

CREDIT OPINION

25 July 2024



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Contacts

Abhinav Joshi +1.415.203.0015
Associate Lead Analyst
abhinav.joshi@moody's.com

Helen Cregger +1.415.274.1720
VP-Sr Credit Officer
helen.cregger@moody's.com

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Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

Eastern Idaho Regional Sewer District, ID

New Issuer

Summary

Eastern Idaho Regional Sewer District (EIRSD), ID (A1) provides sewer services to the Cities of Ammon and Shelley, as well as some portions of Bingham and Bonneville Counties. The district's liquidity and coverage are currently strong but will moderate over time as it uses available cash and incurs new debt for its system upgrades and expansion. The district's financial position will remain stable given its growing service area and prudent rate management.

On June 23, 2024, we assigned an initial A1 rating to the district's sewer revenue bonds.

Credit strengths

- » Strong liquidity position
- » Growing service area

Credit challenges

- » Elevated debt compared to system revenue
- » Moderating debt service coverage

Rating outlook

We do not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Sustained maintenance of debt service coverage above 2x level
- » Significant reduction in debt to below 7x operating revenue
- » Successful completion of the planned system improvement and expansion projects with adequate capacity to serve anticipated growth

Factors that could lead to a downgrade

- » Material deterioration in coverage below 1.3x level
- » Inability to maintain revenue growth commensurate with planned debt issuance

Key indicators

Exhibit 1

Eastern Idaho Regional Sewer District, ID					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	19 years				
System Size - O&M (in \$000s)	\$1,641				
Service Area Wealth: MFI % of US median	97.00%				
Legal Provisions					
Rate Covenant (x)	1.25				
Debt Service Reserve Requirement	DSRF funded at lesser of standard 3-prong test (Aa)				
Management					
Rate Management	Aa				
Regulatory Compliance and Capital Planning	Aa				
Financial Strength					
	2019	2020	2021	2022	2023
Operating Revenue (\$000)	\$3,332	\$2,056	\$3,125	\$4,133	\$5,650
System Size - O&M (\$000)	\$1,020	\$1,077	\$1,388	\$1,426	\$1,641
Net Revenues (\$000)	\$4,262	\$3,041	\$3,821	\$4,845	\$6,534
Net Funded Debt (\$000)	\$24,985	\$23,717	\$22,639	\$21,495	\$20,152
Annual Debt Service (\$000)	\$1,556	\$1,558	\$1,569	\$1,574	\$1,556
Annual Debt Service Coverage (x)	2.7x	2.0x	2.4x	3.1x	4.2x
Cash on Hand	1499 days	1440 days	793 days	2675 days	2585 days
Debt to Operating Revenues (x)	7.50	11.53	7.24	5.20	3.57

Net Revenues include Facilities Maintenance Fee collected by the Cities of Shelley and Ammon. Net Funded Debt and Annual Debt Service include DEQ loans and associated debt service of the Cities of Shelley and Ammon

Source: US Census Bureau, US Bureau of Economic Analysis, Eastern Idaho Regional Sewer District, Id's financial statements, City of Shelley, ID and City of Ammon, ID's financial statements and Moody's Ratings

Profile

Eastern Idaho Regional Sewer District (EIRSD) conveys and treats wastewater collected from around 9,000 customers in the cities of Ammon and Shelley and portions of Bonneville and Bingham Counties. EIRSD was originally formed as a joint powers authority in 2004 and transitioned to a sewer district in 2023. EIRSD owns and operates a regional wastewater treatment plant west of Shelley, known as the Oxbow Water Reclamation Facility (WRF) with a treatment capacity of around two MGD and several sewer interceptor mains that convey wastewater to the treatment plant. The collected wastewater is treated at the Oxbow WRF before being discharged to the Snake River.

Detailed credit considerations

The district continues to benefit from a small yet growing service area as it primarily serves the cities of Ammon and Shelley, both growing bedroom communities for the city of Idaho Falls. The district currently serves around 9,000 equivalent residential units (ERUs); 70% of which are in the City of Ammon and 25% are in the City of Shelley. The district will continue adding around 250 ERUs annually as significant development continues in both cities owing to a growing economy, particularly in agriculture, food processing and nuclear energy due to the presence of Idaho National Laboratory. The district anticipates serving around 16,000 ERUs after completion of current system improvement and expansion projects. The City of Ammon's income level (Median Family Income 97% of the US Median) is average and is taken as a proxy for the district's service area wealth.

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The district was formed in 2023 after the dissolution of Eastern Idaho Regional Sewer Authority. As a result, in fiscal 2024, the district took over the Department of Environmental Quality (DEQ) loans from the Cities of Ammon and Shelley obtained for initial construction of sewer system. Starting fiscal 2024, the district began collecting an associated monthly fee to pay the debt service of these DEQ loans. Considering the DEQ loans and the new sewer bonds, the district's overall leverage will remain high at almost 11 times its estimated fiscal 2025 operating revenue. Following the issuance of the Series 2024 revenue bonds, current coverage of 4.2x (for DEQ loans) will moderate to around 1.4x and is expected to remain at this level over the long-term.

The district's liquidity is very strong with around 2,585 days cash on hand or \$11 million, which includes a DEQ grant as well. Management plans to use available cash and grant money for the advancement of ongoing projects, leading to a moderate cash position of around \$3 million at the completion of the projects. Supporting liquidity and coverage, management has effectively implemented annual rate hikes of 5% and has further planned increases to support the system's growing operations. The district is conducting a rate study to establish future rate increases and new connection fee that will support additional revenue growth.

The bonds are supported by a rate covenant requiring net revenue equal to at least 1.25 times annual debt service. A debt service reserve fund will be funded at the lesser of a standard three-prong test.

ESG considerations

Environmental

Environmental considerations are not currently material to the district's credit profile. According to the Moody's ESG Solutions, significant portions of the Idaho state's population is exposed to rising risks of wildfires and drought and/or water stress.

Social

Social considerations such as weaker resident income levels of the district's service area are factored into the rating but are not key credit drivers. The state of Idaho benefits from steady migration and population growth leading to steady job growth across the state.

Governance

The district's management is conservative and prudent as shown by stable financial operations as well as rate management. Governance is the key driver, and management has effectively implemented annual rate hikes with further planned increases to support growing operations.

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