

09 JAN 2025

Fitch Rates Massachusetts Clean Water Trust's SRF Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 09 Jan 2025: Fitch Ratings has assigned a 'AAA' rating to the following bonds issued by the Massachusetts Clean Water Trust (MCWT) under its Master Trust Agreement (MTA):

--Approximately \$259.60 million state revolving fund (SRF) bonds, series 26A (Green Bonds);

--Approximately \$144.6 million SRF bonds, series 26B (Sustainability Bonds);

--Approximately \$131.8 million SRF refunding bonds, series 2025 (Green Bonds).

The series 26A and 26B bond proceeds will be used to finance or refinance certain wastewater and drinking water projects within the state and pay issuance costs. The series 2025 refunding bond proceeds will be used to refund certain series of previously issued bonds and to pay costs of issuance. The bonds are expected to sell via negotiation the week of Jan. 20.

In addition, Fitch has affirmed the 'AAA' rating on the following obligations (pre-refunding):

--Approximately \$1.8 billion in outstanding parity MTA bonds;

--Approximately \$301.3 million in outstanding prior pool-program bonds.

The Rating Outlook is Stable.

The 'AAA' rating reflects the ability of the combined MCWT programs' (together, the program) financial structures to absorb hypothetical pool defaults in excess of Fitch's 'AAA' liability rating stress hurdle without causing an interruption in bond payments. Aggregate pool credit risk is measured using Fitch's Portfolio Stress Model (PSM), and the strength of the program's financial structure is measured using Fitch's Cash Flow Model.

The pool produced a 'AAA' liability rating stress hurdle of 14.6% in Fitch's PSM, while cash flow modeling demonstrates that the program can continue to pay bond debt service even with a default tolerance rate of 100%, providing a net cushion of 85.4%. The 100% default tolerance includes the scheduled release of approximately \$62.4 million of debt service reserve funds (DSRF) as well as \$1.7 million DSRF interest earnings. The default tolerance also incorporates anticipated receipt of approximately \$286.2 million in contract assistance program (CAP) payments through the life of the bonds, which are a contractual obligation of the Commonwealth of Massachusetts (the commonwealth).

As the default tolerance is in excess of the 'AAA' stress hurdle, this implies a passing result under Fitch criteria.

SECURITY

Bonds are secured by pledged loan repayments, the commonwealth contract assistance payments, rights and interest of the MTA, and certain other pledged funds, including the equity fund.

KEY RATING DRIVERS

Portfolio Credit Risk

The pool is large with over 240 obligors; the top 10 obligors account for about 46% of the total loan portfolio. The Massachusetts Water Resources Authority (MWRA) is the largest obligor and represents 17.4% of the total pool. MWRA is rated 'AA+/'AA' (senior/subordinate) by Fitch; its payments to the MCWT also constitute a subordinate obligation. The remaining top 10 obligors range from just over 2% to about 6.4% of the total pool.

Obligor security is solid, with 73% of the pool backed by general obligation pledges and about 27% backed by water and/or sewer revenue pledges. The program's underlying obligor credit quality is very strong with about 98% of obligors exhibiting investment-grade credit characteristics. These aforementioned pool characteristics translate to implied pool credit quality of a very high 'AA-/'A+'.

Financial Structure

Fitch's cash flow modeling demonstrates that program resources are sufficient to withstand hypothetical pool defaults in excess of Fitch's 'AAA' liability rating stress hurdle, as derived using the PSM, without causing an interruption in bond payments. The program's cash flows are sound, as projected minimum annual debt service coverage (DSC) is about 1.3x. The DSRF that are dedicated to certain prior series but available on a subordinated basis to all program bonds equate to about \$62.6 million, or 2.5%, of total bonds outstanding.

As of Sept. 30, 2024, the pledged equity fund was about \$1.2 billion. This fund is available to protect all bondholders from potential losses on a parity basis. Fitch's cash flow model results do not include the use of any equity funds. In light of this feature, Fitch combines all of MCWT's SRF programs in its cash flow model analysis.

Program Management

MCWT manages one of the largest SRF programs in the nation. The Massachusetts Department of Environmental Protection (Mass DEP) determines the eligibility of projects for funding, reviews each financing application and oversees regulatory compliance. To date, there have been no pledged loan defaults in MCWT's pool programs.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Inability to pass Fitch's 'AAA' liability rating stress hurdle due to significant deterioration in aggregate borrower credit quality, material increases in pool concentration and/or significant increases in program leverage.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- The ratings are at the highest level on Fitch's scale and cannot be upgraded.

PROFILE

The MCWT is governed by a three-member board of trustees, consisting of the state treasurer (who also serves as the chair), the secretary of the Executive Office for Administration and Finance and the commissioner of the

Mass DEP. The bylaws of the MCWT establish officer positions, including the executive director, who serves as the chief executive officer of the MCWT and the chair of the executive committee.

The MCWT, in collaboration with the Mass DEP, helps communities build or replace water quality infrastructure that enhances ground and surface water resources, ensures the safety of drinking water, protects public health, and develops resilient communities. It accomplishes these objectives by providing low-interest loans and grants to cities, towns, and water utilities primarily through its SRF programs.

In addition to the 2015 MTA, MCWT administers the clean water and drinking water SRF programs under its 1993 program resolution, which includes the prior pool program. The prior pool program is closed for new-money issuances. The MCWT has also issued single obligor bonds, none of which remain outstanding. The MTA program pledges amounts available in the equity fund to all bondholders on a parity basis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Fitch does not provide ESG relevance scores for Massachusetts Clean Water Trust (MA) [State Revolving Fund]. In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products>

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Massachusetts Clean Water Trust (MA) [State Revolving Fund]			
<ul style="list-style-type: none"> Massachusetts Clean Water Trust (MA) /Revolving Fund Revenues/1 LT 	LT	AAA 	Affirmed
			AAA 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(pub.01 Nov 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub.12 Jan 2024\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Stress Model, v1.11.1 [\(1\)](#)

State Revolving Fund Cash Flow Model, v1.18.2 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Massachusetts Clean Water Trust (MA) EU Endorsed, UK Endorsed

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