

Research Update:

# Central Alabama Water, AL Debt Rating Removed From CreditWatch Negative And Affirmed At 'AA-'; Outlook Stable

May 11, 2026

## Overview

- S&P Global Ratings affirmed its 'AA-' long-term rating on **Central Alabama Water**'s (CAW or the system; previously known as **Birmingham Water Works**) existing water revenue debt and removed the rating from CreditWatch, where it was placed with negative implications Feb. 11, 2026.
- The outlook is stable.
- The rating action reflects the receipt of financial updates, conversations with current management, and revisions made to the fiscal 2026 operating and capital budgets indicating certain necessary, yet unpopular, cost-cutting measures to stabilize the system's financial position while addressing important capital needs.

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## Rationale

### Security

The senior-lien bonds are secured by a pledge of the system's net revenues. All subordinate-lien debt was refunded by the board's 2024 \$62.7 million revenue anticipation bond (RAB). In our opinion, bond provisions are credit neutral and include a 1.25x maximum annual debt service senior-lien additional bonds test (ABT) and a rate covenant that requires the utility to maintain rates that provide 1.25x annual debt service coverage (DSC). In addition, for some debt outstanding, there is a debt service reserve fund equal to the lesser of the traditional three-prong test. During the recent political and financial issues that CAW has been facing, concerns have risen over the timely debt service payment for the RAB's bullet Sept. 1, 2026, maturity. After discussions with the current administration, CAW has secured sufficient liquidity, from both the RAB debt service account and Water Infrastructure Finance and Innovation Act loan proceeds, to make the timely debt service payment estimated at \$63.9 million.

### Credit highlights

The system has faced several challenges in the past few years, with declining reserves and increasing capital needs, culminating with the recent passing of Act 2025-297/Senate Bill 330 (the act), which brought significant required changes. Although the adoption and implementation of the act is to better address system oversight and improve financial management, it has created significant management turnover. Notably, with the passing of the act came changes to the composition of the board and an entirely new senior executive team. The act required engaging a CEO as well as conducting a search for a consulting engineer. The current management is experienced; however, because it was brought on in mid-December 2025 right before the close of the fiscal year, it was left without firm fiscal 2025 estimates or a fiscal 2026 budget. Although both the fiscal 2026 operating and capital budgets were adopted in a timely manner, we understood the adopted budget was temporary until the executive team could assess the current operation and develop a fiscally responsible fiscal 2026 budget while working toward stabilizing and improving cash and coverage levels.

The revised fiscal 2026 budget (adopted in March 2026) saw expenditure reductions in both the operating and capital budget-- all with no proposed rate increase. Highlights include a \$16.1 million reduction in operating expenditures, primarily due to the reduction of 225 positions while fully funding the RAB Sept. 1, 2026, debt service payment. On the capital side, spending was reduced by 54% to \$34.95 million (from \$75.76 million) while continuing to address two of the most pressing capital needs: the Lake Purdy Dam project and water loss projects (the latter of which are currently extremely high at 53%). Management estimates greater savings in fiscal 2027. Although rates were held constant for fiscal 2026, management projects modest rate increases for fiscal 2027 and beyond to ensure the maintenance of rate covenants while addressing rising operating costs and capital needs. In our opinion, current rates are somewhat on the higher side when compared with surrounding systems and could place pressure on future affordability and flexibility depending on the level of subsequent rate increases given the lower-than-average incomes. Furthermore, we understand management is revising the existing 10-year capital improvement plan (CIP) to re-prioritize capital projects while providing for fiscal stability. The adopted CIP totaled \$1.25 billion and has already been revised down to \$953.7 million; however, although management believes capital needs in 2027 and 2028 are somewhat realistic, they are working to completely revise fiscal years 2029 through 2035. Lastly, concerns remain about CAW's ability to issue additional senior-lien debt given the requirement of the 1.25x ABT. CAW is currently working with its new financial advisor to address these issues.

In our opinion, the rating further reflects system's:

- Sizable and primarily residential customer base that participates in the seven-county Birmingham broad and diverse metropolitan statistical area characterized by below-average incomes and somewhat elevated poverty levels;
- Affordable water rates that represent slightly less than 1% of median household effective buying income and that could be pressured over time depending on how current management chooses to implement future rate increases;
- Operational and financial management practices we believe will remain good, with several existing formal policies and practices either adhered to or further strengthened by the new management team;
- DSC we expect will remain at least at strong levels in the near term as management works to control costs while addressing ongoing capital needs, closing fiscal 2024 with all-in coverage of 1.5x and the expectation of coverage for fiscal 2025 slightly lower;

- Historically strong liquidity levels that have moderated in recent years, using just unrestricted cash of \$14.1 million, and are modest at 34 days' cash on hand for fiscal 2024, yet significantly more robust after factoring in available cash reported by management; and
- Highly leveraged debt burden, with a debt to capitalization ratio of 75.4% that could further rise should management choose to issue additional debt in some capacity.

### Environmental, social, and governance

We view CAW's environmental, social, and governance factors as slightly elevated at present. Although the system is not facing any environmental or regulatory issues, it has substantial capital needs to address, primarily from the Lake Purdy Dam project, and significant water loss, which could be plagued by CAW's inability to issue sufficient revenue bonds to cover costs, coupled with recent reserve declines. We will continue to address these issues as the CIP is further revised. On a governance level, although the current administration is new, they have a long and seasoned track record of managing sizable systems; however, we will continue to monitor how management addresses restoring fiscal stability over time and potential new policies implemented. Social factors surrounding rate affordability could become an issue should management need rate increases that significantly outpace area incomes.

### Outlook

The stable outlook reflects the notable strides management has made in a relatively short time to address the system's fiscal stresses and ensure fiscal stability, and maintain cash and coverage levels commensurate with the current rating while addressing sizable future capital needs, as well as our expectation that positive strides will be made over our two-year outlook horizon.

### Downside scenario

Should cash and coverage levels further decline leaving CAW unable to properly address operating and capital needs, we could lower the rating.

### Upside scenario

Although unlikely over our two-year outlook horizon, should management restore and sustain cash and coverage to levels in line with those of higher-rated peers, while managing necessary rate increases and adopting an achievable CIP, given current constraints, we could raise the rating.

### Central Alabama Water--economic and financial data

	Most recent	Fiscal year-end			Median (AA-)
		2025	2024	2023	
<b>Economic data</b>					
MHHEBI of the service area as % of the U.S.	81.0				105.0
Unemployment rate (%)	2.3				3.6
Poverty rate (%)	14.2				11.3
Water rate (6,000 gallons or actual) (\$)	42.3				37.7
Sewer rate (6,000 gallons or actual) (\$)	0.0				40.8
Annual utility bill as % of MHHEBI	0.9				1.2

**Central Alabama Water--economic and financial data**

	Most recent	Fiscal year-end			Median (AA-)
		2025	2024	2023	
Operational management assessment	Good				Good
<b>Financial data</b>					
Total operating revenues (\$000s)		231,759	229,538	220,132	15,647
Total operating expenses less depreciation (\$000s)		150,320	148,213	128,591	11,314
Net revenues available for debt service (\$000s)		85,645	87,700	97,054	--
Debt service (\$000s)		65,090	57,085	63,877	--
S&P Global Ratings-adjusted all-in DSC (x)		1.3	1.5	1.5	2.0
Unrestricted cash (\$000s)		14,128	15,099	20,680	16,768
Days' cash of operating expenses		34	37	59	610
Total on-balance-sheet debt (\$000s)		953,587	968,639	943,189	29,615
Debt-to-capitalization ratio (%)		75.4	77.8	79.4	31.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

**Ratings List**

**Outlook Action**

	To	From
<b>Water &amp; Sewer</b>		
Central Alabama Water, AL Water System	AA-/Stable	AA-/Watch Neg

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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