

Massachusetts Clean Water Trust

Pool SRF Bond Program

New Issue Report

Ratings

New Issue

Clean Water Trust State Revolving
Fund Bonds, Series 18
(Green Bonds) AAA

Outstanding Debt

Parity State Revolving Fund Debt AAA

Rating Outlook

Stable

New Issue Details

Sale Information: Approximately \$231,095,000 Clean Water Trust State Revolving Fund Bonds, Series 18 (Green Bonds), issued by the Massachusetts Clean Water Trust (MCWT, or the trust), scheduled to price via negotiation the week of Dec. 8.

Security: Bonds are secured by pledged loan repayments, Commonwealth of Massachusetts (the commonwealth) contract assistance payments (CAP), rights and interest of the trust, and certain other funds held by the trust including the equity funds.

Purpose: Bond proceeds will be used to finance or refinance costs related to certain wastewater and drinking water projects within the state and to pay for the costs of issuance.

Final Maturity: Feb. 1, 2040.

Key Rating Drivers

Sound Financial Structure: Fitch's cash flow modeling demonstrates that the program can continue to pay bond debt service even with loan defaults in excess of Fitch's 'AAA' liability rating stress hurdle, as produced using Fitch's Portfolio Stress Calculator (PSC).

Highly Rated Borrower Pool: Approximately 96% of the pool SRF bond program (the pool program) consists of borrowers exhibiting investment-grade ratings. Loan security is also strong as borrowers are secured by general obligation pledges of city and towns, local utility revenue pledges or a combination of both.

High Single-Borrower Concentration: Single-borrower concentration is high, with the Massachusetts Water Resources Authority (MWRA) representing 28% of total outstanding loan principal.

Strong Program Management: MCWT manages one of the largest SRF programs in the nation. To date, there have been no pledged and leveraged loan defaults in any of the MCWT's SRF programs.

Rating Sensitivities

Reduction in Modeled Stress Cushion: Significant deterioration in aggregate borrower credit quality, increased pool concentration or increased leveraging resulting in the program's inability to pass Fitch's 'AAA' liability rating stress hurdle would put downward pressure on the rating. The Stable Rating Outlook reflects Fitch's view that these events are unlikely to occur.

Related Research

[Fitch Rates Massachusetts Clean Water Trust's SRF Pool Program Bonds 'AAA'; Outlook Stable \(December 2014\)](#)

[State Revolving Fund and Leveraged Municipal Loan Pool \(2014 Peer Review\) \(November 2014\)](#)

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Rating History

| Rating | Action | Outlook/ Watch | Date |
|--------|----------|-------------------|----------|
| AAA | Affirmed | Stable | 12/1/14 |
| AAA | Affirmed | Stable | 5/19/14 |
| AAA | Affirmed | Stable | 4/22/13 |
| AAA | Affirmed | Stable | 11/28/12 |
| AAA | Affirmed | Stable | 6/22/10 |
| AAA | Affirmed | Stable | 2/18/09 |
| AAA | Affirmed | Stable | 9/25/03 |
| AAA | Upgraded | — | 3/31/97 |
| AA+ | Assigned | — | 4/28/95 |

Credit Profile

MCWT provides subsidized financial assistance to local governments in the commonwealth under four separate SRF programs including three stand-alone, single-borrower programs (MWRA, South Essex Sewer District, and the city of New Bedford, each rated 'AAA' by Fitch), and the pool program. With this issue, MCWT is releasing a new master trust agreement (MTA) to replace the prior program resolution which is now closed. Of note, the new MTA pledges amounts available in the equity fund to all SRF program bondholders on a parity basis. However, equity fund amounts are available to the prior bonds after the MTA's asset release test is satisfied. In light of this feature, Fitch combines the SRF programs in its cash flow model analysis

Sound Financial Structure

Fitch measures financial strength of the program by calculating the program's asset strength ratio (PASR). The PASR includes total scheduled pledged loan repayments, CAP payments, excess releases from the stand-alone SRF programs, plus any reserve balances and account earnings divided by total scheduled bond debt service. MCWT's pool program PASR is 1.4x, which is below Fitch's 2014 'AAA' median level of 1.8x but still considered sound. Minimum annual debt service coverage is also calculated to be somewhat low at about 1.1x. However, lower minimum annual coverage is typical for SRF structures enhanced with large reserve fund balances. Fitch notes that both the PASR and minimum annual DSC have slightly improved over Fitch's previous two rating reviews.

Cash flow modeling demonstrates that the program can continue to pay bond debt service even with hypothetical loan defaults of 100% in any four-year period of the outstanding bonds' expected life (per Fitch criteria, a 90% recovery is also applied in its cash flow model when determining default tolerance). This result is in excess of Fitch's 'AAA' liability stress hurdle of 19%, as produced by the PSC. The liability rating stress hurdle is calculated based on overall pool credit quality as measured by the rating of underlying borrowers, loan size and term and concentration.

CAPS and Deallocations Support Bonds Debt Service

CAPs provide approximately 9% of support to the pool program's bond debt service on behalf of certain borrowers. CAPs constitute a general obligation of the commonwealth (GOs rated AA+/Stable), for which its full faith and credit are pledged. Additional enhancement equal to approximately 14% of total pool program debt service is provided by scheduled releases from the stand-alone SRF programs. Both the CAPs and the releases from the stand-alone programs were stressed in Fitch's cash flow model analysis.

High-Quality Loan Pool with Significant Single-Borrower Concentration

Fitch estimates that at least 96% of pool program participants exhibit investment-grade credit quality, with the large majority rated 'A' or higher. In aggregate, pool credit quality is strong versus similar municipal pools as reflected in the low 'AAA' liability stress of 19%, which compares favorably to Fitch's median of 33% (lower liability stresses correlate to stronger credit quality). Loan security is also solid as the loan portfolio is secured by general obligation pledges of city and towns, local utility revenue pledges or a combination of the two.

The pool program consists of approximately 290 borrowers, the top 10 of which contribute to over 50% of total outstanding loan obligations. After MWRA's 28% (senior and subordinate lien revenue bonds rated 'AA+' and 'AA', respectively, with a Stable Outlook), the remaining top 10 borrowers

Related Criteria

[Revenue-Supported Rating Criteria \(June 2014\)](#)

[State Revolving Fund and Leveraged Municipal Loan Pool Criteria \(October 2014\)](#)

range in more manageable sizes from 1.5%–4.0%. Fitch's concern with MCWT's high single-borrower concentration is somewhat mitigated by the high rating of MWRA. Overall, MCWT's pool program composition is mostly in line with what Fitch observed in its previous few reviews.

Largest Borrowers

| Borrower | % of Portfolio |
|---|----------------|
| Massachusetts Water Resources Authority | 27.9 |
| Upper Blackstone Water Pollution Abatement District | 4.0 |
| City of Fall River | 3.8 |
| City of New Bedford | 3.4 |
| City of Brockton | 2.4 |
| City of Chicopee | 2.2 |
| City of Taunton | 2.1 |
| City of Lowell | 2.1 |
| City of Gloucester | 1.5 |
| Springfield Water and Sewer Commission | 1.5 |
| Total | 50.9 |

Enhancement Provided By Overcollateralization and Reserves

The series 18 and certain prior series of bonds are primarily protected from losses by surplus pledged direct loan repayments funded from program equity made in excess of bond debt service. Enhancement (or overcollateralization) provided by such direct loans typically ranges from 33%–50% of the supported bonds. As bonds enhanced by overcollateralization amortize, excess amounts are eventually released to the MTA's pledged equity fund and are therefore available to other SRF program borrowers.

Certain other previous series of SRF bonds in both the pool program and stand-alone programs have been enhanced by reserves initially funded by the trust (from federal and state grants) in amounts typically ranging from 33%–50% of the related borrower loans. As bonds secured by reserve funds amortize, such reserves are also eventually released to the pledged equity fund and thereafter available to all SRF program borrowers. Although no reserves are being funded with this issue, combined series' reserves from previous pool program issues equal approximately \$817 million, or 29% of outstanding bonds.

Strong Program Management

MCWT is an interagency management team composed of officials from the commonwealth treasurer's office, the executive office of administration and finance and the commonwealth's Department of Environmental Protection (DEP) administers Massachusetts' SRFs in an arrangement typical of such programs nationwide. DEP staff members review and monitor projects for several water and wastewater programs, including the pool program. MCWT has never experienced a pledged and leveraged loan default across any of its SRF programs.

Additional Bonds Test

Upon the issuance of new bonds, a certificate must be delivered by the trust demonstrating, in detail, sufficient pledged revenues to cover senior-lien bond debt service and other parity obligations by 1.05x and subordinate-lien bond debt service other parity obligations by 1.0x.

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