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Fitch Ratings: Revenue Continues to Climb for U.S. Water Utilities

Fitch Ratings-Austin-12 November 2018: Growth in annual revenue accelerated for U.S. water utilities over the last year while leverage declined, according to Fitch Ratings in a new report.

Revenue increased almost 5% in the current median cycle with most of the growth again coming from rate adjustments. However, revenues did get a slight bump from increased water sales, which were up about 2% compared to flat sales during the past several years. Sewer flows were also marginally higher, by almost 1%. Conversely, leverage fell 5% for the year after rising 8% with 2018 medians.

“Added debt is expected to represent a manageable 36% of capital resources for water utilities over the next five years, which should limit growth in some key debt metrics,” said Managing Director Doug Scott.

Operating expenses jumped more than 5% with the 2019 medians and rose faster than operating revenues. However, water utilities have mitigated that potential risk by keeping debt carrying costs in check to just 18% of revenues (compared with 20% with the 2018 medians). Days cash on hand also reached a new high of 561 days of operating expenses.

“Liquidity at this level will give water utilities a significant amount of flexibility in meeting their capital funding needs and managing fluctuations in operations,” said Scott.

One area worth a closer look will be aging facilities, which rose to a new peak of 16 years this past period. Capital spending has been in line with 2018 medians at 142% of annual depreciation, but additional spending may be necessary to maintain infrastructure performance.

Fitch’s ‘2019 Water and Sewer Medians’ is available at ‘www.fitchratings.com’

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