
S&P: Management is Key for U.S. Water Utilities to Align Operations and Finances.

In 2002 Standard & Poor's Ratings Services published the "Top 10 Ways To Improve Or Maintain A Municipal Credit Rating." The article notes that "In addition to quantitative factors, qualitative information factors heavily into credit analysis." Simply, some factors that are important to credit quality are difficult to measure. In that regard, municipal waterworks and sanitary sewer utilities are not unlike any other rated issuer: there is a strong correlation between leadership and ratings. And the decentralized and autonomous nature of U.S. local governments creates an even stronger link between management and credit quality.

In 2007, the American Water Works Assn. (AWWA), the U.S. Environmental Protection Agency, and others in the sector identified attributes of effective utility management. In addition, we observe that highly rated utilities generally — but not always — have an alignment among operational, financial, and strategic goals that recognize that the organization has not only external, but also internal, stakeholders. Strong management alone can lend itself to operational and fiscal continuity and can serve as a stabilizing factor for more than just the rating. Strong management combined with favorable assessments in other rating factors can even be buoy credit quality. For example, liquidity and reserves provide working capital, fund unexpected operational problems, and enhance general budgetary flexibility. If management acts to make liquidity likely to be consistently robust, then, if contingent liabilities become actual liabilities, liquidity and management strength can together moderate or even free a utility from distress. Conversely, the absence of liquidity and management strength together creates a limiting factor and often leads to rapid credit deterioration.

Overview

- Because most water utilities are small and local, strong management is especially important in this sector.
- Water utilities function best when operations and finances are aligned with strategic goals, and good management is needed to ensure this occurs.
- If liquidity is tight and management has not aligned finances and operations, a credit decline can occur quickly.

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19-Jan-2016