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Utah Infrastructure Agency: Fitch New Issue Report

The 'BBB-' ratings and maintenance of the Negative Outlook on Utah Infrastructure Agency (UIA) continue to reflect Fitch Ratings' expectation that UIA's nonconsolidated leverage, which excludes nonrecourse debt issued on behalf of certain municipalities in Utah, will improve but remain weak through 2024. Fitch expects nonconsolidated leverage, including the issuance of the series 2023 bonds to hover moderately over 9.0x through 2024, before improving to roughly 8.4x by 2025 due to solid growth in operating income. Fiscal 2023 shows nonconsolidated leverage stabilizing at roughly 9.2x from 10.1x the prior year based on near-final unaudited numbers. Downward rating action could be taken if UIA fails to reduce nonconsolidated leverage to closer to 9.0x by FYE 2024. UIA's weaker financial profile reflects elevated leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), that rose to 12.4x on a consolidated basis, reflecting UIA's issuance of additional nonrecourse debt for the Utah cities of Syracuse, Santa Clara and Cedar Hills. Fitch's calculation of nonconsolidated leverage is 10.1x in fiscal 2022, reflective of financial performance marginally weaker than projections combined with depreciation that was slightly lower than projections, which Fitch adds back to FADS. UIA's liquidity remains neutral to the ratings. The 'BBB-' rating factors in the system's exposure to potential volatility in its customer base due to competition or technology changes for the life of debt. This risk is offset somewhat by UIA's ability to access pledged loans of franchise tax revenue from creditworthy, contracting member cities. The additional \$5.15 million in franchise tax revenue available to UIA is not included in Fitch's metrics, but provides additional stability to UIA's financial profile and allows for a final rating higher than the weaker financial profile assessment and suggested analytical outcome suggest.

ACCESS REPORT

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