S&P Global
Ratings

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Summary:

Iowa Finance Authority; State Revolving Funds/Pools

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Credit Profile		
US$146.715 mil state revolving fd rev bnds (Green Bonds) ser 2025A dtd 01/30/2025 due 08/01/2054		
Long Term Rating	AAA/Stable	New
US$40.13 mil state revolving fd rev bnds taxable (Green Bonds) ser 2025B dtd 01/30/2025 due 08/01/2033		
Long Term Rating	AAA/Stable	New
Iowa Fin Auth SRF bnds		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Iowa Finance Authority's (IFA) anticipated $146.7 million series 2025A and $40.1 million series 2025B state revolving fund (SRF) revenue (green) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on IFA's outstanding SRF bonds for both its drinking and clean water programs.
- The outlook is stable.

Security

Program bonds are secured by the trust estate, which consists primarily of cash flows provided by pledged loans, the equity fund and other indenture funds, and interest earnings. Following the issuance of the 2025 bonds, the two programs will have $3 billion of loans outstanding, to support approximately $2 billion in bonds.

The series 2025A and 2025B bond proceeds will fund participant loans, reimburse the authority's equity fund for SRF loans previously disbursed, and pay the costs of issuance.

Credit overview

The long-term rating reflects our view of IFA's:

- Extremely strong enterprise risk profile, given that the program has ongoing support from the state and federal governments, a governmental entity manages the program, and loans are geographically diversified throughout the state of Iowa;
- Extremely strong financial risk profile, with overcollateralization that is capable of withstanding S&P Global Ratings' loss coverage scenario (LCS), based on the credit quality of the asset pool and consolidated cash flows, run at our 'AAA' category stress level; and
- Healthy operating performance, and financial policies consistent with this profile, which also includes cross-collateralization between clean- and drinking-water portfolios.

The authority makes loans to Iowa municipalities and water and sewer utilities. We consider the combined drinking- and clean-water loan portfolio of more than 1,200 loans geographically diverse, and we expect this trend will continue given the already large group of more than 760 borrowers. Approximately 9.4% of total loans are secured by a general obligation (GO) pledge, accounting for just 3.3% of loan principal, while the remainder is secured by water or wastewater revenue. Loans made since 2012 have a maximum 30-year term with an interest indexed at a market rate. The SRF program does provide additional subsidy for certain qualifying loans, which are accounted for in the cash flows.

Rating above the sovereign

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

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the authority's strong management of the loan portfolio will continue, and that collateralization will continue to enable coverage of a very high level of potential defaults and delinquencies.

Downside scenario

We could lower the rating should the program experience a material increase in loan defaults, a material increase of loan delinquencies, or if our view of the pool's loss coverage weakens.

Credit Opinion

Enterprise risk profile: extremely strong

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. Iowa Administrative Code 567, Chapters 44 and 92, respectively, establish the rules for the drinking- and clean-water programs. The state's Department of Natural Resources (DNR) and IFA jointly administer the SRF programs, which receive both federal and state support through capitalization grants and state match with bond proceeds, respectively. We believe these factors reflect a high level of government support and mitigate the risk of challenges that could affect demand.

Financial risk profile: extremely strong

We also 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- and drinking-water portfolios are sufficient to withstand a level of defaults consistent with a 'AAA' rating. Total annual DSC on all SRF bonds averages 1.12x and exceeds 1.07x in all years, through 2055. Annual debt service for both clean- and drinking-water is structured to be highest in the first years and then slowly decline. Pledged equity funds available for any program purpose, including payment of debt service if needed, support the cash flows and total about $419 million for the clean- and drinking-water portfolios combined, after the 2025 bonds are issued.

Management performs credit reviews for all new loans and it requires net revenue to show 1.1x coverage of all senior-lien utility revenue loans and 1.05x coverage for all subordinate loans. GO loans require a GO pledge backed by ad valorem taxes. Management also reviews disclosure information for all borrowers. Program participants are required to work with a licensed municipal advisor to prepare their financial data at the time of application and every five years thereafter for the life of the loan. 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 lists are developed in conjunction with the state DNR annually but updated quarterly; management reports that it has sufficient resources to fund all eligible applicants at this time. Investments are made pursuant to permitted investments within the indenture. Management has demonstrated a long track record of timely loan and debt service payments, which we consider a credit strength. To date, there have been no material defaults under either the clean- or drinking-water programs.

Credit Snapshot

- Program description: The Iowa Finance Authority was created in 1975 under state statutes and is authorized to arrange financing of the SRF programs. The authority has a 15-member board with nine appointed by the governor and six ex-officio members. The clean- and drinking-water SRF programs were established under state statutes in 1988 and 1997, respectively, and are administered by the Iowa Department of Natural Resources, a department of the state of Iowa.
- Flow of funds: Under the trust agreement, revenue received from the loan participants under the pledged agreements plus investment earnings will be deposited in the revenue fund. On the interest and principal payment dates the trustee will allocate funds to the applicable state match and leveraged bond funds for the clean- and drinking-water revolving fund bonds. The trustee will transfer all excess amounts remaining in the principal and interest subaccounts to the program's equity fund.
- Summary statistics: Under the existing program, there are about 767 borrowers, representing $3.02 billion in loans, compared with $2.07 billion in bonds outstanding following the issuance of the 2025A and 2025B bonds. The five leading participants in the combined programs represent about 28.4% of loans outstanding; the leading participant is the Des Moines Metro Wastewater Reclamation Authority, with about $419 million outstanding.