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 sewering 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.

REGULATORY DISCLOSURES

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 .

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Helen Cregger
Lead Analyst
REGIONAL_WEST
Moody's Investors Service, Inc.
405 Howard Street
Suite 300
San Francisco 94105
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Eric Hoffmann
Additional Contact
REGIONAL_WEST
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

(including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.