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Fitch: US Water Utilities Withstanding Inflationary Pressures

Fitch Ratings-New York-23 August 2022: U.S. water utilities have fared remarkably well post-coronavirus and are withstanding the effects of inflation on operations and capital spending, according to Fitch Ratings' latest annual peer review for the sector.

Operating costs are up across the board after a decline in fiscal 2020, but year-over-year operating revenue growth largely kept pace in fiscal 2021. Capex-to-depreciation also increased for retail and wholesale issuers in 2021, likely as a result of greater needs and higher pricing for labor and materials. The five-year average median ratios for retail systems are above 150% for the third year in a row, whereas the ratio for wholesale systems totaled 170% in 2021. Leverage also fell slightly for retail systems and increased for wholesale systems.

Liquidity for water utilities remains robust with solid COFO levels and current days cash on hand well over 550 days, which should buffer the effects of even higher inflation through 2022 year-end. "Despite some minor bumps, water utilities are positioned quite well to absorb higher costs in 2022 and rebound heading into 2023 as the rate of inflation shows signs of slowing," said Managing Director Dennis Pidherny.

Fitch's U.S. Water and Sewer: Peer Review is a point-in-time assessment of Fitch-rated public water and sewer utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail water and sewer systems. It is accompanied by the 2022 Water and Sewer Fitch Analytical Comparative Tool (FACT), an interactive tool that provides enhanced trend analysis and peer comparison tables. The statistics reflect rating actions taken through July 2022 and historical financial data through Dec. 31, 2021.

The full report, "2022 U.S. Water and Sewer: Peer Review," is available at www.fitchratings.com

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