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S&P U.S. Municipal Utilities Credit Brief: Medians Held Strong In 2020 As California Retail Water And Sewer Utilities Prepare For A Dry Future

Overview

Despite the effects of the COVID-19 pandemic on the broader economy, California retail municipal water and sewer utilities demonstrated generally stable credit quality in fiscal year 2020. In fact, most California utilities saw improved revenue growth year-over-year (4.4%). Increased residential water consumption in the region helped offset lower revenues from commercial customers and many utilities scaled back discretionary costs without eroding operating performance. Most key financial median ratios, including available liquidity median metrics, improved modestly, reflecting the financial resilience of California retail municipal utilities. The medians also indicate that California utilities have very strong enterprise and financial risk profiles, which reflect strong demographic and financial characteristics. Although some areas in the state have faced lower levels of economic activity due to social-distancing practices and mandatory business closures because of the pandemic, the influence on utility revenue has been relatively muted, as most serve diverse customer bases that are anchored by steady residential demand, with the exceptions of those with outsize agricultural or tourism and hospitality sector concentration. These utilities also remained operationally resilient in the face of past drought conditions and record-setting wildfires. As a result, we believe California utilities have displayed significant stability in financial performance in recent years.

S&P Global Ratings maintains water and sewer utility revenue ratings on over 320 retail utilities in California. About 57% of these utilities are in the 'AA' category, 33% are in the 'A' category, 7% are in the 'AAA' category, and fewer than 3% are in the 'BBB' category or lower. The higher rating distribution reflects California utilities' generally stronger enterprise and financial risk profiles than the national medians (see chart 1). In addition, about 90% of the ratings have a stable outlook, while approximately 10% have a negative outlook. Most ratings with a negative outlook have exposure to tourism or agricultural production. We believe that pervasive drought and accelerating water shortages could potentially lead to the permanent idling or conversion of farmland over time, which heightens business risk for water purveyors that serve farming operations or farmworkers. For more information, see "20 California Irrigation District Rating Outlooks Revised To Negative From Stable On Rising Drought Severity," published Oct. 28, 2021, on RatingsDirect.

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