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Research Update:

Milan Public Utilities Authority, TN Series 2026 Electric System Revenue Bonds Assigned 'BBB' Rating; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'BBB' long-term rating to the Milan Public Utilities Authority (MPUA, or the authority), Tenn.'s $10 million electric system revenue bonds, series 2026.
- We also affirmed our 'BBB' underlying rating (SPUR) on MPUA's parity debt.
- The outlook is stable.

Rationale

Security

Net revenue of MPUA's electric system secures the bonds. MPUA will use bond proceeds to finance system improvements, including installation of additional fiber-optic infrastructure to support electric system reliability, and invest in its fiber-to-the-home broadband business. As of June 30, 2025, MPUA had $9.75 million of debt outstanding.

Credit highlights

In our view, MPUA benefits from the stability provided by being a distributor of electricity from the Tennessee Valley Authority (TVA), reducing operational and financial exposure, particularly during times of grid stress.

The electric system has a 20-year, evergreen contract with TVA. We believe, however, that MPUA's available reserves and liquidity are thin. At the end of fiscal 2025, the utility had $2.7 million in available reserves, corresponding to 46 days of operating expenses. In our view, the amount of liquidity is a credit weakness even for an exclusively electric distribution system. Although MPUA plans to expand its broadband system, which operates in a competitive marketplace, management reports that there are no plans for the electric system to provide the broadband system with cash infusions. The broadband system began operations in 2019 and serves about 1,000 customers; in fiscal 2025, operating revenue nearly matched operating expenses. The broadband system uses the electric system's fiber-optic infrastructure, although we note that the electric system is ultimately responsible for the series 2026 debt. We believe the electric system has the capacity to independently support debt service, albeit at weaker levels if the broadband system is incapable of providing the electric system with financial support for its use of the fiber-optic infrastructure. We will monitor broadband system operations, including customer numbers, to assess its impact on electric system health.

The rating further reflects our view of MPUA's:

- Small number of electric customer accounts, at 8,558 in fiscal 2025, limiting its economies of scale;
- Median household effective buying income (MHHEBI) at 78% of the national median, reducing the authority's rate-raising flexibility; and
- Increased leverage, including the series 2026 issuance, resulting in a debt-to-capitalization ratio of about 50% and a projected increase in debt service to more than $1 million per year from less than $250,000.

Partly offsetting the above weaknesses, in our view, are MPUA's:

- Residential customer base, providing more than half of the electric system's revenue, and minimal customer concentration in the service area, both of which contribute to operational and financial stability; and
- Satisfactory cost recovery on the electric system, with fixed-charge coverage (FCC) averaging 1.25x the past three years.

Environmental, social, and governance

We believe the utility's governance risks are elevated compared with those of TVA distributors without broadband enterprises because its fiber-to-the-home business presents additional operational risk. The electric system's financial performance could be weakened if customer take rates for the broadband system are lower than expected and broadband contributions to the electric system are lower than anticipated. In addition, the electric system's management does not regularly produce long-term financial forecasts, which we believe is a negative risk management, culture, and oversight factor.

We view TVA's fuel mix as diverse, reducing MPUA's energy transition risk. In fiscal 2025, TVA's fuel mix was 33% nuclear, 24% natural gas, 15% coal, 8% hydroelectric, and 20% purchased power. The service area is not immune to the physical risks associated with extreme weather, including severe flooding.

From a social risk perspective, MPUA operates in a service area with MHHEBI considerably below the national level, which could make raising rates more challenging. We note, however, that based on 2024 data from the U.S. Energy Information Administration, the electric system's weighted average rate of 103% is near the state average and bad debt has been negligible. Nevertheless, because of the high unpredictability of federal policy--along with the economy's stressors and the associated financial pressures consumers are facing--we are monitoring the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion (see: "Economic Outlook U.S. Q1 2026: Steady As She Goes But On A Narrow Path," Nov. 24, 2025).

Outlook

The stable outlook reflects our view that MPUA will adjust rates as needed to build liquidity and ensure cost recovery at a level commensurate with the rating. The authority benefits from being a distributor of TVA electricity, reducing operational and financial exposures.

Downside scenario

Over the next two years, we could lower the rating if MPUA's available reserves and liquidity from the electric system weaken from their level at the end of fiscal 2025. In addition, if our view of financial operations weakens, possibly because take-rates on the broadband system are lower than anticipated, the rating could come under pressure.

Upside scenario

We do not anticipate raising the rating until we see a track record of healthy FCC with the expected increase in debt service, while liquidity materially improves on a sustained basis. We believe a material improvement in liquidity is unlikely in the next couple of years as MPUA expands its fiber roll-out.

Credit Opinion

We believe aspects of the electric system's customer base provide stability, but there are also weaknesses. The electric system collects more than 50% of its revenue from residential customers, which we believe have more consistent demand profiles than commercial and industrial customers. Over recent years, kilowatt-hour sales have been steady. Customer concentration is minimal with the top 10 providing 14% of revenue and the top customer 6%. However, the electric system serves a small customer base, limiting economies of scale, and MHHEBI was 78% of the national level in 2024.

We expect the electric system's rates to remain near the state average. MPUA doesn't have a formal power cost recovery mechanism to pass through changes in wholesale power costs from TVA, although in practice, management has typically passed through wholesale rate changes to its retail customers. We note that MPUA took over electric utility operations from the city of Milan on Jan. 1, 2025. We view positively that the authority better reflects the breadth of the service area, which will likely reduce resistance to rate increases.

The electric system's FCC averaged 1.25x over the past three years, which we view as satisfactory for the rating level. In calculating FCC, we treat transfers to the city as an operating expense and a portion of purchased power expenses from TVA as debtlike instead of as an operating expense. We note that debt service is projected to increase considerably in the next few years, so FCC could weaken if management does not adequately increase its revenue, whether through rate increases or alternative methods.

In our view, the electric system's available reserves and liquidity are thin. At the end of fiscal 2025, the electric system's available reserves were $2.7 million, or 46 days of operating expenses. We believe the small amount of available reserves is a significant exposure; a fairly small unexpected expense, such as a severe weather event, could deplete the authority's reserves. Moreover, we think utilities that have broadband systems need more liquidity because broadband is a competitive landscape with more volatility compared to monopoly electric systems.

Milan Public Utilities Authority, Tennessee--key credit metrics

	--Fiscal year ended June 30--		
	2025	2024	2023
Operational metrics			
Electric customer accounts	8,558	8,452	8,398
% of electric retail revenues from residential customers	57	57	57
Top 10 electric customers' revenues as % of total electric operating revenue	14	14	N.A.
Service area median household effective buying income as % of U.S.	N.A.	78	72
Weighted average retail electric rate as % of state	N.A.	103	102
Financial metrics			
Gross revenues ($000s)	23,714	21,568	22,356
Total operating expenses less depreciation and amortization ($000s)	20,902	19,966	20,537
Debt service ($000s)	309	240	196
Debt service coverage (x)	9.1	6.7	9.3
Fixed-charge coverage (x)	1.3	1.2	1.2
Total available liquidity ($000s)*	2,684	2,224	2,173
Days' liquidity	46	40	38
Total on-balance-sheet debt ($000s)	9,650	1,621	1,356
Debt-to-capitalization (%)	37	10	8

*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.

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Long Term Rating	BBB/Stable
Ratings Affirmed	
Public Power	
Milan Public Utilities Authority, TN Electric System Revenues	BBB/Stable

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