

Research Update:

Louisville & Jefferson County Metropolitan Sewer District, KY Series 2025A Revenue And Refunding Bonds Rated 'AA'

July 24, 2025

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to [Louisville & Jefferson County Metropolitan Sewer District](#) (MSD), Ky.'s approximately \$347.5 million series 2025A sewer and drainage system revenue and refunding bonds.
- At the same time, we affirmed our 'AA' long-term rating on the district's existing bonds and our 'A-1+' short-term rating on the district's senior subordinate sewer revenue commercial paper (CP) notes.
- The outlook is stable, where applicable.

Rationale

Security

The bonds are secured by net revenues of the system. Proceeds will fund system expansion and improvements and refund a portion of the district's existing bonds, for interest savings. Total debt outstanding totals \$3.1 billion.

The CP notes have a senior subordinate lien pledge on the revenues of the district's sewer and drainage system, with a combined par amount of \$500 million and \$290 million available in fiscal 2024. The majority of outstanding CP is currently used as permanent variable-rate funding that matches the variable leg of the district's swap agreements. We view the bond provisions as credit neutral. We base the CP ratings on our 'AA' long-term ratings on the district's senior-lien bonds, using our [Methodology For Linking Long-Term And Short-Term Ratings](#), criteria, April 7, 2017.

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Credit highlights

Our rating is anchored by the MSD's strong management practices, including demonstrated willingness to increase rates proactively to achieve consistently strong financial metrics, offset by sizable debt requirements to meet mandated projects.

More specifically, the rating reflects our view of the district's:

- Broad service area, with modest employment growth and stable tourism activity;
- Strategic planning that we believe targets essential risk factors (asset management, business continuity, and financial health) and is long range and routinely updated;
- All-in coverage that is forecast to remain near historical levels above 1.6x in the near term but weaken as management balances rate affordability and rising debt obligations; and
- Unrestricted cash that is projected to grow through 2030 to near 350 days of operating expenditures.

The preceding credit strengths are offset by the district's:

- Sizable debt profile, with debt to capitalization at 73% and \$875 million in additional borrowing plans through 2030, and
- Planned annual rate increases that will begin to pressure affordability in pace with the capital plan, though rates remain nominally comparable with those of similarly rated peers.

Environmental, social, and governance

We view the MSD's environmental and governance risk as a moderately credit negative consideration, in context of our operational management assessment. We view social factors to be credit neutral. The district is proactively addressing aging infrastructure and regulatory needs as part of its strategic priorities. Officials are making several investments across the MSD's facilities and collection system to reduce the district's environmental risks. While exposed to flooding risk, the district is targeting a large inventory and improvement program within the drainage system and has dedicated \$25 million annually to addressing asset management and \$70 million in renewal and replacement within the sewer system. In April 2025, the district experienced its eighth-largest flood event and while services were interrupted intermittently, financial and infrastructure weakening was minimal. In our view, the MSD's governance factors have increased risk, as rate increases above 7% must be approved by the Louisville & Jefferson County Combined Government's 26-member council, which historically has not allowed larger rate increases. This risk is somewhat mitigated by the district's board ability to still approve rate hikes up to 7% and the district's strong and conservative management planning and policies.

Outlook

The stable outlook reflects our anticipation that the MSD will continue to adjust service rates to achieve strong financial metrics, sustaining wide margins and strong all-in debt service coverage (DSC). We further anticipate that the district will fund its extensive capital improvement plan (CIP) using pay-as-you-go and projected debt-financing options without materially affecting its financial profile.

Downside scenario

Should the district's all-in DSC and liquidity fall to levels commensurate with those of a lower rating due to its increasing debt service requirements or changes in operations, we would consider a lower rating.

Upside scenario

Over the long term, a higher rating would be possible if the district improves financial margins and if the local economy's growth and diversification directly leads to improved wealth levels, and therefore an improved market assessment.

Credit Opinion

The utility provides wastewater and drainage services to all of Jefferson County, with wastewater services expanding into portions of Bullitt and Oldham counties. Management reports strong growth across the customer base, which requires some expansionary projects, and we expect it will add larger-than-usual capital contribution revenue in the next couple of years. We view the metro area as a regional employment hub providing incomes and poverty and unemployment rates near the national averages.

The district's annual rate increases are tentatively scheduled at 4.9% through 2030, though we note fiscal 2026 rates will likely be adopted at 3.9%, due to management's key priority of maintaining affordability for customers. In addition, recently acquired systems within Oldham and Bullitt counties have rate increases planned several years forward, which we expect will support upgrade and expansion projects within those service territories. Supporting utility rate affordability is the system's customer assistance program, which we view as effective in lessening elevated delinquency risk and mitigating economic pressures.

Management's strategic planning is a noted strength. It uses long-range financial planning, emergency planning, and asset management which is well integrated into the operations and decisionmaking within the systems. In our view, this provides the utility with strong adaptability to rising cost challenges.

The district's high debt burden remains a credit weakness. Its CIP is somewhat front loaded, with 50% of planned spending in the 15-year CIP, met so far. Management's five-year CIP totals \$1.3 billion, with an allocated \$660 million toward the consent decree. The district has a \$5 million management reserve to provide budgetary flexibility, which we view favorably. Management will use Water Infrastructure Finance and Innovation Act and State Revolving Fund funding to provide flexible, low-cost financing for portions of the capital plan. In 2022 the district's consent order was amended with an extension to 2035. This extension reflects the system's complex and competing priorities, due to balancing renewal and replacement targets, system growth, and regulatory requirements. MSD has increased levels of cash-financed capital spending to 24% in 2026, with a long-term goal of 25%.

Louisville and Jefferson County Metropolitan Sewer District, Kentucky--economic and financial data

	Most recent	Fiscal year-end			Median (AA)
		2024	2023	2022	
Economic data					
MHHEBI of the service area as % of the U.S.	97.8				110.0
Unemployment rate (%)	4.8				3.6
Poverty rate (%)	15.9				10.0
Water rate (6,000 gallons or actual) (\$)	0.0				36.5
Sewer rate (6,000 gallons or actual) (\$)	103.1				41.0
Annual utility bill as % of MHHEBI	1.9				1.1
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		426,275	392,026	365,367	24,286
Total operating expenses less depreciation (\$000s)		127,943	126,773	127,703	17,090
Net revenues available for debt service (\$000s)		321,394	283,856	246,541	--
Debt service (\$000s)		172,119	159,897	154,610	--
S&P Global Ratings-adjusted all-in DSC (x)		1.9	1.8	1.6	2.2
Unrestricted cash (\$000s)		164,234	135,722	118,629	24,667
Days' cash of operating expenses		469	391	339	631
Total on-balance-sheet debt (\$000s)		3,094,064	2,745,060	2,698,317	39,844
Debt-to-capitalization ratio (%)		73.2	73.2	74.5	27.0
Financial management assessment	Strong	--	--	--	Good

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

Ratings List

New Issue Ratings

US\$347.485 mil swr and drainage sys rev and rfdg bnds ser 2025A dtd 08/19/2025 due 05/15/2055

Long Term Rating AA/Stable

Ratings Affirmed

Water & Sewer

Louisville & Jefferson Cnty Metro Swr Dist, KY Sewer and Stormwater System AA/Stable

Louisville & Jefferson Cnty Metro Swr Dist, KY Sewer and Stormwater System 2nd Lien A-1+

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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