

RATING ACTION COMMENTARY

Fitch Rates Iowa Finance Auth's SRF Bonds, Series 2025A & 2025B 'AAA'; Outlook Stable

Fri 03 Jan, 2025 - 3:47 PM ET

Fitch Ratings - New York - 03 Jan 2025: Fitch Ratings has assigned a 'AAA' rating to the following bonds issued by the Iowa Finance Authority (IFA):

--Approximately \$146.7 million state revolving fund (SRF) revenue bonds, series 2025A (Green Bonds);

--Approximately \$40.1 million state revolving fund revenue bonds, taxable series 2025B (Green Bonds).

Bond proceeds will fund participant loans, reimburse prior loan disbursements used to finance clean water state revolving fund (CWSRF) and drinking water state revolving fund (DWSRF) loans, and pay for the costs of issuance. The bonds are expected to sell via negotiation during the week of Jan. 13.

In addition, Fitch has affirmed the 'AAA' rating on the following authority obligations:

--Approximately \$1.9 billion of outstanding SRF revenue bonds.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ⇄

RATING ⇄

PRIOR ⇄

Iowa Finance Authority
(IA) [State Revolving
Fund]

Iowa Finance Authority (IA) /Clean Water & Drinking Water SRF MTA/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
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[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' rating reflects the ability of IFA's financial structures to absorb hypothetical pool defaults in excess of Fitch's 'AAA' stress scenario without causing interruption in bond payments. Aggregate pool credit risk is measured using Fitch's Portfolio Stress Model (PSM), and the strength of the program's financial structure is measured using Fitch's Cash Flow Model (CFM).

The combined pledged pool produced a 'AAA' liability hurdle of approximately 45.4% in the PSM. Fitch's cash flow modelling demonstrates that the program can continue to pay bond debt service with a default tolerance rate of up to 86.8% in the first four years and 100% in the middle four and last four years. The program's pledged equity funds provide additional loss protection, and therefore Fitch's modelling assumes that these surplus funds are not released if defaults are occurring. As the default tolerance is in excess of the 'AAA' stress hurdle, this implies a passing result under Fitch's analyses.

SECURITY

The bonds are secured by aggregate loan principal and interest payments pledged under the master trust agreement (MTA) as well as amounts held in the MTA's pledged equity fund.

KEY RATING DRIVERS

Portfolio Credit Risk: Fitch views the program's pool diversity as above-average, driven by the large number of borrowers (more than 750 obligors). The top 10 borrowers represent a low 36% of the pool total and the largest single borrower represents a moderate 14% of the pool. However, IFA's pool quality is below average in comparison to similar Fitch-rated programs, as more than three-quarters of the loan portfolio does not carry a public rating. To mitigate this risk, pursuant to criteria, Fitch's PSM conservatively assumes unrated borrowers to be of sub-investment-grade quality (BB).

Financial Structure: Fitch's cash flow modelling demonstrates that the resources of the combined CWSRF and DWSRF programs (together, the program) are sufficient to withstand hypothetical pool defaults in excess of Fitch's 'AAA' liability rating stress hurdle, as produced using Fitch's PSM. Surplus annual loan repayments and pledged reserves primarily provide this loss protection.

Program Management: IFA and the Iowa Department of Natural Resources (DNR) jointly manage the program following underwriting and loan monitoring procedures set forth by the MTA. The program has not experienced a default of any pledged borrower to date.

RATING SENSITIVITIES

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

--Inability to pass Fitch's 'AAA' liability rating stress hurdle due to a significant deterioration in aggregate borrower credit quality, material increases in pool concentration and/or significant increases in program leverage.

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

--The ratings are at the highest level on Fitch's scale and cannot be upgraded.

PROFILE

The IFA provides below-market financing rates to governmental entities within the state for eligible CWSRF and DWSRF infrastructure projects. Bond proceeds are combined with federal grants and a state matching requirement to provide loans for such projects. The authority has arranged financing for the CWSRF since its inception in 1988 and for the DWSRF since its inception in 1997.

The program has grown over the past several years, with the current obligor total at over 750 versus less than 500 in 2015. This has resulted in lower borrower concentration while pool credit quality has remained relatively stable. From a cash-flow standpoint, minimum annual debt service coverage (DSC) has remained within a stable range of 1.1x-1.2x over the same period.

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.

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APPLICABLE CRITERIA

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(pub. 01 Nov 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Stress Model, v1.11.1 (1)

State Revolving Fund Cash Flow Model, v1.18.2 (1)

ADDITIONAL DISCLOSURES

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Iowa Finance Authority (IA)

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