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Fitch: California Water Capital Spending to Rise as Operating Risks Mount.

Fitch Ratings-San Francisco-17 April 2018: Capital spending at California water and sewer utilities is likely to increase to address water supply reliability and regulatory requirements, according to a new special report from Fitch Ratings. Capital investment is needed for infrastructure maintenance, water supply reliability, and new supply development. In response to recent drought and state mandated conservation efforts, many utilities raised rates which have pushed some utilities close to or above Fitch's affordability threshold.

"Water utilities may face increasing pushback and decreasing rate flexibility going forward, which could impact how well utilities are able to manage their finances," said Shannon Groff, Director, Fitch Ratings.

Fitch-rated California water and sewer agencies maintain strong credit profiles overall with an average rating of 'AA', consistent with Fitch's average rating across the sector. While utilities in the state face increasing business pressures, Fitch believes that most utilities have sufficient capacity to manage through these risks and maintain credit quality. Like other water and sewer utilities across the country, California utilities benefit from a sound fundamentals rooted in their essential services, monopolistic business nature and generally local rate-setting authority that help to insulate these utilities through changing business and economic cycles.

Credit quality could come under pressure for individual utilities where there is an unwillingness to raise rates to support current and projected financial metrics, particularly in instances surrounding increased cost pressures or declining consumption. However, Fitch expects these instances to be rare given the historical willingness of California utilities to preserve their financial results despite operating challenges.

"Southern California needs the most water utility investment as it is the most exposed to supply volatility. However, utilities state-wide have demonstrated strong comprehensive long-term capital and financing planning to manage risks," added Groff.

The report, 'California Water: Strong Credits but Operating Risks Abound,' is available at www.fitchratings.com.

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