

# Bond Case Briefs

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## S&P U.S. Not-For-Profit Utilities 2025 Outlook: Rough Water Likely Will Underscore Credit Trends

### **Sector View: Negative**

- Rising costs will continue to pressure margins. Sector-specific capital and operating costs continue to outpace broad inflation measures and, in many cases, have not been fully passed through to ratepayers. Although some costs have abated relative to recent years, payroll growth, staffing shortages, construction costs, and higher baseline interest rates will continue to drive expenditure increases.
- Capital investment needs are accelerating. Aging infrastructure is one of the most pressing matters in the water utility sector, with many assets nearing or exceeding their useful lives. Asset failures have led to rapid liquidity deterioration, and regulatory and climate hazards will exacerbate capital needs and require proactive operational management.
- Affordability is a widening credit issue, especially for the most vulnerable portion of the population. The sector has historically been underpinned by strong rate-setting flexibility, but we have observed a greater reluctance to fully pass through costs to ratepayers. This has resulted in narrowing margins and weaker liquidity, which we expect will continue in 2025, given rising revenue requirements and economic headwinds from potential federal policy shifts.

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