

PRESS RELEASE



**PALMDALE WATER DISTRICT ANNOUNCES STANDARD AND POOR'S
RATING HAS BEEN LOWERED THREE NOTCHES TO 'BBB'**

Water District Placed On Watch Negative

PALMDALE, CA, JUNE 29, 2009 – Palmdale Water District announced today that Standard & Poor's Ratings Services has lowered its rating on its California's water revenue certificates of participation series 2004 to 'BBB' from 'A', and placed it on CreditWatch with negative implications.

The downgrade reflects the seriously weakened financial and liquidity position of the District, due largely to deteriorating economic performance of the service area, as declining revenues and increased spending pressures required substantial rate increases which were implemented in June of 2009. The rating is placed on CreditWatch with negative implications because of the pending City lawsuit that is challenging the validity of adopted rate increases.

"The CreditWatch with negative implications placement reflects our view of the potential for further downgrades if a July 8 court date results in rates being rolled back to levels prior to a May 13 board-approved increase. "If that roll back occurs, we believe that the District would have difficulty meeting ongoing expenses and debt service requirements," said Standard & Poor's credit analyst Ian Carroll. "In addition, we believe that liquidity would also likely be negatively affected if the rate increases do not move forward as scheduled."

The revised rating reflects Standard and Poor's view of a service area economy that is experiencing a dramatic real estate correction, including high foreclosures and population loss that have directly affected the District's financial operations and the District's plan to

deplete its rate stabilization reserves in order to make a \$2.3 million debt service payment due Oct. 1, 2009, after a similar transfer to meet debt service requirements in fiscal 2008.

In an effort to close the gap on the remaining 2009 budget shortfalls, Palmdale Water District Board of Directors recently approved additional reductions in expenditures in addition to the new tiered rate structure. While the original goal was to cut \$700,000 from the budget, an additional \$1.2 million in cuts or new revenue sources will be needed prior to October 2009 in order for the District to make its debt payments without defaulting. The District desires to stabilize revenues by having sixty (60%) of its fixed costs recovered through the flat monthly service charge. The District has also implemented a new surcharge for water quality improvement to be gained from the upgraded water treatment plant using the GAC system for TOC and THM removal.

“This announcement by S&P means that if the City is successful in blocking the rate increase then the District’s credit ratings will drop below investment grade” noted District CFO Michael Williams, “this would cost our customers and the community much more when borrowing in the future.”

Complete ratings information is available to *RatingsDirect* subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com.

About Palmdale Water District

The Palmdale Water District has grown from an agency providing irrigation water for 60 customers, to an agency providing domestic water to the thriving community we know today. Founded as an Irrigation District supplying water mainly to farms for agricultural use, the District’s boundaries have expanded with Palmdale’s rapid population growth and the District has shifted to providing predominantly municipal and industrial water. The Palmdale Water District is currently divided into five divisions covering areas in East and South Palmdale. The Palmdale Water District remains dedicated to providing clean, pure

water; state of the art facilities to meet current and future needs; attentive staff committed to customer satisfaction; treatment and testing to ensure high quality water; education on water conservation and safety; and reliable supply and resourceful planning insuring customer satisfaction and continued reasonable rates. The Palmdale Water District can be reached by calling (661) 947-4111. The Palmdale Water District is located at 2029 E Avenue Q in Palmdale, California.

Palmdale Water District Board Members:

Division 1	Jeff Storm - President
Division 2	Dick Wells - Treasurer
Division 3	Linda Godin - Secretary
Division 4	Raul Figueroa - Director
Division 5	David Gomez - Vice President

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