Research Update:

# Humboldt Utilities Authority, TN Series 2025 Electric System Revenue Bonds Rated 'BBB'; Outlook Is Stable

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## Overview

- S&P Global Ratings assigned its 'BBB' long-term rating to Humboldt Utilities Authority, Tenn.'s $8.25 million series 2025 electric system revenue bonds.
- The outlook is stable.

## Rationale

### Security

The authority's electric system net revenue pledge secures the series 2025 bonds, which are on parity with the authority's unrated and privately placed series 2024A and 2024B electric revenue debt. Officials plan to use series 2025 bond proceeds to install fiber-optic infrastructure and enter the fiber-to-the-home business. The fiber-system, which will be a separate unit from the electric system, and which is not part of the bond security pledge will compete in the broadband business and provide home internet and telephone service. Following the series 2025 debt issue, the electric system will have $9.6 million in debt outstanding.

We consider bond provisions credit neutral with a rate covenant equal to 1.2x annual debt service. The authority does not maintain a debt service reserve for the series 2025 bonds, but we consider its liquidity position to be adequate for a distribution system.

### Credit highlights

The rating is based on our view of the electric distribution system's small customer base and limited local service area economy, thin fixed-charge coverage metrics, and the authority's plans to enter the competitive broadband business, which will expose the electric system to greater operational risk and could weaken financial metrics. Its fiber system will borrow $1.1 million from the electric system and $711,000 from the gas system to support start-up working capital needs as it begins to fund fiber to the home infrastructure. Following planned cash draws in fiscal years

2026 and 2027 to support its fiber system, we expect electric system liquidity will decline to 50 days' cash before improving by fiscal 2028. Following the board's 2% rate increase in July 2025, management expects regular rate increases will support maintenance of adequate fixed-charge coverage as annual debt service requirements more than double to $669,000 in fiscal 2027.

The rating further reflects our view of the electric utility's credit weaknesses:

- Concentrated customer base among large industrial customers that are more susceptible to economic cycles, with the 10 leading customers accounting for 43% of total revenue;
- Weak city income levels with median household effective buying income 39% below the national average, limiting the system's revenue raising flexibility;
- Planned entry into the competitive broadband business could result in additional cash drawdowns if projected customer acquisition rates fall below expectations, and pressure electric system liquidity;
- Rapid increase in its debt burden to support its fiber business, resulting in a debt to capitalization ratio close to 40% by fiscal 2026.

These credit factors are offset in part by our view of the utility's:

- Benefits from a long-term power supply contract as a distributor of Tennessee Valley Authority (TVA) electricity and TVA's diverse power supply portfolio;
- Stable customer base and revenue stream over the past three fiscal years that produced an adequate 1.1x fixed-charge coverage; and
- Currently competitive electric retail rates, although we expect 2% base rate increases in 2024 and 2025 might pressure rate affordability given weak incomes levels.

## Environmental, social, and governance

As a TVA distributor, we believe its environmental factors are credit neutral although the system faces indirect energy transition risk. By sharply cutting coal's contribution to electricity production to 13% in recent years, TVA has greatly reduced its environmental exposures. This shift reflects the shuttering of coal plants and adding owned and contracted gas-fired and renewable generation capacity, with contributions diluting those of coal-fired plants. Nevertheless, natural gas's contribution to generation has increased in recent years to 22%-23%, which we view as moderately negative because of its carbon attributes. TVA is adding additional gas generation and expects the percentage of its contribution will increase.

We believe the system's social factors including rate affordability are a credit weakness. In our view, the city's weak income levels limit revenue raising flexibility, though city incomes have improved since a weak 54% of the national average in 2022. We are monitoring the strength and stability of electric utilities' revenue streams given inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), reflecting higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. We anticipate that substantial and sweeping tariffs could also pressure electricity prices as utilities source costlier materials and components critical to the sector's build cycle. Coupled with the high degree of unpredictability around federal policy, the economy's stressors and the associated financial pressures consumers are facing, including diminished consumer confidence and expectations of rising inflation and unemployment, might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which could negatively affect utilities' financial metrics (see Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth, June 24, 2025).

We consider governance factors credit neutral and expect regular base rate increases in addition to monthly TVA fuel-adjustments will support maintenance of sufficient coverage. We believe entry into the competitive telecom business requires strong risk management practices and expect management to follow its customer acquisition rates closely as they manage electric system liquidity throughout the fiber buildout. Management provided a multiyear financial forecast for both fiber and electric systems and expect the fiber system to achieve break-even by year four or five.

# Outlook

The stable outlook reflects the utility's willingness to implement regular base rate increases and provide adequate fixed-charge coverage as debt service requirements more than double by fiscal 2027. Based on management plans to cash fund its electric system capital needs, we do not anticipate the electric system will issue additional debt in the near term.

## Downside scenario

If the fiber-to-the-home rollout faces cost overruns or lower than anticipated customer acquisition rates and the electric system's fixed-charge coverage, liquidity, or debt metrics weaken, we could lower the rating.

## Upside scenario

Based on the electric utility's plans to support a start-up broadband system, which has increased its debt burden and could pressure its liquidity position in the near term, we do not expect to raise the rating over the next two years.

# Credit Opinion

The electric system serves 4,583 customers in Humboldt located about 18 miles north of Jackson, Tenn. Its customer base lacks economies of scale, which can lead to fluctuations in electric sales with residential customers constituting a low 19% of total revenue. However, total system revenue has been stable ranging between $17 million and $19 million since fiscal 2022. Its leading customer Tyson Processing employs 1,500 people and has operated in the city since 2021. Management indicated the processing plant, which represents 22% of the authority's total revenue is one of Tyson's newest plants. Other large customers include a cheese manufacturer, a packaging manufacturer, and Con Agra Foods Inc.

Following a $1.1 million inter-fund loan from the electric system and a $711,000 inter-fund loan from the gas system, management expects to achieve a 21% customer acquisition rate and achieve break-even fiber operations by year four or five. Management's fiber financial forecast assumes serving roughly 900 customers after installing fiber throughout its service territory within Humboldt city limits. The fiber system is projected to generate over $600,000 in revenue and begin paying its $1.8 million in inter-fund loans beginning in fiscal 2027.

In our view, the electric system will maintain about 1.1x fixed-charge coverage and at least 50 days of liquidity through fiscal 2028 based on our view of their financial forecast. The system does not have additional debt plans

## Humboldt Utilities Authority, Tennessee--key credit metrics

| | --Fiscal year ended June 30-- | | |
|---|---|---|---|
| | 2024 | 2023 | 2022 |
| **Operational metrics** | | | |
| Electric customer accounts | 4,583 | 4,580 | 4,540 |
| % of electric retail revenues from residential customers | 19 | 20 | 22 |
| Top 10 electric customers' revenues as % of total electric operating revenue | 43 | 44 | 54 |
| Service area median household effective buying income as % of U.S. | 61 | 56 | 54 |
| Weighted average retail electric rate as % of state | N.A. | 94 | 98 |
| **Financial metrics** | | | |
| Gross revenues ($000s) | 18,329 | 19,309 | 17,607 |
| Total operating expenses less depreciation and amortization ($000s) | 17,256 | 18,126 | 15,998 |
| Debt service ($000s) | 289 | 296 | 149 |
| Debt service coverage (x) | 3.7 | 4.0 | 10.8 |
| Fixed-charge coverage (x) | 1.1 | 1.1 | 1.2 |
| Total available liquidity ($000s)* | 3,492 | 3,411 | 917 |
| Days' liquidity | 73 | 67 | 21 |
| Total on-balance-sheet debt ($000s) | 1,631 | 1,849 | 2,065 |
| Debt-to-capitalization (%) | 12 | 14 | 16 |

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

| **Ratings List** | |
|---|---|
| **New Issue Ratings** | |
| US$8.25 mil elec sys rev bnds ser 2025 due 06/01/2055 | |
| Long Term Rating | BBB/Stable |
| **New Rating** | |
| **Public Power** | |
| Humboldt Utilities Authority, TN Retail Electric System | BBB/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.