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S&P U.S. Municipal Water and Sewer Utilities 2015 Sector Outlook: And the Winner Is...

The first quarter of each year marks the height of awards season in American popular culture. Attention turns to the memorable and forgettable on the silver screen and the red carpet. Mass marketing campaigns are made for our consideration – just in case it is not really an honor just to be nominated, or to make us remember (or forget) how something opened. Alas, in the end, hilarity does not always ensue.

In the U.S. municipal water and sewer sector, there are also the usual suspects, the next big stars, key supporting actors, and even paparazzi lurking in the shadows. Fortunately, the sector's story is more documentary than dramatic in nature. The reviews are in, and we find that little has changed. More than nine out of 10 of our ratings have stayed the same, and almost all of those are high-investment-grade. It is a risk-averse sector that sticks to a core business model of drinking and clean-water service provision, rather than engaging in any unregulated or competitive ventures. Standard & Poor's Ratings Services believes the sector continues to be one of the most capital-intensive services that a local or regional government provides, save for owning and operating power plants. Further, utility managers operate in an environment where funding capital investments is probably the most difficult budgetary decision they will make each year. In general, we have observed that there remains a strong correlation between management and credit quality. So for your consideration, we present our thoughts for the sector for 2015.

Overview

- Credit quality remains stable and solid, with most ratings in the high investment-grade category.
- Debt issuance is likely to increase as issuers take advantage of still-favorable market conditions to fund capital spending.
- Economic recovery will be uneven across U.S. regions and in its impact on utilities.

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