S&P Global Ratings

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Research Update:

# Manchester, TN Series 2026 Water And Sewer System Revenue And Tax Bonds Rated 'AA'; Outlook Stable

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## Overview

- S&P Global Ratings assigned its ‘AA’ long-term rating to **Manchester**, Tennessee’s $9.995 million series 2026 water and sewer system revenue and tax bonds.
- At the same time, S&P Global Ratings affirmed its ‘AA’ long-term rating on the city’s existing general obligation (GO) bonds.
- The outlook is stable.

## Rationale

### Security

The series 2026 bonds are secured by, and intended to be paid from, net revenues of the water and sewer system. If net revenues are insufficient to pay principal or interest on the bonds, the city has pledged unlimited tax, full faith and credit. Our rating on the series 2026 bonds is based on the general obligation pledge, which we view as the stronger security as per our "Methodology: Rating Approach To Obligations With Multiple Revenue Streams," Nov. 29, 2011.

The outstanding rated bonds are secured by the city’s unlimited tax general obligation pledge.

Bond proceeds will be used to fund various sewer infrastructure improvement projects.

### Credit highlights

The ‘AA’ rating is supported by the city’s exceptionally strong reserves after nearly a decade of surplus operating results, as well as it’s expanding economy, as represented by ongoing industrial development and growing population. Offsetting the rating are more limited management policies and practices, along with below-average local income metrics. Although we expect operating performance to slow due to increased support of the school system, as well as a general rise in operating costs, we expect the district’s conservative budget management and reliance on stable revenue sources to continue to support budgetary balance.

The city's amended 2026 budget uses $276,500 of reserves; however, management expects to outperform this and post surplus operating results. The fiscal 2027 budget is balanced. The city plans to use roughly $2 million to $3 million of general fund reserves in late fiscal 2027 or early fiscal 2028 to fund a new public facilities building, though ultimately, those costs would be recouped by the sale of a current facility.

The city plans to issue an additional $10 million of new-money debt in fiscal 2027 to finance additional improvements to the sewer system.

The rating also reflects:

- An improving local and regional economic profile, characterized by 18.7% population growth over the last decade. The city's strategic position along the Interstate 24 corridor and availability of land have made it prime for new development, including a new food manufacturing facility and a recently designated state megasite for large-scale manufacturing, potentially aerospace related. Management anticipates up to 1,000 new jobs at this advanced manufacturing mega-site, which is expected to complement the adjacent Arnold Engineering Development Complex—one of the world's largest and most advanced aerospace ground-test facilities. Additionally, the city serves as the permanent home of the Bonnaroo Music Festival, which attracts 50,000-90,000 annual tourists.
- Stable financial performance, supported by conservative budgeting, revenue growth as the result of ongoing development and population increase, and diligent expenditure management. In the past decade, the city has only posted a deficit in one year. General fund revenues are largely made up of property taxes, followed by local option sales tax. The city has the ability to raise the property tax rates, though it hasn't in over 15 years and has no plans to raise them. The city's water and sewer fund is self-sustaining and recently raised rates 35% to accommodate increased costs from this debt issuance.
- Below average management practices at the rating level, characterized by a lack of long-term planning and limited formalized policies. While the city's budgeting policies are conservative and regularly monitored— with budget-to-actual reports provided to the board monthly—long-term financial planning remains informal. The city informally targets maintaining general fund reserves at five months of expenditures. Although the city does have a debt management policy, it is not highly robust. We view the city's cyber risk mitigation measures as consistent with our view of its overall credit fundamentals.
- Adequate long-term liability profile, including minimal net pension liability, which supports low fixed costs. Of the city's $37.5 million in net direct debt, $17.8 million is GO debt supported by the city's water and sewer system, and $5.28 million is GO debt supported by the Duck River Utility Commission, which supplies the city's water. We consider the water and sewer system debt to be self-supporting, given the system's healthy cash position—equivalent to roughly 280 days of operations—and strong debt service coverage of 2.4x debt service in fiscal 2025.
- For more information on our institutional framework assessment for Tennessee municipalities, see "Institutional Framework Assessment: Tennessee Local Governments," Sept. 11, 2024.
- Although physical risks are relevant for the local government sector, we consider Manchester's exposure to natural hazards, including flooding and extreme weather, low compared with national peers and in a nominal sense, and therefore not a material factor in our credit analysis.

# Outlook

The stable outlook reflects the city's exceptionally strong reserves further provide a cushion against unexpected costs. It additionally reflects ongoing economic expansion, which we expect will continue to support revenue growth and balanced budgets.

## Downside scenario

All else equal, we could lower the rating if the city materially reduces its reserves.

## Upside scenario

We could raise the rating if the city maintains current reserve levels and balanced budgets, and meaningfully enhances its management practices--for example, by formalizing policies and implementing long-term planning. A higher rating would also require improvement in local income metrics.

### Manchester, Tennessee--credit summary

| | |
|---|---|
| Institutional framework (IF) | 1 |
| Individual credit profile (ICP) | 2.25 |
| Economy | 3.5 |
| Financial performance | 2 |
| Reserves and liquidity | 1 |
| Management | 3 |
| Debt and liabilities | 1.75 |

### Manchester, Tennessee--key credit metrics

| | Most recent | 2025 | 2024 | 2023 |
|---|---|---|---|---|
| Economy | 81 | -- | 81 | 81 |
| Real GCP per capita % of U.S. | 72 | -- | 72 | 72 |
| County PCPI % of U.S. | 1,622,758 | 1,544,314 | 1,150,946 | 1,094,034 |
| Market value ($000s) | 124,502 | 118,484 | 88,303 | 85,325 |
| Market value per capita ($) | 10.1 | 10.5 | 11.5 | 11.6 |
| Top 10 taxpayers % of taxable value | 3.6 | 3.6 | 3.3 | 3.3 |
| County unemployment rate (%) | 80 | -- | 80 | 82 |
| Local median household EBI % of U.S. | 73 | -- | 73 | 76 |
| Local per capita EBI % of U.S. | 13,034 | -- | 13,034 | 12,822 |
| **Local population** | | | | |
| Financial performance | -- | 19,014 | 18,733 | 17,417 |
| Operating fund revenues ($000s) | -- | 12,388 | 10,653 | 10,117 |
| Operating fund expenditures ($000s) | -- | -4,777 | -4,940 | -5,662 |
| Net transfers and other adjustments ($000s) | -- | 1,849 | 3,140 | 1,638 |
| Operating result ($000s) | -- | 9.7 | 16.8 | 9.4 |
| Operating result % of revenues | -- | 12 | 8.5 | 9.1 |
| **Operating result three-year average %** | | | | |
| Reserves and liquidity | -- | 90.8 | 83.2 | 71.3 |
| Available reserves % of operating revenues | -- | 17,257 | 15,580 | 12,419 |

## Manchester, Tennessee--key credit metrics

| | Most recent | 2025 | 2024 | 2023 |
|---|---|---|---|---|
| **Available reserves ($000s)** | | | | |
| Debt and liabilities | -- | 3.2 | 3.8 | 4.1 |
| Debt service cost % of revenues | 2,872 | 2,321 | 2,595 | 2,862 |
| Net direct debt per capita ($) | 37,438 | 30,257 | 33,818 | 36,696 |
| Net direct debt ($000s) | 60 | 79 | 32 | 69 |
| Direct debt 10-year amortization (%) | -- | 3 | 3 | 3 |
| Pension and OPEB cost % of revenues | -- | 58 | 58 | -- |
| NPLs per capita ($) | -- | 754 | 754 | -- |
| **Combined NPLs ($000s)** | | | | |

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

| **Ratings List** | |
|---|---|
| **New Issue Ratings** | |
| US$9.995 mil wtr and swr sys rev and tax bnds ser 2026 due 06/01/2056 | |
| Long Term Rating | AA/Stable |
| **New Rating** | |
| **Multiple Revenue Stream** | |
| Manchester, TN strong link of Unlimited Tax General Obligation and Water and Sewer System Revenue | AA/Stable |
| **Ratings Affirmed** | |
| **Local Government** | |
| Manchester, TN Unlimited Tax General Obligation | AA/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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.