

Research Update:

# Gallatin, TN 2025 Water, Sewer Revenue Improvement Bonds Assigned 'AA' Rating

April 28, 2025

## Overview

- S&P Global Ratings assigned its 'AA' long-term rating to the city of Gallatin, Tenn.'s anticipated \$30.2 million series 2025 water and sewer revenue improvement bonds.
- At the same time, we affirmed our 'AA' rating on the utility's existing parity revenue bonds.
- The outlook is stable.

## Rationale

### Security

The bonds are secured by net revenue of the city's water and sewer system, on parity with its series 2011, 2014, 2015, 2021A, and 2021B bonds.

The series 2025 bond proceeds will finance capital improvements to the city's water and sewer system, mainly for constructing a raw water intake and related upgrades.

The system is subject to a rate covenant requiring minimum debt service coverage (DSC) of 1.2x. We consider bond provisions adequate, including the 1.2x DSC requirement and a 1.2x maximum annual debt service (MADS) additional bonds test. There will be no debt service reserve fund, a concern moderated by the utility's consistently strong financial risk profile. When including the series 2025 issuance, the utility will have \$65 million in principal outstanding.

### Credit highlights

Gallatin, in Sumner County about 25 miles northeast of Nashville, has seen significant population growth, growing by nearly 116% since 2010. This surge primarily reflects rising home prices in Nashville, and the city's growth prospects remain strong in the near term. The utility serves approximately 18,000 water customers and 16,000 sewer customers, with 90% of its service base being residential. As the city continues to expand, management anticipates the

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need for further utility infrastructure improvements and expansions over the next ten years to keep up with the growth.

The utility's well-embedded management policies and financial practices have contributed to a healthy financial risk profile and stable operations in recent years. Its comprehensive risk management focuses on regulatory compliance, environmental stewardship, emergency preparedness, and system reliability, supporting both operational and financial stability. Since 2018, the utility's all-in DSC has consistently remained above 2.0x and is projected to stay above this threshold despite substantial debt plans over the next decade. Its unrestricted cash reserves exceeded \$28 million in fiscal 2024 but could face rating pressure if they fall below \$20 million. Management does not anticipate this, given its minimum net position policy, which sets a floor of 25% of expenses.

The rating further reflects our view of the utility system's:

- Vibrant service area economy supported by improving income indicators and proximity to the Nashville-Davidson metropolitan area, a credit positive. Offsetting factors include customer concentration, with the leading user accounting for over 10% of water and sewer usage and the top 10 at nearly 25%. Revenue is under \$25 million but may surpass that threshold by 2026, supporting economies of scale.
- Rates are affordable relative to area income levels (114% of the national average), with a 7.5% poverty rate. The city consults on rates biennially and maintains proactive rate-setting practices, which we view as a credit positive.
- Asset management is comprehensive and aligned with long-term goals. Water treatment expansion to 24 MGD is likely within five-to-10 years, with infrastructure for future growth to 36 MGD and 48 MGD. Wastewater expansion will likely be needed after 2030. There have been no recent regulatory violations; comprehensive drought and emergency plans are in place, which we view positively.
- Financial metrics are healthy, with DSC projected at or above 2.3x through fiscal 2026 and robust cash on hand covering well over one year of operations.
- Debt-to-capitalization is 33.2%, including the series 2025 issuance. The city plans to issue approximately \$170 million in additional debt over the next decade to support expansion and improvements. While debt metrics remain strong, rising debt could pressure DSC if not accompanied by rate increases, although we understand future issuances will align with rate adjustments to preserve coverage.
- Financial policies are codified and well-embedded. Long-range capital and financial planning and a detailed capital improvement plan (CIP) support reinvestment, system improvements, and growth-related projects.

## **Environmental, social, and governance**

Management effectively mitigates governance and social risks through well-established and adaptable operating and financial policies. Gallatin faces environmental risks due to elevated water loss, with nonrevenue water at 31% in 2024. The utility has taken action, including contracting with Water Systems Optimization for a comprehensive water loss assessment, as well as using satellite leak detection systems which pinpoints water loss areas, and installing remote pressure monitoring devices. While nonrevenue water loss remains high, management's proactive measures, including the new satellite detection system, are expected to reduce losses further. The utility meets state and EPA drinking water standards and has no regulatory

violations. Physical risks, such as flooding, tornadoes, and earthquakes, align with regional peers. Governance is strong, with credit-positive rate-setting, codified policies, and comprehensive planning.

## Outlook

The stable outlook reflects our view that the utility's proactive rate-setting will support continued healthy financial performance, even as it manages ongoing growth pressures and capital needs. We expect management to adjust rates as necessary to preserve DSC in line with the current rating and maintain a robust financial position, with solid all-in coverage and liquidity, throughout its sizable CIP.

### Downside scenario

We could lower the rating if financial margins significantly erode, becoming inconsistent with the current rating level, though this is unlikely in the next two years.

### Upside scenario

We could raise the rating if financial metrics and key economic indicators improve over time in tandem with its projected population growth and debt needs.

### Gallatin, Tennessee--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.	96.0				110.0
Unemployment rate (%)	3.2				3.6
Poverty rate (%)	7.5				10.0
Water rate (6,000 gallons or actual) (\$)	28.0				36.5
Sewer rate (6,000 gallons or actual) (\$)	28.0				41.0
Annual utility bill as % of MHHEBI	1.1				1.1
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		20,551	19,305	17,638	24,286
Total operating expenses less depreciation (\$000s)		11,224	11,430	9,841	17,090
Net revenues available for debt service (\$000s)		12,400	9,271	9,296	--
Debt service (\$000s)		3,724	3,701	2,361	--
S&P Global Ratings-adjusted all-in DSC (x)		3.3	2.5	3.9	2.2
Unrestricted cash (\$000s)		28,668	24,864	23,129	24,667
Days' cash of operating expenses		932	794	858	631
Total on-balance-sheet debt (\$000s)		36,605	39,565	42,046	39,844
Debt-to-capitalization ratio (%)		21.4	24.6	26.5	27.0
Financial management assessment	Good	--	--	--	Good

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

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Ratings List

New Issue Ratings

US\$30.2 mil wtr and swr rev imp bnds ser 2025 due 01/01/2050

Long Term Rating AA/Stable

Ratings Affirmed

Water & Sewer

Gallatin, TN Water and Sewer System AA/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.

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