



RATING ACTION COMMENTARY

Fitch Upgrades Jefferson County, AL's Sewer Revs to 'BBB+'; Outlook Stable

Fri 19 Sep, 2025 - 1:33 PM ET

Fitch Ratings - New York - 19 Sep 2025: Fitch Ratings has upgraded the rating on the following Jefferson County, AL (the county) warrants to 'BBB+' from 'BBB':

--Approximately \$2.2 billion sewer revenue warrants, series 2024.

Fitch has also assessed the Standalone Credit Profile (SCP) of the county's sewer system (the system) at 'bbb+'. The SCP represents the credit profile of the system on a standalone basis irrespective of its relationship with, and the credit quality of, the county (Issuer Default Rating AA/Stable).

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Jefferson County (AL) [Water, Sewer]	LT BBB+ Rating Outlook Stable Upgrade	BBB Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

The upgrade of the sewer revenue warrants rating to 'BBB+' from 'BBB' and the assessment of the SCP at 'bbb+' is driven by the continued trend of declining leverage, which has fallen annually since registering 13.1x in fiscal 2020. In addition, implementation of approved rate increases and capital investment has met expectations over the last two fiscal years, supporting a shift to a more stable operating environment after refunding previously outstanding capital appreciation warrants. Long-term expectations are that leverage will remain below 12.0x because of generally stable operating margins and declining debt.

Although capital spending remains elevated the next five fiscal years, averaging \$122 million annually, significant capital reserves remain to fund the program. The reserves are expected to be spent down by fiscal 2029, yet capex beyond this period is expected to drop to around \$70 million to \$80 million annually. Fitch believes continued implementation of the approved automatic annual rate adjustments is key rating stability.

The 'BBB+' rating reflects the system's 'Midrange' financial profile within the framework of 'Strong' revenue defensibility and a 'Strong' operating risk profile, both assessed at 'a'. The improvement in the operating risk assessment to 'a' reflects the system's very low operating cost burden, offset by weak but improving capital investment, leading to a rise in capex to depreciation metrics. Continued capital investment is expected to improve or maintain these results going forward.

The system's leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), was moderate at 10.6x in fiscal 2024 (FYE Sept. 30), bolstered by strong interest earnings. While leverage could increase in fiscal 2025 if lower non-operating revenues are realized, leverage between 11.0x and 12.0x is expected in most years of Fitch's Analytical Stress Test (FAST) rating case, supporting the upgrade.

SECURITY

The 2024 warrants are payable from and secured by a first lien on net revenues of the county's sanitary fund and amounts held in certain reserve funds, which does not include sewer tax revenues that are used for operations. The 2024 warrants are considered senior lien obligations.

KEY RATING DRIVERS

Revenue Defensibility - 'a'

Favorable Service Area, Rates are Considered Unaffordable for a Significant Portion of the Population

The county retains the legal authority to adjust rates as needed without external oversight. The favorable service area is characterized by average income levels, a moderate unemployment rate relative to the nation and midrange customer growth. Customer growth registered a five-year compound annual growth rate of 0.5% as of fiscal 2024. Income levels are about 18% lower than the national median as of 2023. The unemployment rate was 3.1% in 2024 and has averaged 26% below the national level over the past five years.

The 2023 rate resolution provides for annual 3.49% rate increases effective annually on Oct. 1. No additional commission action is necessary for annual implementation, although the commission can raise or lower rates as needed, lending further support to the system's independent rate-setting ability. Based on 6,000 gallons per month (gpm) of sewer flows, charges are considered affordable for about 60% of the population, although average residential consumption registers closer to 4,500 gpm. Favorably, the county's median household income has typically risen at a faster pace than rate adjustments.

Operating Risk - 'a'

Very Low Operating Cost Burden, Elevated Investment Needs with Weak Capital Investment

The improved 'a' operating risk assessment reflects improving, albeit still weak, levels of capital investment and the termination of the system's consent decree in September 2024 (in place since 1996), after successfully implementing necessary projects. In fiscal 2024, the system's operating cost burden was very low at \$7,332 per million gallons (mg), supportive of the operating risk assessment.

The life cycle ratio is elevated at 65% in fiscal 2024 and has been rising incrementally the past five fiscal years from 59% in 2020. While capex to depreciation remains weak, averaging 54% over the last five fiscal years, the rate of annual capex to depreciation has been improving, registering a high of 93% in fiscal 2024, an improvement from a low of 27% in fiscal 2020. Planned capital spending for the next five years should be in line with historical depreciation, and the life cycle ratio is anticipated to be stable, with the five-year average of capex to depreciation likely remaining above 50%.

Planned five-year (2025-2029) capital spending remains sizable at \$612 million. The largest spending categories include sanitary sewer overflow abatement, plant repair, replacement and renewal and collection system rehabilitation. The system reports adherence to an asset management plan with no reported performance concerns. The capital plan is anticipated

to be cash funded from reserves amassed by annual surplus revenue, pay-go and a small portion of grant proceeds.

Financial Profile - 'bbb'

Stable Operating Margins, Declining Debt

The system had low leverage of 10.6x as of fiscal 2024, although this reflects a more than doubling of investment earnings during the year relative to fiscal 2023. Regardless, leverage has fallen annually from a high of 13.1x in fiscal 2020 as FADS has strengthened. The liquidity profile is neutral to the overall assessment. Coverage of full obligations (COFO) was 4.2x in fiscal 2024. Fitch-calculated total debt service coverage was similarly 4.2x.

Fitch-calculated current days cash on hand measured 88 in fiscal 2024. However, pursuant to the warrant indenture, surplus restricted cash in the capital improvement fund may be used to pay debt service or operating expenses, if needed. As of FYE 2024 these funds totaled over \$300 million, which would significantly boost days cash, and is considered in the neutral assessment.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth. Full execution of the CIP was assumed.

The leverage ratio in most years of both the base and stress (rating) case remains below 12.0x and is generally expected to range between 11.0x and 12.0x, supportive of the current rating. While some fluctuations in non-operating revenues may occur, the system is expected to generate stable to slightly improving operating margins (i.e., EBITDA) over the upcoming years.

Furthermore, the system's debt burden is expected to generally decline over the upcoming years. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon. As noted, Fitch believes continued implementation of the approved rate adjustments is critical to generating sufficient FADS to support the capital program and maintain leverage commensurate with the rating.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affect this rating determination.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Sustained leverage of 12.0x or above in Fitch's rating case, provided maintenance of current revenue defensibility and operating risk assessments;

--Further capital needs beyond those included in the forecast if not supported by additional rate action, thereby weakening system margins.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Sustained actual and projected leverage under 11.0x in Fitch's rating case, provided maintenance of current revenue defensibility and operating risk assessments.

PROFILE

Jefferson County is in the north-central part of Alabama at the southern end of the Appalachian Mountains. With an estimated population of about 665,000, the county is the most populous in the state with 44 incorporated and unincorporated cities and towns, including Birmingham, the largest city in the state and home to the University of Alabama at Birmingham.

The system provides retail wastewater collection, treatment and disposal service to a 440-square-mile area that includes 23 municipalities within the county (including the cities of Birmingham and Bessemer) as well as unincorporated parts of the county and very small portions of Shelby and St. Clair counties. Service is provided via nine wastewater treatment plants (WWTPs) with a combined average daily treatment capacity of 259 million gallons per day, or more than twice fiscal 2024 average flows.

Fitch considers the system to be a related entity to the county for rating purposes given the county's oversight of the system, including the authority to establish rates and direct operations. The credit quality of the county does not currently constrain the issue ratings. However, due to being a related entity, the issue ratings could become constrained by a material decline in the general credit quality of the county.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

FITCH RATINGS ANALYSTS

Allison Clark

Director

Primary Rating Analyst

+1 646 582 4562

allison.clark@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Shannon Groff

Director

Secondary Rating Analyst

+1 415 732 5628

shannon.groff@fitchratings.com

Audra Dickinson

Senior Director

Committee Chairperson

+1 512 813 5701

audra.dickinson@fitchratings.com

MEDIA CONTACTS

Cristina Bermudez

New York

+1 212 612 7892

cristina.bermudez@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

[U.S. Water and Sewer Rating Criteria \(pub. 24 Feb 2025\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Jefferson County (AL)

EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European

Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any

verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or

the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2025 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch's solicitation status policy can be found at www.fitchratings.com/ethics.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.