

Research Update:

# Knoxville Utilities Board, TN Series PP-2026 Water System Revenue Bonds Assigned 'AAA' Rating; Outlook Stable

December 18, 2025

## Overview

- S&P Global Ratings assigned its 'AAA' rating to Knoxville, Tenn.'s series PP-2026 water system revenue bonds, issued for the Knoxville Utilities Board (KUB).
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's water system revenue debt, with \$208 million outstanding as of the fiscal year ended June 30, 2025.
- The outlook is stable.

## Rationale

### Security

The bonds are secured by a first-lien pledge of KUB's water division. The bonds have a rate covenant and an additional bonds test (ABT) based on 1.2x coverage, with the ABT based on pro forma maximum annual debt service (MADS) and additional extension of water service. No debt service reserve is pledged to the bonds.

### Credit highlights

The rating is supported by a number of credit strengths that we believe are overall supportive of the 'AAA' rating level, including:

- A revenue base supported by Knoxville's growing and diverse economic base.
- Debt service coverage (DSC) and liquidity that provide a significant level of cash flow to support the KUB water division's capital program despite liquidity metrics that do not compare as favorably with medians for the rating level. However, mitigating factors include management's proactive budget monitoring and the KUB board's continued commitment to necessary rate increases.

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- Capital program that reflects continued investment in the program, supported by KUB's division-wide Century II planning process that offers a rolling 10-year planning horizon for rate-setting and capital projects.
- Projected DSC above 2x, largely consistent with historical trends, and we believe that the forecast is obtainable as long as management continues to consistently review its rate and cost structure so that it can continue financing about 73% of its \$202 million capital spending program with cash on hand through 2030.
- Financial and operational management policies that help support all these operations to help minimize any potential effects from drought, wet weather events, and extreme weather events. We consider KUB's emergency planning, asset management, and financial management policies strong for the rating level.

## Environmental, social, and governance

While KUB is subject to flooding and other events like ice storms and tornadoes, management's efforts to mitigate these risks have been extensive; however, one area of opportunity that remains is water loss, with up to 30% unaccounted for in some years. KUB's Century II consolidated capital and financial plan includes several key performance indicators that should help to alleviate this over time, especially the goal of 10 miles per year of water line replacement and 15 miles per year of sewer line replacement (which will help keep inflow and infiltration low in that division).

To target line improvements, the water division has asset management that actively targets the mains and trunk lines that are experiencing pressure and metering anomalies. The potential for lead leaching is minimal, in our view, since management reports less than seven miles of galvanized distribution lines in its system. System redundancy is also a strength, in our view, and includes redundancy in major system components like raw water intakes (KUB has a second planned for completion by the end of fiscal 2030) and filter beds at the treatment plant (after completion of a current project to build a new filter bed, KUB will have dual filter beds designed to handle all treatment volumes on their own). Full advanced metering infrastructure (AMI) has been implemented across all of KUB's divisions, which should continue to provide tools for flow monitoring.

Emergency planning is extensive. KUB works on emergency planning with first responders from surrounding municipalities and districts. When emergency services are activated, KUB uses its cross-division staff for damage/outage reporting, and organizes an incident command structure that connects KUB's divisions and helps coordinate media and internal communications. As far as cyber security, it has multiple IT and security layers, along with system training and ongoing system hardening tests. Multiple layers of data backups are also performed.

KUB also has a customer assistance program and works with customers who request help. While the utility has experienced consistent rate increases for decades, with some being double-digit, the overall rates are still generally affordable, in our view, for the median household. For median household effective buying income (MHHEBI) at about 95% of the national average, the average monthly household rate for 600 cubic feet of usage is about \$39, or 0.7% of MHHEBI. Given management's plans for continued system investments and steady planned rate increases, we do not believe affordability will pose an outsized risk, especially when balanced with the continued economic growth in the area, which should continue to help support KUB's revenue base.

Governance risks for KUB are not outsized, in our view, since KUB has rate autonomy and an independent board; however, we note that the board is appointed by the mayor with consent by Knoxville city council.

## Rating above the sovereign

We rate KUB's water system debt above the U.S., the related sovereign, as the system has a predominantly local revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all revenues. This, coupled with operating expense flexibility, precludes exposure to federal revenue, allowing S&P Global Ratings to assign a rating higher than that on the U.S. overall.

## Outlook

The stable outlook is supported by KUB's absence of environmental mandates and by its lack of significant projected debt needs that in our view would negatively affect its future financial position.

## Downside scenario

Downward rating pressure would most likely come from a weakening of KUB's financial profile, especially in light of liquidity metrics that are below our medians for other 'AAA' ratings. Any unexpected environmental mandates or large capital needs could also have a negative effect on the rating.

## Knoxville Utilities Board, Tennessee--Economic and financial data

	Most recent	Fiscal year-end			
		2025	2024	2023	Median (AAA)
Economic data					
MHHEBI of the service area as % of the U.S.	94.0				114.0
Unemployment rate (%)	3.4				3.4
Poverty rate (%)	13.8				10.3
Water rate (6 ccf average) (\$)	39.2				33.3
Sewer rate (6 ccf average) (\$)	84.4				37.2
Annual average utility bill as % of MHHEBI (water-only)	0.7				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues (\$000s)		77,462	72,896	68,703	73,371
Total operating expenses less depreciation (\$000s)		41,145	41,559	39,182	53,231
Net revenues available for debt service (\$000s)		39,146	33,242	30,883	--
Debt service (\$000s)		15,227	14,076	13,878	--
S&P Global Ratings-adjusted all-in DSC (x)		2.6	2.4	2.2	2.6
Unrestricted cash (\$000s)		38,509	37,638	30,754	90,711
Days' cash of operating expenses		342	331	286	713
Total on-balance-sheet debt (\$000s)		208,747	197,027	185,117	140,491
Debt-to-capitalization ratio (%)		43.2	43.6	43.7	26.0
Financial management assessment	Strong	--	--	--	Strong

Knoxville Utilities Board, Tennessee--Economic and financial data

	Fiscal year-end			
Most recent	2025	2024	2023	Median (AAA)

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

Ratings List

New Issue Ratings

US\$18,000,000 Knoxville Utilities Board, Tennessee, Water System Revenue Bonds, Series PP-2026, dated: Date of delivery, due: March 01, 2056

Long Term Rating	AAA/Stable
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Ratings Affirmed

Water & Sewer

Knoxville Utils Brd, TN Water System	AAA/Stable
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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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