STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Iowa Finance Authority; State Revolving Funds/Pools

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Summary:

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Credit Profile		
US$323.385 mil st revolving fd rev bnds ser 2015 due 08/01/2035		
Long Term Rating	AAA/Stable	New
Iowa Fin Auth SRF bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' long-term rating on the Iowa Finance Authority's (IFA) revolving fund bonds for its drinking water and clean water program. At the same time, we assigned our 'AAA' rating to the authority's state revolving fund (SRF) revenue bonds, series 2015. The outlook on all ratings is stable.

The rating reflects our view of the authority's:

- Extremely strong enterprise risk profile, given that the program has ongoing support from multiple levels of government and a governmental entity manages the program; and
- Extremely strong financial risk score, with loss coverage score (LCS), operating performance, and financial policies consistent with this profile, which also includes cross-collateralization between clean water and drinking water portfolios.

Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

Debt service is secured by the trust estate, which consists primarily of pledged loan revenues, reserve funds, and interest earnings. The authority will use proceeds of the series 2015 bonds to refund all SRF bonds issued prior to the inception of the master trust indenture in 2010, and to reimburse itself for expended funds.

We view the program's enterprise risk profile as extremely strong. This is due to a combination of the low industry risk profile for municipal pools and the program's market position, which we consider extremely strong. Under Iowa Code 567, Chapters 44 and 92 respectively establish the drinking water and clean water programs. The state's department of natural resources (DNR) works with other state agencies to administer the SRF programs. The SRF programs receive both federal and state support through capitalization grants and state match with bond proceeds, respectively.

We view the program's financial risk profile to be extremely strong. This is due to a combination of the LCS, financial policies, and operating performance.

The LCS is extremely strong and also incorporates the effects of the largest obligor test (which the program passes).

Projected cash flows for the clean water and drinking water portfolios are sufficient to withstand a level of defaults consistent with a 'AAA' rating, without relying on the cross-collateralization feature for support. Annual debt service coverage (DSC) by pledged revenues is projected to be at least 5.3x on the state-match portion of all SRF bonds for the remaining debt. Total annual DSC on all SRF bonds exceeds 1.15x in all years but generally increases in later years. Annual debt service for both clean and drinking water is structured to be highest in the first years and then slowly decline. Supporting the cash flows are pledged equity funds available for any program purpose, including payment of debt service if needed, that will total about $251 million for clean and drinking water combined, after the 2015 bonds are issued.

Management performs credit reviews for all new loans, requires net revenues to show 1.1x coverage of all utility revenue loans and a general obligation (GO) pledge for all GO loans, and also reviews annual disclosure information for all borrowers. Loan repayments are due at least 60 days prior to bond debt service, but notices and invoices are sent well in advance. The intended use plan and project priority list are developed in conjunction with the state DNR annually, but updated quarterly. Investments are made pursuant to permitted investments within the indenture. Management has been able to demonstrate a long track record of timely loan and debt service payments, which we consider a program strength. To date, there have been no defaults under either the clean water or drinking water program.

We consider the combined drinking and clean water loan portfolio diverse, and we expect this trend to continue given the already-large group of more than 600 borrowers. The two programs have $1.46 billion of loans currently outstanding, with 12% of the total number of loans secured by a GO pledge and the remainder secured by water or wastewater revenues only. Water or wastewater participants with revenue obligations are required to maintain 1.1x DSC. Loans have a maximum 30-year term with an interest rate currently set at 2.75% annually. Notable program participants include:

- Des Moines Metro Wastewater Reclamation Authority (18% of total loan principal outstanding);
- Sioux City (11%);
- Dubuque (7%);
- Fort Dodge (5%); and
- Clinton (3%).

Based on these enterprise and financial risk profiles, we rate the bonds 'AAA'.

Outlook

The stable outlook reflects Standard & Poor's expectation that the district's strong management of the loan portfolio will continue, and that collateralization levels will continue to enable coverage of a very high level of potential defaults and delinquencies. Currently, there is no downward pressure on the rating given DSC solely from loan revenues that provides a strong cushion for any potential defaults, in our opinion.

Related Criteria And Research

Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014

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