; however, we

believe there is heightened social risk for portions of the customer base, given the elevated county poverty rate of about 18.5%. We view social and governance risk as credit neutral. Management provides a high level of transparency, making information on long-term planning, basin restrictions, lawsuits, and rates accessible on its website, and maintains cyber policies and practices we view as credit-supportive. Additionally, although rates may become pressured over the longer term for some populations, given the service area's elevated poverty rate, we view the water bill as generally affordable, in light of local incomes.

## Outlook

### Downside scenario

We could lower the rating should the district face an inability to pass through capital or debt costs, or should any future costs associated with the implementation of the GSP not be passed down to the customer base, producing coverage or liquidity that meaningfully deteriorate on a consistent basis. We could also lower the rating if there is a contraction in the local economy, due to factors such as a lack of sustainable water supply.

### Upside scenario

Although we view it as unlikely over the outlook period given uncertainty regarding the district's long-term water supply, we could raise the rating over the longer term should the district secure a reliable alternative water supply source while maintaining robust financial performance in line with what we view as extremely strong metrics.

Indian Wells Valley Water District--Economic and financial data					
	Most recent	Fiscal year-end			Median (A+)
		2022	2021	2020	
<b>Economic data</b>					
Water customers	11,755				7,245
Sewer customers	--				7,425
MHHEBI of the service area as % of the U.S.	102.0				87.0
Unemployment rate (%)	2.8				3.8
Poverty rate (%)	18.5				11.3
Water rate (6,000 gallons or actual) (\$)	67.4				41.0
Sewer rate (6,000 gallons or actual) (\$)	0.0				42.0
Annual utility bill as % of MHHEBI	1.2				1.3
Operational Management Assessment	Good				Good
<b>Financial data</b>					
Gross revenues (\$000s)		16,241	13,847	10,860	6,938
Total operating expenses less depreciation (\$000s)		13,051	10,297	7,656	4,930
Net revenues available for debt service (\$000s)		3,325	3,722	3,514	--
Debt service (\$000s)		2,423	2,427	2,448	--
S&P Global Ratings-adjusted all-in DSC (x)		1.4	1.5	1.4	1.8
Unrestricted cash (\$000s)		13,335	14,093	12,333	6,186
Days' cash of operating expenses		373	500	588	464
Total on-balance-sheet debt (\$000s)		33,138	34,272	35,322	15,465

**Indian Wells Valley Water District--Economic and financial data (cont.)**

	Fiscal year-end				Median (A+)
	Most recent	2022	2021	2020	
Debt-to-capitalization ratio (%)		46.7	47.4	48.8	37.3
Financial Management Assessment	Good				Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

**Related Research**

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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