

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Aa2 on Inland Empire Utilities Agency, CA; outlook stable

29 May 2024

New York, May 29, 2024 -- Moody's Ratings (Moody's) has affirmed the Aa2 rating on Inland Empire Utilities Agency, CA's (IEUA) Series 2017A revenue bonds, outstanding in the approximate par amount of \$47.8 million, and the Aa2 ratings on IEUA's subordinate revenue bonds, which include the Series 2020A bonds (\$39.8 million), the Series 2020B revenue notes (\$196.4 million) and Water Infrastructure Finance and Innovation Act (WIFIA) loans totaling \$316.4 million, against which IEUA has begun to draw. The outlook is stable.

RATINGS RATIONALE

The Aa2 ratings on both senior and subordinate revenue obligations reflect sound liquidity and debt service coverage levels, which are projected to remain at around 3 times beginning in fiscal 2026, even as IEUA makes additional draws upon approved WIFIA loans. Consistent financial performance will be supported by solid planning, which includes long-term capital planning, the approval of fixed charges and a rate study that will be completed in 2025 that will maintain IEUA's history of regular, manageable rate increases. Also incorporated in the rating is IEUA's elevated leverage moderated by favorable cash funding, grants to fund some capital requirements and favorable borrowing costs. IEUA's service area in San Bernardino County (Aa1 stable) is largely residential and will continue to grow, albeit at a slower pace than peak expansion years during the 1990s. IEUA's concerted planning to meet the needs of this growing area is also incorporated into the rating. While there is no debt service reserve requirement, the rating reflects favorable liquidity supported by adopted reserve policies and targets that ensure available liquidity equal to maximum annual debt service.

The lack of a rating distinction between the senior and subordinate bonds reflects the preclusion of issuance of senior, "parity" lien obligations as long as any WIFIA loans, Series 2020A or Series 2020B remain outstanding. Only refundings that produce savings in each year are permitted. The requirement for annual savings effectively precludes any extension of senior lien debt. Outstanding senior lien obligations are

expected to be fully repaid in fiscal 2034, at which time all of IEUA's outstanding debt will be on one lien.

RATING OUTLOOK

The stable outlook reflects our expectation that debt service coverage of all outstanding obligations will remain strong at around 3 times, with sound liquidity at well over 365 days. The outlook is also based on our expectation that financed projects, especially the expansion of treatment capacity at the RP-5 plant will be completed as planned by the end of fiscal 2027, with continued demand among IEUA's seven sewerage agencies.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Defeasance of outstanding senior, parity obligations
- Completion of planned expansion projects to IEUA's regional plants, especially RP-5
- Strong and sustained debt service coverage in line with projections of around 3 times and liquidity well in excess of 365 days

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material declines in either debt service coverage below 2 times or liquidity less than 365 days
- Failure to complete expansion projects on time and within budget or to operate as planned
- Meaningful decline in recycled water sales below a projected 34,000 acre-feet per year

LEGAL SECURITY

The Series 2020A bonds and Series 2020B notes are secured by Installment Payments to the Authority from IEUA payable from net revenues of the wastewater enterprise on a subordinate basis to the outstanding Series 2017A revenue bonds. Net pledged revenue of the wastewater enterprise includes wastewater, recycled water, non-reclaimable wastewater programs and IEUA's share of San Bernardino county's 1% ad valorem property taxes. Legal covenants include a minimum rate maintenance of 1.15 times coverage of all debt service and an additional bonds test (ABT) requiring 1.25 times coverage of subordinate debt service.

As long as any loans from California's Infrastructure State Revolving Fund (SRF) remain outstanding, the 1.15 times rate covenant is increased to 1.20 times coverage of MADS on senior debt service and 1.15 times coverage of MADS on all debt

service.

As long as any state revolving fund, WIFIA loans, or the Series 2020A or 2020B remain outstanding, additional issuance of senior lien obligations is precluded except for refundings that produce savings in each year. Outstanding senior lien obligations are expected to be fully repaid in 2034. There is no debt service reserve fund.

PROFILE

The Inland Empire Utilities Agency provides wastewater treatment services to the Cities of Chino, Chino Hills, Fontana, Upland, Montclair, Ontario, Upland and Rancho Cucamonga through the Cucamonga Valley Water District. The agency covers a 242 square mile area in southwest San Bernardino County and serves a growing population of over 900,000. IEUA also provides wholesale imported water from Metropolitan Water District of Southern California (Aa1 stable revenue bonds) on a cost pass through basis, and these revenues are not pledged to debt service.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416489>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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