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Fitch: Texas Drought Leaves a Lasting Impact on Water/Sewer Utilities.

Fitch Ratings-Austin-01 February 2016: Eight months after flooding ended Texas' drought, the state's water and sewer utilities will see a lasting impact on their finances and operations, according to Fitch Ratings.

'The lessons and momentum that the dry spell left on political leaders, water suppliers and consumers will have lasting effects on the sector,' says Gabriela Gutierrez, Director. 'While Texas typically experiences dry spells, the most recent drought stretched for four long years and heightened the urgency to ensure adequate water supplies are available to sustain a prosperous economy.'

As of January 2016, 95% of Texas was drought-free, compared with just 34% the year prior; reservoirs are now 85% full, up from 63% in early 2015.

Recent wet weather from El Nino combined with a continued focus on conservation is likely to curb water consumption. As a result, retailers are likely to see a pull-back in revenues, which may result in modest declines in financial metrics. Fitch believes the base cost of water will inevitably rise as Texas utilities look to stabilize revenues while continuing the substantial investments required to ensure adequate water supplies.

Fitch's portfolio of Texas water and sewer utilities weathered the drought well, with only four downgrades attributable to the impact of drier conditions. These include Fort Worth, Garland, and two related credits for Palo Pinto County Municipal Water District No. 1 and its retailer, Mineral Wells. In addition, the city of Austin's municipal water and sewer bonds were assigned a Negative Rating Outlook. Only one utility, Grand Prairie, was upgraded.

Despite mostly resilient financial metrics, Fitch is concerned that surplus revenues have not been sufficient enough to maintain existing assets. Given the added challenge of updating aging infrastructure, utilities will be increasingly reliant on borrowable resources for funding.

The full report, 'Texas Water and Sewer 2016 Update,' is available at www.fitchratings.com.