Research Update:

Louisville Water Co., KY Series 2025 Water System Revenue Bonds Assigned 'AAA' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the Board of Waterworks of the Louisville & Jefferson County Metropolitan Government, Ky.'s series 2025 water system revenue bonds, issued on behalf of the Louisville Water Co. (LWC).
- At the same time, we affirmed our 'AAA' rating on previously issued bonds on behalf of Louisville Water.
- The outlook is stable.

Rationale

Security

Securing debt service payments are water system net revenues. Other bond provisions include the following:

- The metropolitan government is due to receive a dividend payment from the water company that is equal to 50% average of net income for the current and two prior fiscal years. The dividend payment is subordinate to all operating expenses and debt service on the bonds, although in calculating our fixed-charge coverage, we view the payment as an operating expense because of its recurring nature.
- A debt service reserve equal to 50% of senior-lien pro forma maximum annual debt service (MADS) has been established.
- Rates are set so that net revenues are no less than 130% of MADS based on existing debt.
- An additional bonds test stipulates that net revenues in the fiscal year before a bond issuance must be at least 1.3x pro forma MADS, adjusting for rates in place when the additional bonds are issued.

As of Dec. 31, 2024, the company had about $287 million in water-secured debt outstanding. Bond proceeds will be used to finance improvements to the LWC's water infrastructure.

Credit highlights

The rating reflects our view of LWC's comprehensive management practices, underpinned by codified policies and robust risk mitigation strategies that we believe are supportive of ongoing credit stability. Practices include long-term strategic planning considering capital and financial planning, regional collaboration, and comprehensive rate review. These practices, in our view, have supported the company in achieving consistent financial performance, including extremely strong coverage and reserves. Following the issuance of the series 2025 bonds, we expect coverage will remain at extremely strong levels, with reserves expected to increase from fiscal 2024 levels. This is also supported by the company's internal targets of achieving 2x coverage and a minimum of 250 days of liquidity. We note that S&P Global Ratings' coverage and liquidity metrics differ from the company's, including our treatment of the company's dividend payment to the Louisville/Jefferson County Metro Government as a fixed cost due to its recurring nature.

The company's capital improvement plan totals about $790 million from fiscal 2025 through 2029, which will be supported by the series 2025 bonds. Most of the capital improvement plan (CIP) will be cash funded, which we believe exhibits the company's financial flexibility, and will finance replacements and improvements to the company's aging assets.

Other key credit factors include the company's:

- Diversifying service area economy, and large and growing customer base, which we believe has helped LWC achieve consistent financial results through economic cycles;
- Proactive and comprehensive formal asset management programs, with no regulatory-driven capital needs or capacity constraints; and
- Affordable water bill supportive of ongoing rate-setting flexibility, further supported by robust local affordability programs and customer engagement, which we view supportive of ratepayer engagement and transparency.

Environmental, social, and governance

Overall, we view environmental risks as credit neutral. According to data from S&P Sustainable1, Jefferson County faces outsized risks concerning severe rainfall and severe river flooding compared to state and national peers. We recognize that LWC's services span multiple counties, including Bullitt and Oldham. That said, management has a multifaceted approach to asset management, risk management, regulatory compliance, redundancy, and emerging contaminants. LWC is in compliance with all existing environmental regulations and continues to monitor for polyfluoroalkyl substances (PFAS) and related contaminants. LWC has a robust water supply derived from the Ohio River, and raw water intakes offer redundancy between both surface and riverbank filtration/aquifer.

Although we consider LWC's water rates currently affordable, we believe that some social risk exists because of the wide disparity in service base demographics. LWC works with the Louisville Water Foundation nonprofit, which offers financial assistance to support affordability and bill assistance, with dedicated staff who help with customer outreach and community involvement, which we view as credit supportive.

We view the company's governance as credit supportive. LWC maintains a thorough succession plan, with several opportunities to support further development. We do not believe the existence of LWC as a private water company introduces any additional governance risks because its only shareholder is Louisville-Jefferson County Metropolitan Government.

Rating above the sovereign

LWC's revenue bonds are eligible to be rated above the sovereign because we believe the company can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013, we consider not-for-profit utilities to have moderate sensitivity to country risk as local service charges, derived through an autonomous rate-setting process, represent virtually all of their revenues. This, coupled with operating expense flexibility, independent treasury management, and no history of government intervention, limits the company's exposure to federal revenues.

Outlook

The stable outlook reflects our expectation that LWC's financial operations will remain strong, given LWC's large and steadily growing user base, willingness to raise rates to meet its financial obligations, and additional long-term planning efforts that, in our view, will help foster a more predictable framework for future financial performance.

Downside scenario

We could lower the rating if coverage or liquidity metrics decline to levels that we do not view as consistent with the rating level, such as if local affordability pressures limit LWC's rate-setting flexibility as the city finances its CIP.

Louisville Water Co., Kentucky--economic and financial data

		Fiscal year-end			
	Most recent	2024	2023	2022	Median (AAA)
Economic data					
MHHEBI of the service area as % of the U.S.	89.0				114.0
Unemployment rate (%)	4.8				3.4
Poverty rate (%)	16.2				10.3
Water rate (actual) ($)	29.4				33.3
Sewer rate (actual) ($)	77.6				37.2
Annual utility bill as % of MHHEBI	0.6				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues ($000s)		253,318	238,351	224,134	73,371
Total operating expenses less depreciation ($000s)		155,109	145,724	139,591	53,231
Net revenues available for debt service ($000s)		104,835	100,366	86,178	--
Debt service ($000s)		35,304	33,289	30,023	--
S&P Global Ratings-adjusted all-in DSC (x)		3.0	3.0	2.9	2.6
Unrestricted cash ($000s)		77,100	107,629	125,441	90,711
Days' cash of operating expenses		181	270	328	713
Total on-balance-sheet debt ($000s)		309,375	331,249	350,168	140,491

Louisville Water Co., Kentucky--economic and financial data

		Fiscal year-end			
	Most recent	**2024**	**2023**	**2022**	**Median (AAA)**
Debt-to-capitalization ratio (%)		30.7	22.4	24.2	26.0
Financial management assessment	Strong	--	--	--	Strong

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$231.88 mil wtr sys rev bnds (Louisville Wtr Co) ser 2025 dtd 09/09/2025 due 11/15/2045	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Water & Sewer	
Louisville Water Company, KY Louisville & Jefferson County Metropolitan Government Water System	AAA/Stable

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.