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Fitch: Rising Debt Expected for Florida Water Utilities.

Fitch Ratings-New York-26 June 2017: Florida water utilities have seen a rise in debt outstanding over the past three years, according to Fitch Ratings' 2017 Florida Water and Sewer Sector Update. Fitch believes this will continue as concurrent increases in capex have not resulted in declines in the average age of water plants.

Renewal and replacement of water infrastructure has driven the majority of capital spending for Florida water and sewer utilities. However the average age of the state's water utilities has remained mostly stable, at 14.5 years in fiscal year 2016.

"Increasing focus on alternative water sources and efforts around water quality most likely mean more financing will be required to meet needs that go above and beyond regular renewal and replacement," says Eva Rippeteau, Director, U.S. Public Finance.

Regulatory requirements for wastewater quality, storm water and flood mitigation are major capital spending drivers throughout the state.

Nutrient reduction, in particular, remains a big focus and has both environmental and economic implications. In early May, Governor Scott authorized a \$1.5 billion plan aimed at mitigating algae blooms caused by nutrient accumulation in Lake Okeechobee, the largest such plan to date. Increasingly, storm water capture and disposal systems are under greater scrutiny due to persistent flooding and pollution risk. Utilities requiring system changes to address these methods may require additional financing.

Some utilities have on-going requirements to expand or seek alternative water sources to accommodate renewed population growth. Certain supply projects can be expensive and necessitate regional coordination in order to finance, operate and sustain. One example is the Central Florida Water Initiative, which spans five counties, three water management districts, the Florida Department of Environmental Protection and other stakeholders.

Despite the increase in debt, most Florida water and sewer utilities saw significant improvements in finances in fiscal 2016 relative to the year prior. Four upgrades and only one downgrade comprised the year's ratings changes. The ratings for 34 other systems were affirmed. The average Florida water and sewer utility rating continues to be 'AA'. Fitch anticipates credit quality will remain high.

The 2017 Florida Water and Sewer Sector Update was published in conjunction with the 2017 Fitch Analytical Comparative Tool (FACT) for Florida Water and Sewer credits. The 2017 FACT contains financial data for 58 water and sewer utilities in Florida, including historical statistics and metrics going back to 2012.

The FACT includes a dashboard feature to plot annual issuer metrics and median performance, a peer analysis tool which allows users to review and compare metrics of two issuers, and a charting tool which generates a comparison of issuer metrics against rating category medians.

The full reports, "Florida Water and Sewer Sector - 2017 Update," and "Florida Water & Sewer - Fitch Analytical Comparative Tool (FACT) - 2017," are available at www.fitchratings.com.

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