The Metropolitan Government of Nashville and Davidson County, TN – Water and Sewer

ANALYTICAL CONTACTS

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METHODOLOGY

Public Finance: U.S. Municipal Retail Utility Revenue Bond Rating Methodology

Ratings

Description	Rating Action	Rating/Outlook or Watch
Issuer: The Metropolitan Government of Nashville and Davidson County, TN		
Water and Sewer Obligations Senior Lien	Affirmed	AA/Stable

Rating Summary

The long-term rating reflects the Department of Water and Sewerage Services's (the "System" or "Metro Water Services") strong financial performance, as exhibited by ample debt service coverage and moderate leverage, competitive retail rates, and the provision of essential services to an economically solid and growing service area within the Nashville metropolitan statistical area (MSA). Credit challenges center on the System's substantial five-year capital improvement plan ($4.1 billion) which includes considerable debt funding that may pressure leverage, and the Systems' ongoing ability to maintain rates adequate to sustain projected financial performance through the capital program.

The Water and Sewer Senior Lien Revenue Bonds (the "Bonds") are limited obligations of the Metropolitan Government of Nashville and Davidson County, TN ("Metro Government"), payable and secured by a pledge of and lien on the water and sewer revenues of the System, after payment of operation and maintenance expenses. The senior lien Bonds, of which $1.7 billion were outstanding at FYE 2025, rank on parity with the $315 million US Environmental Protection Agency Water Infrastructure Finance and Innovation Act Loan ("WIFIA loan"), and $34.1 million in State Revolving Fund loans (collectively, the "Senior Lien Obligations"). The Senior Lien Obligations rank senior in payment to subordinate lien debt, which includes subordinate revenue bonds and commercial paper notes, of which, there is $185 million in aggregate CP and no subordinate revenue bonds currently outstanding, respectively. The Department of Water and Sewerage Services (the "Department") maintains a $500 million commercial paper program, consisting of $200 million in traditional commercial paper authorization and $300 million in extendible commercial paper. The WIFIA loan was entered into in September 2022 to finance capital improvements to the Omohundro and K.R. Harrington Water Treatment Plants. To date, $177.8 million of the WIFIA loan has been drawn, with debt payments scheduled to begin in 2026 and extend through 2055.

The Metropolitan Government of Nashville and Davidson County (the "Metro Government"), via the Department, owns and operates the water and sewer enterprise, which provides water, sewer collection, sewage treatment, and disposal facilities to a well-diversified mix of retail customers in its service area, as well as sewage treatment service for an additional nine wholesale accounts. The System is managed by the Department, and governance rests with the Metropolitan County Council of the Metropolitan Government (the "Metro Council"), an elected 40-member body which issues rate ordinances and bond resolutions and approves capex and annual budgets for the Department.

The System provides essential utility services to a population base of approximately 750,000 in central Tennessee[1]. For 2025, the Enterprise system served 229,735 water and 232,035 sewer accounts in the metro-Nashville service area, which is among the fastest growing metropolitan areas in the U.S. The Nashville MSA is a hub for higher education, a cultural center for the region, and has benefited from an influx of corporate campuses in recent years, including companies such as Amazon and Oracle. The System's service area continues to maintain historically above average per capita income and low unemployment levels relative to the State.

KBRA notes the System's capital needs are significant with a 5-year capital improvement plan (CIP) through FY 2032 totaling $4.1 billion in water and sewer projects, an increase of approximately $600 million over the prior year's forecast. Of the total CIP, approximately $2.8 billion is for ongoing water and sewer system improvements and replacement of aging infrastructure, and $1.3 billion is for projects developed under a Consent Decree (CD) with the Tennessee Department of Environmental Control (TDEC) and the United States Environmental Protection Agency (EPA) which specifically address sanitary sewerage and combined sewerage overflow deficiencies. The System anticipates internally funding at least 30% of the CIP, pursuant to its debt management policy. As of April 30, 2026, the System had spent approximately $1.1 billion on CD projects since the EPA's approval of the System's Corrective Action Plan in 2017, with another $1.3 billion projected to be spent through 2032. CD program costs include the upgrade and expansion of biosolids facilities at the KR Harrington and Omohundro Water Treatment Plants, which is being partially funded via the WIFIA loan that is anticipated to be fully drawn by FYE 2027.

While the System did not adjust rates between 2011 and 2019, a substantial 26.4% rate increase was implemented in 2020, following a rate study, to rebalance operations and to generate sufficient net revenues to support the System's extensive capital program. Rates were subsequently adjusted annually, pursuant to a 5-year rate plan with more moderate 2.6% to 4.0% rate increases through FY 2024. Under the current rate ordinance, System rates will continue to increase prospectively, on an annual basis, by the greater of 2% or CPI -U inflation rate. KBRA notes the System can request additional rate recovery if needed, with the approval of the Metro Council. Rates are currently in-line relative to other large systems in the State and, in KBRA's view, affordable given the average combined annual residential water and sewer bill is equivalent to a modest 1.06% of the 2024 median household income. This reflects an average combined monthly residential bill of $69.09. KBRA notes that an unanticipated escalation in projected capital costs could require higher rate increases than currently contemplated in the rate ordinance, but likely manageable given adequate rate flexibility and affordability, and the strong socioeconomic characteristics of the service area.

The System has achieved strong debt service coverage (DSC) of Senior Lien Obligations of 2.4x or higher in each of the last five years, well above the 1.20x rate covenant for the Bonds. Senior lien DSC remains in excess of 2.0x even after the PILOT transfers (payment-in-lieu-of-taxes), which accounted for a modest 4.4% of FY 2025 operating revenue. As per the Bond Resolution for the Senior Lien Bonds, PILOT payments are legally due after debt service is paid. Additionally, days cash on hand, based upon unrestricted cash reserves, were also strong at more than 225 days, for the past five years. The System's liquidity is further bolstered by CP, of which, $315 million is currently available, although the CP program is primarily used to interim finance the large capital plan. Lastly, while designated as restricted by the Metro Council, the System maintains an Extension and Replacement Fund (the "E&R Fund"), to internally fund a portion of the CIP. The E&R Fund totaled $346.7 million at FYE 2025, equivalent to 635 days liquidity for FY 2025.

Favorably, System leverage and debt burden remain moderate, as growth in net utility plant has kept pace with the rise in debt, resulting in outstanding debt equivalent to 54.1% of net fixed assets for FY 2025, maintaining adequate debt capacity. The leverage ratio is also in line with the System's debt management policy to maintain leverage at 55% or less. Given reasonable assumptions, including annual 1% customer growth, modest rate increases, and a minimum of 30% pay as you go capex, the System's DSC is projected to tighten, but should remain in excess of 2x for the Senior Lien Obligations, which is supportive of the current rating level.

The Stable Outlook reflects KBRA's expectation that the System will continue to achieve balanced operations and strong debt service coverage ratios, and that system leverage and affordability will remain manageable as the System works to address ongoing infrastructure improvements and capex under its Consent Decree.

1 Reflects direct customers in Davidson County and wholesale customers in surrounding counties, as per MWS's 2024 Long-Term Control Plan.

Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives (+)

- Providing essential services with rate setting autonomy. Demonstrated willingness to increase rates on an annual basis since fiscal 2020, to meet operating and capital requirements.
- Strong financial performance supported by fiscally sound financial and rate plans, with ample cash flow, liquidity, and debt service coverage. Rates remain competitive, maintaining rate flexibility going forward.
- Strong service area demographics, encompassing the rapidly growing City of Nashville, with above average income and employment levels.

Credit Challenges (–)

- Managing the substantial capital plan and the potential for unanticipated cost increases through 2032.
- Significant debt requirements to fund the capex may pressure leverage higher over the five-year horizon.

Rating Sensitivities

+

- Substantial fulfillment of Consent Decree and ongoing capex requirements accompanied by the maintenance of moderate or reduced leverage and affordable rates.

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- Material escalation of the Consent Decree and other capital program costs to a level placing significant pressure on rate affordability and/or leverage.
- Inability to adjust rates as needed and on a timely basis to manage the systems' operating and capital needs while maintaining moderate leverage.

Key Ratios

Department of Water and Sewerage Services (or "MWS")		
Metro Government Nashville & Davidson County, Population		704,695
Population Δ Total Growth 2014-2024		*9.5%*
Metro Government Nashville & Davidson County, Per Capita Income		$51,787
% of State (2024)		*127.2%*
Unemployment Rate (Feb 2026) [1]		3.2%
% of State		*84.2%*
	FY2024	**FY2025**
Total Customers		
Water	226,660	229,735
% Change YoY	*1.5%*	*1.4%*
Sewer	229,871	232,035
% Change YoY	*2.0%*	*0.9%*
System Debt and Leverage		
Senior Lien Obligations[2]	$1.33 billion	$1.69 billion
Subordinate Lien (Commercial Paper)	$256 million	-
Debt/Net Fixed Assets	56.4%	54.1%
Debt Service Coverage and Liquidity		
Senior Lien Debt Service Coverage (x)	2.80x	2.68x
Senior Lien DSC after PILOT Payment (x)	2.63x	2.47x
Days Cash On Hand (Unrestricted Cash)	266	252

[1]Reflects unemployment data for Davidson County (coterminous with Metro service area).

[2] Includes outstanding senior lien revenue bonds and state revolving fund borrowings; excludes the $315 million WIFIA loan as the loan had not been drawn upon yet.

Sources: MWS audited financial statements, US Census data and KBRA metrics

Rating Determinants

Rating Determinants (RD)	Senior
1. Management, Governance, Regulatory Framework	AA
2. Legal Mechanics and Security Provisions	AAA
3. Service Area and Demand	AA+
4. Operations and Capital	AA-
5. Financial Profile and Debt	AA

For more information regarding Rating Determinants 1 – 5, and the Bankruptcy Risk Assessment, please refer to the prior report dated May 21, 2025.

RD 5 Update: Financial Profile and Debt

Figure 1

Metropolitan Government of Nashville and Davidson County - Department of Water and Sewerage Services						
Leverage and Debt Service Coverage						
FYE June 30 ($000s)		**2021**	**2022**	**2023**	**2024**	**2025**
Revenues						
Water System		$110,949	$117,185	$135,346	$133,322	$139,352
Sewer System		199,008	218,255	232,385	237,332	243,542
Non-Operating Revenues		1,492	(2,675)	17,566	37,221	55,167
Total Revenues[1]		311,449	332,765	385,296	407,876	438,061
Expenses						
Operating Expenses (Exclude Depreciation & Amort.) [2]		108,824	138,150	159,495	179,223	199,262
Net Revenues Available for Debt Service	a	202,624	194,615	225,801	228,652	238,799
Debt Service						
Senior Lien Obligations (Revenue Bonds/WIFIA/SRF)	b	56,257	81,253	82,076	81,538	89,182
Subordinate Lien Long-Term Obligations	c	18,261	-	-	-	-
Total Debt Service		74,517	81,253	82,076	81,538	89,182
Payment in Lieu of Taxes to Metro Government	d	14,000	14,000	14,000	14,000	18,760
PILOT Payments % MWS Total Revenue (Paid After Debt Service)[3]		*4.5%*	*4.2%*	*3.6%*	*3.4%*	*4.3%*
Debt Service Coverage (DSC)						
Senior Lien Obligations Indenture DSC (1.2x rate covenant) [4]	a / b	3.60x	2.40x	2.75x	2.80x	2.68x
Senior Lien DSC (including PILOT payment)	(a - d) / b	3.35x	2.22x	2.58x	2.63x	2.47x
Coverage of Total Debt Service (1.0x rate covenant)	a / (b + c)	2.72x	2.40x	2.75x	2.80x	2.68x
Leverage (Long-Term Debt/Net Fixed Assets)		56.6%	63.0%	58.1%	56.4%	54.1%

[1] Total Revenues are defined as per the Bond Resolution.

[2] Operating expenditures do not include the Payment in Lieu of Taxes to the Metro Government.

[3] As per the Bond Resolution, the PILOT payment is paid after debt service on MWS' senior lien obligations. The PILOT is for the Metro Government's Sports Authority fund.

[4] As per Bond Resolution, DSC calculation is before any PILOT payment and includes interest earnings.

Sources: Metro Government, Department of Water and Sewerage Services audited financial statements; Continuing Disclosure; and KBRA metrics

Figure 2

Department of Water and Sewerage Services - Liquidity					
FYE June 30 (dollars in thousands)					
	2021	**2022**	**2023**	**2024**	**2025**
Unrestricted Cash and Cash Equivalents	$86,816	$123,645	$116,327	$123,632	$123,415
Extension & Replacement Fund for Capex (Restricted)	-	-	396,850	384,712	346,678
Operating Expenditures (Excluding Depreciation)	108,824	138,150	159,495	179,223	199,262
Days Cash on Hand - Unrestricted Cash	291	327	266	252	226

Sources: Metro Water Services financial audits; KBRA metric

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