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S&P: U.S. Small Utility Systems Face Big Challenges To Maintain Credit Quality

Key Takeaways

- From time-to-time, S&P Global Ratings undertakes a review of a portion or entire sector when credit pressures are leading to a notable number of rating actions. These risk reviews enhance our other surveillance practices.
- During the past two years, we lowered our ratings on more than 150 U.S. water and sewer utilities, the majority of which have been small systems–defined in our criteria as those with less than $25 million in annual revenue.
- Small systems with more limited management practices, lower nominal liquidity, and weaker service territory characteristics can experience cost pressure vulnerabilities, particularly related to aging infrastructure, climate hazard exposures, and regulatory requirements.
- Robust efforts to enhance management policies and practices around financial forecasting, cyber security, and addressing deferred maintenance could underpin credit stability for systems of this size.

Why This Matters

S&P Global Ratings maintains ratings on approximately 2,000 utilities–of which 40% are considered medium to large systems and 60% are considered small systems. Despite their small size and more limited operations, these entities face the same challenges as their mid-to large-size peers with typically less financial and personnel resources to address them, which could lead to increased credit pressure and rating volatility. The American Water Works Association (AWWA) notes the "unique challenges that small systems face can include funding, staffing, training, and compliance. They may lack in-house technical expertise to address complex issues such as emerging contaminants, climate change impacts, and planning system upgrades."

Continue reading.

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