MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns P-1 to California Dept. of Water Res. (Water Enterprise)'s CP Notes and Aa2 to subordinate lien Bank Bonds

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New York, February 05, 2021 -- Moody's Investors Service ("Moody's") has assigned P-1 ratings to the State of California Department of Water Resources (Water Enterprise)'s (the Department) $50 million Water Revenue Taxable Commercial Paper Notes, Series 3 and $800 million Water Revenue Tax-Exempt Commercial Paper Notes, Series 4, and affirmed the P-1 rating on the Department's Water Revenues Tax-Exempt Commercial Paper Notes, Series 2 (collectively, the Notes) in connection with the issuance of the Revolving Credit Agreement (Liquidity Facility) by JPMorgan Chase Bank, N.A. (the Bank) to support all three series of Notes. Concurrently, Moody's has assigned a Aa2 rating to Water Revenue Taxable Commercial Paper Notes, Series 3 (Bank Bonds) and Water Revenue Tax-Exempt Commercial Paper Notes, Series 4 (Bank Bonds), and affirmed the Aa2 rating on the bank bonds of series 2. The outlook on the Department's long-term obligations is stable.

RATINGS RATIONALE

The P-1 ratings are based on the short-term Counterparty Risk (CR) Assessment of the Bank, as provider of the Revolving Credit Agreement and Moody's assessment of the likelihood of an early termination or suspension of the Liquidity Facility without payment at maturity of the Notes. The current short-term CR Assessment of the Bank is P-1(cr). Events that would result in termination or suspension without payment of the Notes at maturity are directly related to the credit quality of the Department's pledge of revenues to pay debt service on the Notes.

The Aa2 bank bond rating reflects the Department's revenue pledge, which is subordinate to its Aa1-rated senior lien obligations. The rating incorporates the strong take-or-pay nature of the water supply contracts from which debt service payments are derived and the critical, long-term importance of the water supply to DWR's 29 contractors, which collectively provide water to 69% of the state's population. Also key to the rating is the strong credit quality of the largest contractors, particularly MWD of Southern California. While there have been no historical payment delays on the part of contractors, the additional security offered by strong step-up provisions would enable the Department to withstand a significant amount of delinquencies, lowering the potential of default even in the event of a missed payment by one of the smaller, non-rated contractors.

RATING OUTLOOK

The short-term, P-1 ratings do not have an outlook. The stable outlook on the long-term ratings reflects the time-tested strength of the underlying water supply contracts and the share of contract payments supported by the highly-rated Metropolitan Water District of Southern California (Aa1 stable revenue bond rating). Water deliveries have fallen below requested amounts over the past decade due to limited water supply availability. Nevertheless, given the bonds' strong security provisions, Moody's believes that material, future contract payment delinquencies or defaults are unlikely.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable (short-term rating)

- Substantially increased, long-term water delivery reliability (long-term rating)

- Effective resolution of contract extension with contractors (long-term rating)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Moody's downgrades the short-term CR Assessment of the Bank or a multi-notch downgrade of the Department's long-term subordinate lien revenue rating. (short-term rating)

- Failure to reach agreement on contract extension with remaining contractors (short-term rating)

- Significant, permanent reductions in water deliveries (short-term rating)

The Bank's obligation under the Liquidity Facility may be automatically terminated or suspended upon the occurrence of the following events:

- The Department fails to pay principal or interest when due on the Bank's reimbursement obligations or on any debt that is senior to or on parity with subordinate lien debt;

- The Department fails to satisfy a final, non-appealable judgement or order for payment of money in excess of $25 million for a period of 60 days following rendering of such judgment;

- voluntary or non-voluntary bankruptcy or insolvency of the Department;

- any provision of the Liquidity Facility, the Notes, the Bank Notes, the Issuing and Paying Agent Agreement, the Resolution or any Related Document related to the payment of principal or interest on Notes, or the pledge of and lien on the pledged revenues at any time for any reason ceases to be valid and binding or fully enforceable on the Department as determined by any Governmental Authority of competent jurisdiction in a final nonappealable judgment; or the Department or any Governmental Authority contests any such provisions; or the Department denies it has any obligations under any such documents;

- the Department imposes a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on any senior or subordinate debt secured by the pledged revenues; or any governmental authority having appropriate jurisdiction over the Department makes a finding or ruling or enacts or adopts legislation or issues an executive order or enters a judgment or decree which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the Notes and Bank Notes or on all indebtedness of the Department;

- the senior lien debt of the Department secured by pledged revenues is downgraded below investment grade by each rating agency then rating such bonds; or

- the Department is dissolved or otherwise ceases to exist.

The Issuing and Paying Agent (IPA), U.S. Bank National Association, will issue Notes upon receipt of issuance instructions from the commercial paper dealers, or the Department. Notes may not be issued if such issuance would cause the aggregate principal amount plus interest of all Notes outstanding to exceed the amount provided for under the Liquidity Facility. Additionally, each Note issued may mature no later than (i) 270 days from the date of issuance; and (ii) five days preceding the expiration date or termination date of the Liquidity Facility.

In the event of a default under the Liquidity Facility, the Bank may send the IPA a No Issuance Notice. Upon receipt of such Notice, the IPA shall stop issuing Notes and upon the payment at maturity of all outstanding Notes the Liquidity Facility will terminate. The IPA will draw on the Liquidity Facility to make all payments of principal and interest when due at maturity to the extent rollover proceeds or funds from the Department are not available. The Notes are not subject to acceleration prior to maturity.

The Liquidity Facility is sized to cover $800 million principal amount of Notes plus 270 days of interest at 10%. Draws submitted by the IPA pursuant to the Liquidity Facility by 12:00 p.m. (Eastern Time) will be paid no later than 2:30 p.m. (Eastern Time) on the same business day.

The Liquidity Facility may be substituted provided that all outstanding Notes supported by such Liquidity Facility have matured or, if there will be Notes outstanding upon such substitution, the Department shall obtain prior written notice from Moody's that the rating on the Notes will not be reduced or withdrawn as a result of such substitution.

The Liquidity Facility will terminate on the earliest of: (i) the stated expiration date, February 9, 2024; (ii) the date on which the available commitment has been reduced to zero and terminated by the Department, provided there are no Notes outstanding; (iii) payment at maturity of all Notes outstanding following the IPA's receipt of a no issuance notice from the Bank; or (iv) the business day following the substitution date of the Liquidity Facility.

LEGAL SECURITY

Payment of principal and interest on the bank bonds is secured by a subordinate pledge of gross revenues derived from payment obligations under water supply contracts with 29 participating contractors. The majority of annual debt service on outstanding obligations is additionally secured by step-up provisions requiring at least an additional contribution of up to 25% of debt service on the part of participants. These step-up provisions are enhanced by the presence of larger contractors of Aa credit quality. Contractors are billed in advance for debt service. There is not debt service reserve requirement for the subordinate lien.

USE OF PROCEEDS

The department's commercial paper program is used to fund various capital projects.

PROFILE

The California Department of Water Resources is responsible for the construction and operation of the State Water Project, a massive statewide system of aqueducts, dams, reservoirs, pumping stations and electric generation facilities running from Oroville Dam, north of Sacramento to a terminus in Riverside County and delivering water supplies to 69% of the state's population.

METHODOLOGY

The principal methodology used for the short-term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1057134 . The principal methodology used in the long-term ratings was US Municipal Utility Revenue Debt published in October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

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