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Summary:

**Alameda County Water District
Financing Authority, California
Alameda County Water District;
Water/Sewer**

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Credit Profile		
US\$51.235 mil wtr sys rev bnds ser 2025 due 06/01/2055		
Long Term Rating	AAA/Stable	New
Alameda County Water District Financing Authority, California		
Alameda County Water District, California		
Alameda Cnty Wtr Dist Fincg Auth (Alameda Cnty Wtr Dist) wtr sys rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Alameda Cnty Wtr Dist Fincg Auth (Alameda Cnty Wtr Dist) wtr sys rev bnds		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Alameda County Water District Financing Authority, Calif.'s approximately \$50 million series 2025 water system revenue bonds, issued for Alameda County Water District (ACWD).
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the authority's existing revenue debt, issued for the district.
- The outlook is stable.

Security

A pledge of authority revenue, mainly installment payments by Alameda County Water District, secures the bonds.

Officials intend to use series 2025 bond proceeds to refund series 2015 bonds outstanding and fund \$35 million of system improvements, largely systemwide seismic upgrades and the treatment-facility expansion.

As of June 30, 2024, the authority had \$61.7 million of revenue bonds outstanding. We view bond provisions as adequate and credit neutral to our analysis.

Credit overview

The rating reflects our opinion of the water district's highly strategic, long-dated management policies and financial practices, which have resulted in an exceptional financial-risk profile that we consider sustainable despite growing debt needs and heightened physical risk. What we consider strong cost-recovery mechanisms, namely drought surcharges and a large fixed-service-charge component within the rate structure, provide strong operating margins. In addition, management's formal cash reserves have built a substantial buffer to deterioration, including a combined \$17.5 million

for emergency expenses and rate stabilization. Planned annual rate increases will likely sustain all-in debt service coverage (DSC), accounting for certain fixed costs from the system's wholesale-water providers, at extremely strong, in our view, levels despite an additional \$125 million of debt planned through 2029.

We think the authority will have the capacity to continue to make rate and other budgetary adjustments to support increasing water-supply costs and growing capital needs related to system infrastructure hardening and resiliency. In addition, we view the district's water-supply diversity that will help manage drought-and-wildfire risk positively.

The rating further reflects our view of the authority's:

- Diverse water-supply portfolio, including local and wholesale sources;
- Wealthy, primarily residential service area that participates in the San Francisco Bay Area regional economy--However, we recognize the area is experiencing population loss and high cost-of-living pressure;
- Planned rate increases that are a modest 4%-5%, which will likely maintain affordability;
- Robust liquidity, projected to remain more than \$120 million during the next few fiscal years, or a year's operating expenditures, considering the \$445 million capital plan through 2030 it will primarily fund through cash-based reserves;
- Financial projections that indicate all-in DSC, calculated by S&P Global Ratings, consistently at more than 1.8x through 2029--Projections factor in expected annual rate increases and additional bonds; and
- Strong management assessment, represented by comprehensive risk-management policies and practices focused on system management to uphold its proactive regulatory posture, cybersecurity, and environmental compliance and address drought-related pressure--In our view, this high level of planning and risk management support the authority's overall operational and financial stability.

Environmental, social, and governance

When considering S&P Global Sustainable1 data, the district has exposure to heightened physical and water scarcity risk relative to national peers, like other rated regional utilities. In addition, we note a portion of its service area is near elevated tiers 2 and 3 wildfire risk, as designated by California Public Utilities Commission. The district has a comprehensive, ongoing water-shortage contingency plan, even during periods of normal water supply.

The authority continues to monitor water sales and expenditures monthly and relies on customers to conserve water voluntarily, coupled with the authority's current plans, future projections, and various drought-related scenarios that it will adjust as necessary. We think by adopting and adhering to the authority's integrated resources plan and urban-water-management plan--including a water-shortage contingency plan, drought-risk assessment, and seismic-risk assessment--the district is making proactive strides to lessen its exposure to the region's current climate, supply, and drought-related risk. The system's drinking-water quality meets all of the State Water Resources Control Board Division's drinking-water standards set to protect public health.

Regarding exposure to wildfire risk, we understand the district collaborates with San Francisco Public Utilities Commission (SFPUC) and other neighboring entities to facilitate water transfers between systems in the event of an emergency. In addition, management notes there have been brush-clearing efforts to mitigate wildfire vulnerabilities. We view vegetation management and interconnections as improving the system's emergency preparedness and

response to extreme wildfire events. We view these practices as a component to our organizational-effectiveness evaluation within our operational management assessment. While we view management's mitigation and planning actions positively, a catastrophic event could lead to rapid credit-quality deterioration, nonetheless.

Due to comparatively low nominal bills, relative to regional peers, and healthy income in the district, we do not view affordability as challenged. Credit-supportive rate-setting practices and management policies highlight the utility's governance factors.

Rating above the sovereign

The revenue bond rating is currently higher than the nation. The authority has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent nearly all authority revenue. Coupled with operating expense flexibility, this limits exposure to federal revenue, in our view.

Outlook

The stable outlook reflects S&P Global Ratings' view of the system's stable customer base and expectation that financial metrics will likely remain at levels it considers consistent with the rating. During the two-year outlook, we expect management will likely continue to address future rate adjustments to preserve the system's financial profile, pass through wholesaler costs, and meet any pay-as-you-go capital requirements.

Downside scenario

We could lower the rating if ACWD cannot pass through increasing wholesale water costs or if it were to face catastrophic seismic or wildfire events that increase long-term system liabilities. While not expected within the two-year outlook, due to the authority's projected financial metric strength, we could also lower the rating if the authority's financial margins were to erode significantly to levels we no longer consider consistent with the rating.

Credit Opinion

ACWD is the retail water provider for about 87,000 customers in the developed areas of Fremont, Newark, and Union City in southern Alameda County. ACWD has four major sources of water supply:

- The state water project (SWP),
- The SFPUC regional water system,
- The local runoff, and
- The brackish groundwater treated at the authority's desalination plant.

Through its two wholesale providers, the authority has exposure to wholesale rate increases and potentially curtailed supplies in dry years. With its reliance on surface-water sources, ACWD has exposure to varying hydrologic conditions, particularly within the authority's SWP allocation. In prior years, ACWD was able to offset the loss of SWP with greater SFPUC purchases--Its most reliable, but also most expensive, water source. In addition, to partially mitigate water-supply volatility, ACWD entered into water-banking agreements with Semitropic Water Storage

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Authority to allow for the banking of SWP water in wet years.

ACWDFA has a long-term agreement with Semitropic Water Storage Authority for 150,000-acre feet (af) of storage to allow for banking of SWP water in wet years. The recovery of previously banked water bolsters the supply in water-short years. As of June 2024, ACWD has approximately 126,000 af stored in Semitropic. Local supply accounts for nearly 50% of the district's potable water supply, which we view favorably, considering the high, per-unit cost of SFPUC supply. Perfluoroalkyl substances are present in the Niles Cone Groundwater Basin; however, we recognize bond proceeds will likely expand treatment facilities to address this regulatory need. In our view, drought surcharges, designed to recover net revenue lost fully from conservation, are a financially prudent response and highly credit supportive.

ACWD also receives some financial support through property tax revenue with \$15 million received in fiscal 2024. While a portion of this revenue is not available for debt service, management uses it to partially offset SWP costs, treated as operating expenses in the authority's financial statements. Net revenue provides DSC of more than 5x; however, it will likely remain near 4x, as projected by management, when incorporating new debt in 2027.

All-in DSC is our internally adjusted DSC metric that tracks the use of total authority operating revenue and incorporates our recognition of fixed costs associated with water purchases from SFPUC, which we define as long-term recurring debtlike items, even if legally treated as operating expenses (this methodology differs from indenture-based calculations).

Alameda County Water District, California--economic and financial data

	Most recent	--Fiscal year-end--			
		2024	2023	2022	Median (AAA)
Economic data					
MHHEBI of the service area as a % of the U.S.	151.0				114.0
Unemployment rate (%)	4.5				3.4
Poverty rate (%)	10.1				10.3
Water rate (6,000 gallons or actual) (\$)	72				33
Sewer rate (6,000 gallons or actual) (\$)	--				37
Annual utility bill as a % of MHHEBI	0.9				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenue (\$000s)		141,474	136,833	138,784	73,371
Total operating expenses less depreciation (\$000s)		120,003	108,132	92,905	53,231
Net revenue available for debt service (\$000s)		35,239	41,861	56,105	--
Debt service (\$000s)		5,924	5,965	4,752	--
S&P Global Ratings-adjusted all-in DSC (x)		2.10	2.40	3.10	2.60
Unrestricted cash (\$000s)		172,848	206,812	204,951	90,711
Days' cash of operating expenses		526	698	805	713
Total on-balance-sheet debt (\$000s)		111,440	75,058	75,903	140,491
Debt-to-capitalization ratio (%)		14.7	10.6	11.4	26.0

Alameda County Water District, California--economic and financial data (cont.)

	--Fiscal year-end--				Median (AAA)
	Most recent	2024	2023	2022	
Financial management assessment	Strong	--	--	--	Strong

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

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