CREDIT OPINION
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Louisville & Jefferson Co. Metro. Sewer

Update following upgrade to Aa2

Summary

Louisville & Jefferson County Metro Sewer District, KY's (MSD, Aa2 stable) credit profile reflects the essential service provided to a large regional economic center and the district's sound financial metrics despite large capital needs. The system is large with $160 million in O&M expenses, significantly greater than the median for the rating category. Debt service coverage has steadily increased in recent years to about 1.9x, which is supported by annual rate increases. While the district's five year plan projects coverage decreasing to around 1.5x, actual coverage has consistently outperformed projections because of conservative assumptions. Debt represents an elevated 5.5x revenues but will steadily decrease due to revenue growth from rate increases and debt amortization outpacing future issuances.

Credit strengths

» Demonstrated ability to navigate sizable capital needs while maintaining stable financial ratios

» Large service area that serves as a regional economic and employment hub

Credit challenges

» Elevated debt position

» Liquidity is below similarly rated peers

Rating outlook

The stable outlook reflects the likelihood that the district will maintain sound debt service coverage and liquidity through conservative budgeting and timely rate increases, despite ongoing capital projects.

Factors that could lead to an upgrade

» Reduction in debt to revenues to around 3.0x

» Sustained increase in debt service coverage over 2.0x

» Completion of projects related to consent decree

Factors that could lead to a downgrade

» Increase in debt to revenues nearing 7.0x

» Substantial decrease in coverage to below 1.5x or liquidity below 300 days cash on hand

» Failure to implement timely rate increases or to meet consent decree deadlines

Key indicators

Exhibit 1

Louisville & Jefferson County Metropolitan Sewer District, KY					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	29 years				
System Size - O&M ($000)	$159,112				
Service Area Wealth: MFI % of US median	90.60%				
Legal Provisions					
Rate Covenant (x)	1.10x				
Debt Service Reserve Requirement	DSRF funded at less than 3-prong test (A)				
Management					
Rate Management	Aa				
Regulatory Compliance and Capital Planning	Aa				
Financial Strength					
	2021	2022	2023	2024	2025
Operating Revenue ($000)	$329,418	$365,367	$392,026	$426,275	$469,142
System Size - O&M ($000)	$109,741	$118,979	$124,640	$137,929	$159,112
Net Revenues ($000)	$231,852	$255,389	$285,989	$311,408	$333,944
Net Funded Debt ($000)	$2,047,130	$2,233,020	$2,160,341	$2,419,932	$2,589,528
Annual Debt Service ($000)	$149,018	$162,506	$163,497	$169,385	$172,186
Annual Debt Service Coverage (x)	1.6x	1.6x	1.7x	1.8x	1.9x
Cash on Hand	357 days	364 days	397 days	307 days	365 days
Debt to Operating Revenues (x)	6.2x	6.1x	5.5x	5.7x	5.5x

Source: Moody's Ratings, MSD Audits

Profile

The Louisville & Jefferson County Metropolitan Sewer District was created and established in 1946 and is responsible for the sewer and drainage system that serves Louisville & Jefferson County Metro Government, KY (Aa1 stable). The district collects and treats wastewater from approximately 260,000 customers in Jefferson County, and portions of nearby Bullitt and Oldham Counties. In addition, the district is responsible for stormwater collection, drainage and flood protection within Jefferson County. The drainage system provides service to about 225,000 customers, the majority of which are residential.

Detailed credit considerations

Service area and system characteristics

MSD will continue to benefit from a large and diverse service area anchored by the Louisville regional economy, which serves as a major employment, manufacturing, logistics, healthcare, and distribution center. Population growth has been modest but generally stable, while demographic indicators remain near national averages. The system's size (as measured by operating and maintenance expenses) is large, providing meaningful economies of scale and operational flexibility.

The district operates five wastewater treatment plants in Jefferson County as well as several smaller plants in Bullitt and Oldham counties with a total treatment capacity of 209 million gallons a day (MGD), which compares favorably to average daily flow of 157 MGD. The system operates under a consent decree from 2005 for combined sewer overflows (CSOs) and sanitary sewer overflows (SSOs). The district has completed over $1.6 billion in projects that have resulted in a significant reduction in overflows. Officials estimate that about $500 million in projects remain and the majority should be finished by 203, well ahead of the 2035 deadline.

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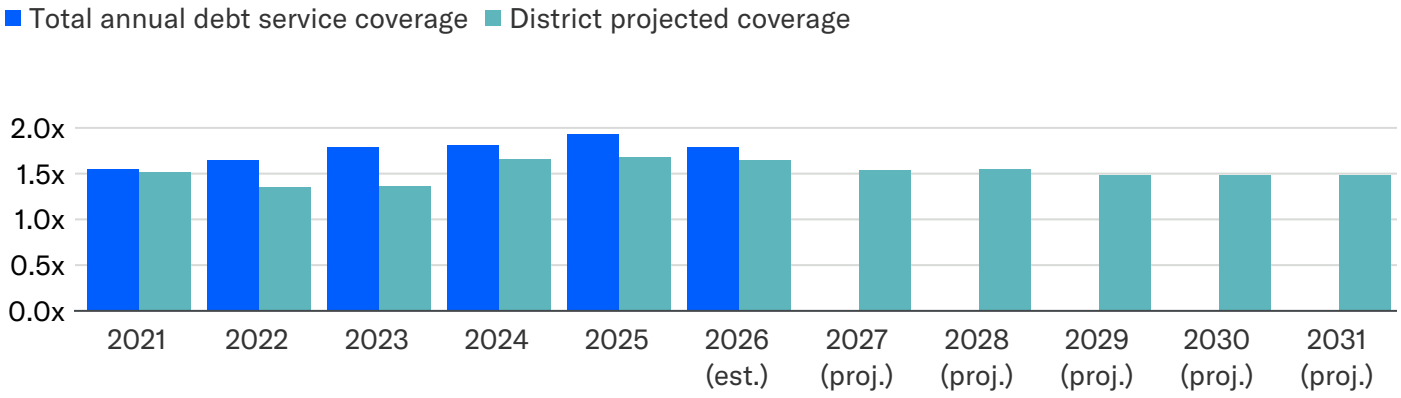
Debt service coverage and liquidity

Debt service coverage will remain sound despite rising debt service requirements associated with the capital program. Management has historically produced results that outperform budget and forecast assumptions, aided by conservative financial planning and demonstrated willingness to adjust rates when necessary.

Preliminary estimates for fiscal 2026 show coverage of 1.79x, which is down slightly from the prior year because of lower than budgeted rate increase and decreased revenues from distilleries. The fiscal 2027 budget assumes 1.54x coverage, though we anticipate actual coverage will be stronger. The five-year financial forecast includes annual rate increases of 3.5-4.5%, down from prior years of 5-6.9% due to considerable moderation of debt needs.

Exhibit 2

Actual debt service coverage regularly exceeds district projections



Source: Moody's Ratings, MSD audits

Liquidity

MSD's liquidity position will remain healthy and consistent with historic levels, around 330-400 days.

Debt and legal covenants

Leverage will remain elevated relative to peers, but will steadily decrease as the district has completed a significant majority of regulatory compliance and infrastructure investment requirements. The five-year capital improvement plan includes $1.2 billion, about 75% of which will be funded with debt. As such, we estimate that debt to revenue will remain above 5x over the next five years.

Debt structure

All outstanding senior lien revenue debt consists of fixed rate, long term amortizing bonds. Senior lien bonds require the district to charge rates sufficient to generate pledged revenues equivalent to at least 110% of aggregate net debt service.

The bond resolution governing the senior lien requires maintenance of a debt service reserve fund (DSRF) sized at the lesser of the standard three-prong test. The district's DSRF is funded with a mix of cash and a surety with Build America Mutual.

The district maintains a commercial paper (CP) program to manage cashflow of capital projects. The CP allows for a total maximum authorized amount of $500 million, with liquidity provided by Bank of America, N.A. ($250 million, Aa2 stable) and JPMorgan Chase Bank, N.A. ($250 million, Aa2 stable). The district's arrangement with both banks allow for two options: a standby line of credit for up to $250 million for the CP program and an option to place up to $250 million directly with each bank.

Debt-related derivatives

The district has two fixed payer swaps with a combined notional amount equal to the CP principal of $212 million. Wells Fargo Bank, N.A. (Aa2 stable) is the counterparty on the Series 2009-1 swap ($170 million notional in fiscal 2024) and Bank of America, N.A. is the counterparty on the Series 2009-2 swap ($42 million notional).

Pensions and OPEB

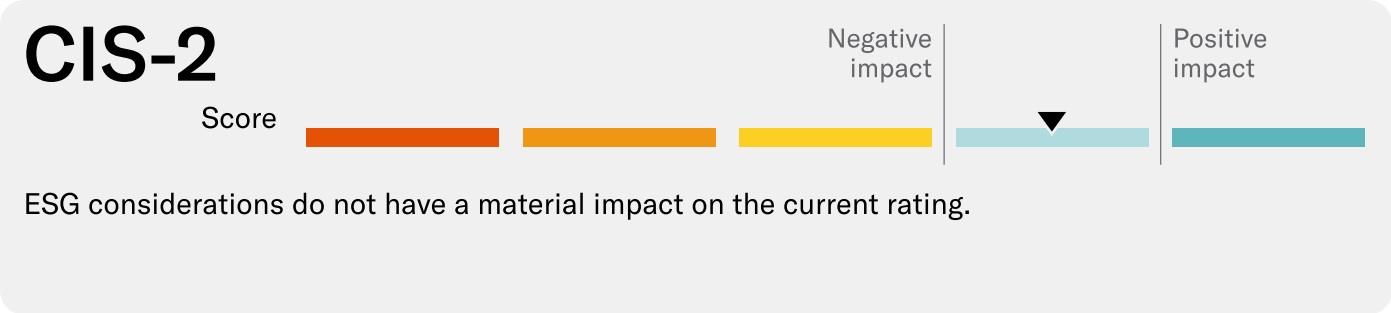
The district participates in the Kentucky County Employees' Retirement System (CERS), a multi-employer defined benefit pension and other post-employment benefit (OPEB) plan. Pension and OPEB liabilities do not present a material credit risk to the district.

ESG considerations

Louisville & Jefferson Co. Metro. Sewer's ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

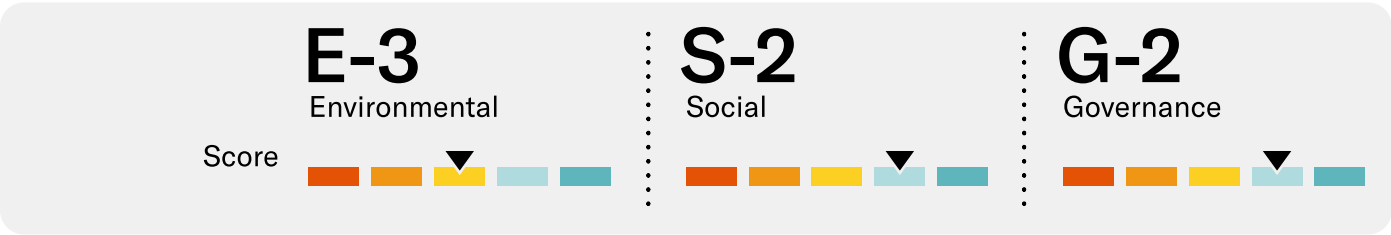


Source: Moody's Ratings

Louisville & Jefferson Co. Metro Sewer, KY's ESG credit impact score of **CIS-2** indicates that ESG considerations have a neutral-to-low impact on the system's credit rating. This reflects moderately negative credit exposure to environmental risks, neutral-to-low exposure to social risks and neutral-to-low governance risks.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The system's credit exposure to environmental risks is **E-3**, reflecting moderately negative exposure to water management risk. Wastewater operations face risks of increased operating costs or capital requirements in addressing any future violations. While the system has outstanding consent decrees for combined sewer overflows and sanitary sewer overflows, the majority of related projects have been completed and the system has not violated any regulations in recent years. The system has neutral-to-low exposure to physical climate risks, carbon transition, natural capital and waste and pollution considerations.

Social

The system's credit exposure to social risks is **S-2**, reflecting neutral-to-low exposure to all social risk categories: demographics and social trends, customer relations, human capital, health and safety and responsible production.

Governance

Louisville MSD's governance risk is **G-2**. The system benefits from positive financial strategy and risk management considerations, positive management credibility and track record considerations and neutral-to-low exposure to organizational structure and compliance and reporting considerations. Utilities overseen by a municipal government have moderately negative exposure to board structure, policies and procedures risk. The Mayor of Louisville-Jefferson County Metro Government has the ability to appoint board

members, subject to the approval of the Metro Council. In addition, rate increases of more than 6.9% must be approved by the Metro Council.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Municipal Utility Revenue Debt methodology includes a scorecard that summarizes the factors that are generally most important to utilities' credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating.

Exhibit 5

Louisville-Jefferson County Metro. Sewer District, KY

Rating Factors	Input	Weight	Score
System Characteristics (30%)			
Asset Condition (Years of Annual Depreciation)	29	10%	Aa
System Size (O&M in Thousands of Dollars)	$159,112	7.5%	Aaa
Service Area Wealth (Median Family Income as % of US)	91%	12.5%	Aa
Financial Strength (40%)			
Annual Debt Service Coverage (x)	1.94	15%	Aa
Days Cash on Hand	365	15%	Aaa
Debt to Operating Revenue (x)	5.5	10%	A
Management (20%)			
Rate Management	Aa	10%	Aa
Regulatory Compliance and Capital Planning	Aa	10%	Aa
Legal Provisions (10%)			
Rate Covenant (x)	1.1	5%	Baa
Debt Service Reserve Requirement	A	5%	A
Notching Factors			**Up/Down**
No Notching Factors Applied			N/A
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aa2

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.
Source: Moody's Ratings, MSD Audits

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