

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: Prolonged Drought Could In Time Pressure Some California Water Agencies

Fitch Ratings-San Francisco/New York-24 October 2022: Drought conditions across California have not triggered rating changes thus far for water agencies, though Fitch Ratings says in a new report some agencies could be susceptible to rating pressure over time.

Despite its second, severe, multiyear drought in a decade worsened by the Colorado River drought, California utilities are well-positioned to take on more debt to finance water reliability or other resiliency projects. The main reasons are low leverage, robust liquidity and, according to Shannon Groff, Director at Fitch, history on their side.

“California utilities successfully weathered a similar set of circumstances during the 2012-2016 drought by increasing rates, changing rate structures to capture higher fixed costs and prioritizing water reliability projects,” said Groff.

That said, the capacity for additional debt is not unlimited. Over time, California utilities will lose cushion necessary to take on added debt if rate pressures and affordability concerns begin to limit revenue defensibility, and skyrocketing water supply costs increase operating risk.

“As the need for more debt to implement necessary capital projects grows, ratings could be pressured”, said Groff. “This may leave agencies with already high rates that rely on imported water for a large portion of their water supply particularly susceptible to negative rating actions.”

The full report “Drought Augurs Risks for California Water Agencies” is available at ‘www.fitchratings.com’.

Contact:

Shannon Groff
Director
+1-415-732-5628
Fitch Ratings, Inc.
One Post Street, 9th Floor
San Francisco, CA 94104

Dennis Pidherny
Managing Director
+1-212-908-0738

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

Additional information is available on www.fitchratings.com

