MOODY'S RATINGS

CREDIT OPINION
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Louisville & Jefferson Co. Metro. Sewer

Update following assignment of positive outlook

Summary

Louisville & Jefferson County Metro. Sewer District, KY's (MSD, Aa3 positive) credit profile reflects the essential service provided to a large service area that is a regional economic center and the district's sound financial metrics despite large capital needs. The system is large with $138 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 1.8x, which is supported by annual rate increases. Debt represents an elevated 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 positive outlook reflects the likelihood that the district's financial metrics will remain stable and debt to revenues will decline as capital needs moderate.

Factors that could lead to an upgrade

» Maintenance of coverage above 1.6x and liquidity around 365 days

» Continued reduction in debt to revenue, remaining below 5.5x

Factors that could lead to a downgrade

» Significant increase in debt to revenues

» Substantial decrease in coverage nearing 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)	30 years				
System Size - O&M ($000)	$137,929				
Service Area Wealth: MFI % of US median	91.20%				
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					
	2020	2021	2022	2023	2024
Operating Revenue ($000)	$319,057	$329,418	$365,367	$392,026	$426,275
System Size - O&M ($000)	$110,301	$109,741	$118,979	$124,640	$137,929
Net Revenues ($000)	$224,356	$231,852	$255,389	$285,989	$311,408
Net Funded Debt ($000)	$1,845,035	$2,047,130	$2,233,020	$2,160,341	$2,419,932
Annual Debt Service ($000)	$145,762	$149,018	$162,506	$163,497	$169,385
Annual Debt Service Coverage (x)	1.5x	1.6x	1.6x	1.7x	1.8x
Cash on Hand	331 days	357 days	364 days	397 days	307 days
Debt to Operating Revenues (x)	5.8x	6.2x	6.1x	5.5x	5.7x

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 characteristic

The district's large and diverse customer base will remain stable in the near term, given a lack of service competition and modest customer growth. Louisville is a regionally significant economic and employment hub and the region continues to experience growth in the advanced manufacturing and logistics/shipping sectors, as well as residential development. The system's customer base is diverse and mostly residential.

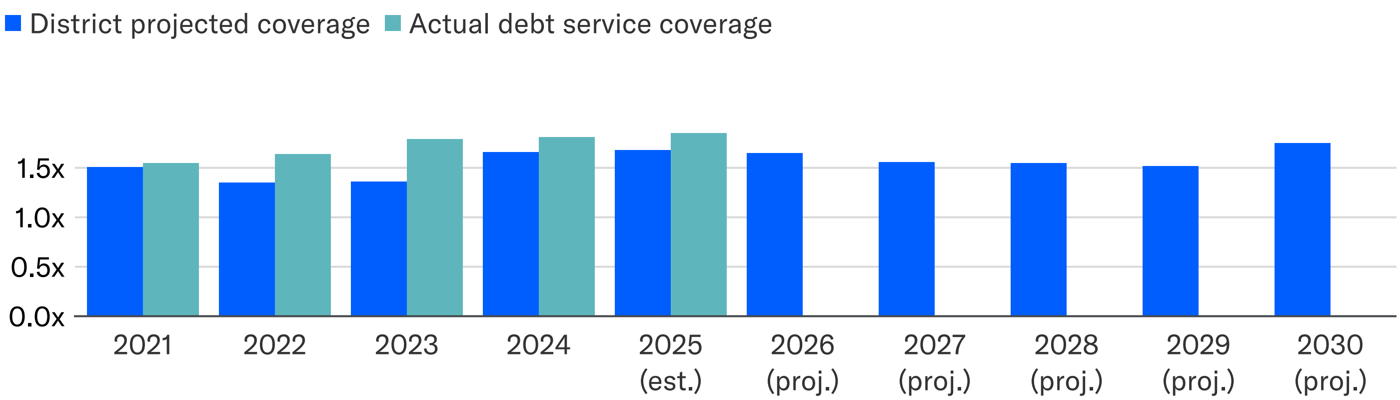
The district operates five wastewater treatment plants in Jefferson County as well as several smaller plants in Bullitt and Oldham counties with a total treatment capacity of 209 million gallons a day (MGD), which compares favorably to average daily flow of 129 MGD. The system operates under a consent decree from 2005 for combined sewer overflows (CSOs) and sanitary sewer overflows (SSOs). The district has completed $1.6 billion in projects that have resulted in a significant reduction in overflows. Officials estimate that about $800 million in projects remain and the majority should be finished by 2030, well ahead of the 2035 deadline.

Debt service coverage and liquidity

Despite significant capital projects over the last several years, the system's financial metrics are sound and consistently outperform projections. Management has a long history of implementing annual rate increases, including 6.9% in fiscal 2025. For fiscal 2026, the board is considering an increase between 3.9-4.9%. Rate increases, plus steady customer growth, have resulted in modest improvement in debt service coverage ratios despite additional borrowing. The district's five year financial projections include 4.9-6.9% rate increases through fiscal 2030.

Officials project total debt service coverage to remain stable in fiscal 2025, around 1.85x (compared to 1.7x projected). Outyear projections estimate slight decreases in coverage, around 1.5-1.75x, but the district has historically outperformed projections given conservative estimates. While coverage is below medians, this is somewhat mitigated by the system's very large size, with O&M more than 10x the Aa3 median.

Exhibit 2
Actual debt service coverage regularly exceeds district projections



Source: Moody's Ratings

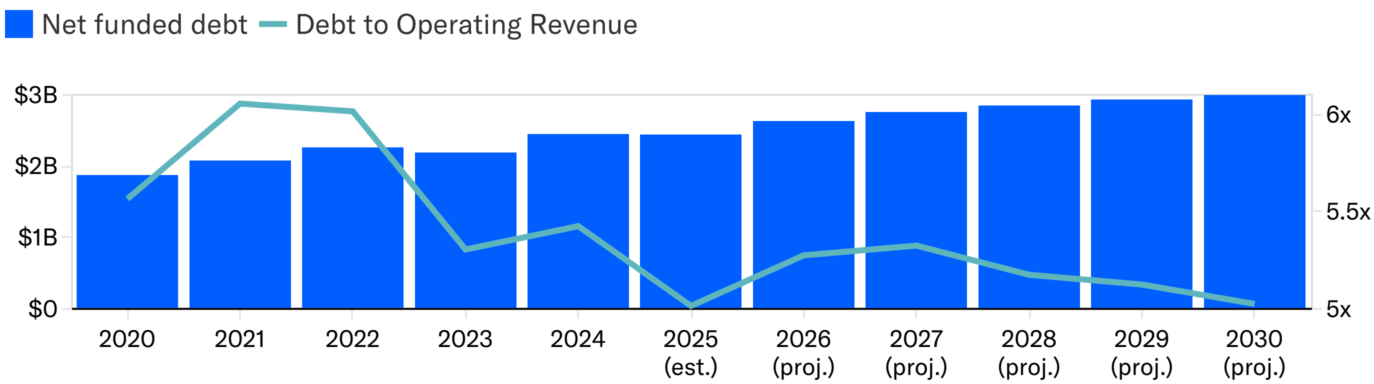
Liquidity

Unrestricted cash and investments below the national medians for the Aa3 rating category, but is solid and nominally large. Officials project that days cash on hand will remain around a year, or slightly under $200 million.

Debt and legal covenants

The district's debt position will remain elevated but will moderate. Following the 2025A issuance, total debt outstanding will represent around 5.3x revenues. Given planned rate increases and subsequent revenue growth, we anticipate that debt to revenues will continue to decline as projected future issuances are less than the amount of debt paid off each year.

Exhibit 3
Leverage remains elevated but will moderate through 2030



Source: Moody's Ratings

Louisville MSD's five-year capital plan totals $1.3 billion in projects, which will primarily be funded with around $875 million of debt. Management maintains flexibility to draw on its CP program for short-term financing of capital before long-term takeouts.

Despite future debt plans, Louisville MSD's debt burden will remain manageable given regular annual rate increases, strong long-range capital planning, and continued amortization of outstanding debt. Future reviews will focus on the management's ability to adjust rates, as necessary, to ensure the system's debt and financial metrics remain stable given the near term debt issuance plans.

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 has historically been cash funded, however management recently replaced a portion of the reserve with a surety with Build America Mutual in order to release cash for capital projects.

The 2025A bonds will permanently finance up to $100 million in outstanding notes. The district plan to maintain the program to manage cashflow for capital needs. The notes are senior subordinated debt of the district. The district's CP program 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 positive). 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.

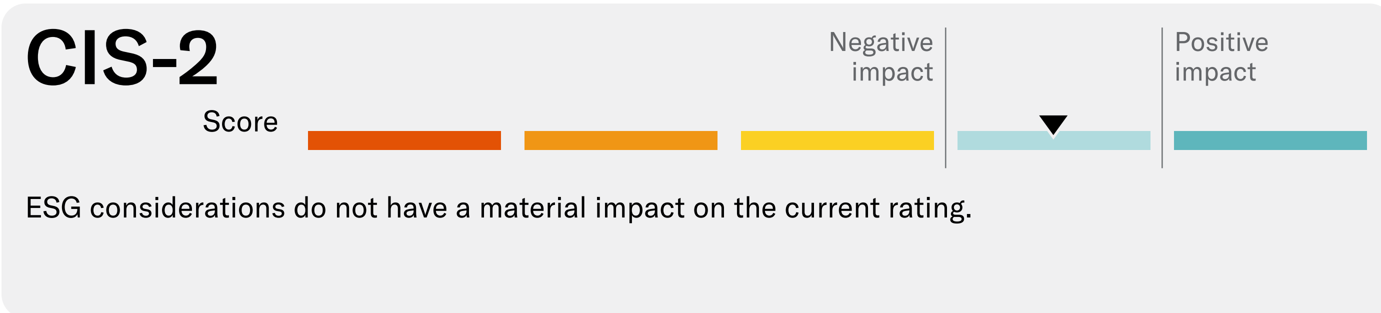
Debt-related derivatives
The district has two fixed payer swaps with a combined notional amount equal to the CP principal of $212 million. Wells Fargo Bank, N.A. (Aa2 stable) is the counterparty on the Series 2009-1 swap ($170 million notional in fiscal 2024) and Bank of America, N.A. is the counterparty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

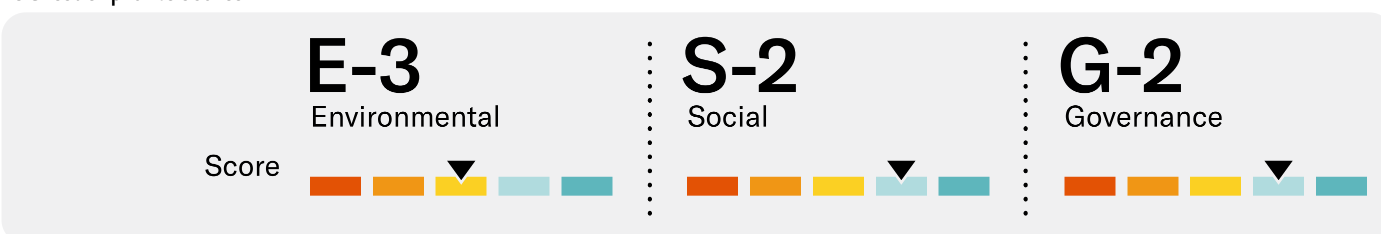
Exhibit 4
ESG credit impact score



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 5
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 6

Louisville & Jefferson Co. Metro. Sewer District, KY

Rating Factors	Input	Weight	Score
System Characteristics (30%)			
Asset Condition (Years of Annual Depreciation)	30	10%	Aa
System Size (O&M in Millions of Dollars)	$137,929	7.5%	Aaa
Service Area Wealth (Median Family Income as % of US)	91%	12.5%	Aa
Financial Strength (40%)			
Annual Debt Service Coverage (x)	1.84	15%	Aa
Days Cash on Hand	307	15%	Aaa
Debt to Operating Revenue (x)	5.68	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			Aa3

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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