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Fitch: Inflation, Rising Costs Halt Improvement in U.S Public Power Credit Quality

Fitch Ratings-New York-13 June 2022: The latest financial medians could mean the end of a decade-long trajectory of improving financial metrics for U.S. public power, according to Fitch Ratings' "2022 U.S. Public Power Peer Review".

Credit quality and financial performance are both holding steady for the sector as a whole. However, performance was mixed last year, which according to Managing Director Dennis Pidherny is not surprising given rising operating costs and inflationary pressures that began to mount in late 2021. "Addressing the dramatically high rate of inflation and rising costs through disciplined cost recovery and rate-setting in 2022 will dictate the forward look on credit quality for public power utilities," said Pidherny.

Trends highlighted in the 2022 peer review include:

- Median ratios for coverage of full obligations improved for retail systems, sustaining an upward trend that began in 2015. Conversely, coverage for wholesales systems weakened for only the second time since 2012;
- The median capex-to-depreciation ratio for wholesale systems rose to 77%, but remained at or below 100% or the sixth time in the last eight years. The median ratio for retail systems remained strong at 145%;
- Cash on hand medians for retail and wholesale systems improved yet again, rising to the highest levels observed in a decade. This accumulation of excess cash likely remains attributable to muted levels of capital investment, stronger than anticipated demand following the coronavirus pandemic and disciplined rate-setting initiatives;
- Leverage metrics across the entire portfolio of rated credits were largely unchanged for the second year in a row. A modest increase in leverage metrics for wholesale systems was offset by a modest decline in metrics for retail systems. The figures for 2021, together with the figures for 2020, suggest a pause in the trend of deleveraging that began over a decade ago.

Fitch's U.S. Public Power Peer Review is a point-in-time assessment of Fitch-rated public power utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail public power systems, and rural electric cooperatives. It is accompanied by the 2022 Fitch Analytical Comparative Tool for Public Power, an interactive tool that provides enhanced trend analysis and peer comparison tables.

The full report, "2022 U.S. Public Power Peer Review," is available at www.fitchratings.com.

Contact:

Dennis Pidherny

Managing Director
+1-212-908-0738
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Kathy Masterson
Senior Director
+1-512-215-3730

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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