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Fitch: Georgia Water Credits Risks Rise in Dispute with Florida.

Fitch Ratings-New York-06 July 2018: In a recent US Supreme Court (SCOTUS) decision, the justices sided with Florida in an ongoing dispute over water allocations between Florida and Georgia from the Chattahoochee and Flint River basin. The eventual outcome of this lawsuit could have credit implications for water utilities as it would raise the need for borrowing to create additional supply, Fitch Ratings says.

The special master appointed to hear the dispute between Florida and Georgia decided there was insufficient evidence to prove that limiting Georgia's water use would benefit Florida. However, SCOTUS reviewed that decision and ruled the special master should reconsider Florida's argument that a cap in Georgia's water consumption could benefit Florida's Apalachicola Bay.

As urban populations grow, competing demands for water and supply stability are making decisions like this one more important for water utilities and increasing the frequency of disputes. A court decision that leads to a reduction in, or ultimately limits, supplies could raise a water utilities' borrowing to finance additional supply development. That would force utilities to strike a careful balance between charging higher water rates and/or assuming lower financial margins. The added costs of water replacement supply development could also divert funding from ongoing renewal and replacement of existing infrastructure, escalating future expenses.

Raising water rates is becoming more difficult as, for decades, water and sewer rate increases exceeded CPI and median household income (MHI). While CPI slightly more than doubled from 1988-2014, typical residential water bills more than tripled and wastewater rates more than quadrupled, according to The American Water Works Association. User charges have steadily climbed toward Fitch's 2% of MHI affordability benchmark, although Fitch-rated credits by and large still have sufficient affordability cushion.

Declining water use in the US overall has meant that cross border disputes will occur within fast growing regions that share water resources. Water use in the United States in 2015 was estimated at 9% less than in 2010, making withdrawals the lowest level since before 1970, according to the U.S. Geologic Survey.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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