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Fitch: California Drought May Pressure Water Utilities' Margins

Fitch Ratings-San Francisco/New York-29 September 2021: The current drought in California could cut into water utility revenues and pressure financial margins, Fitch Ratings says. Statewide water conservation mandates could be announced this fall, and some water agencies have already initiated cutbacks.

After two years of dry conditions, California is experiencing a moderate-to-exceptional drought, and an exceptional drought has been declared for over 88% of the state. The federal Central Valley Project (CVP) and California State Water Project (SWP) provide much of the state's water from the Sacramento and San Joaquin river basins. The largest of the SWP reservoirs, Lake Shasta and Oroville, are only at 25% and 22% capacity, respectively, or 40% and 35% of historical averages. As a result, the SWP water allocation is just 5% of the requested amount, the lowest since the prior drought that ended in 2016. The CVP, which provides water to seven of the state's top-10 agricultural counties, implemented a 0% allocation for agricultural contractors.

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