



New Issue: Moody's Assigns Aaa Rating To Massachusetts Water Pollution Abatement Trust State Revolving Fund Bonds, Series 16, Sub Ser 16A and 16B and Refunding Bonds, Series 2012, Sub 2012A and 2012B. Outlook is Stable.

Global Credit Research - 21 May 2012

MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST
State Revolving Funds
MA

Moody's Rating

ISSUE	RATING
State Revolving Fund Refunding Bonds, Series 2012, Subseries 2012A	Aaa
Sale Amount	\$29,830,000
Expected Sale Date	05/29/12
Rating Description	Revenue: Government Enterprise
State Revolving Fund Bonds, Series 16, Subseries 16A	Aaa
Sale Amount	\$89,960,000
Expected Sale Date	05/29/12
Rating Description	Revenue: Government Enterprise
State Revolving Fund Bonds, Series 16, Subseries 16B	Aaa
Sale Amount	\$136,750,000
Expected Sale Date	05/29/12
Rating Description	Revenue: Government Enterprise
State Revolving Fund Refunding Bonds, Series 2012, Subseries 2012B	Aaa
Sale Amount	\$96,040,000
Expected Sale Date	05/29/12
Rating Description	Revenue: Government Enterprise

Moody's Outlook N/A

Opinion

NEW YORK, May 21, 2012 --Moody's Investors Service has assigned a Aaa rating to the Massachusetts Water Pollution Abatement Trust's \$226.71 M State Revolving Fund Bonds, Series 16, consisting of \$89.96 M Subseries 16A and \$136.75 Subseries 16B and the \$125.87 M State Revolving Fund Refunding Bonds, Series 2012, consisting of \$29.83 M Subseries 2012A and \$96.04 M Subseries 2012 B. The outlook on the ratings is stable. Moody's is also affirming the Aaa ratings and stable outlook on all outstanding Pool Program senior and subordinate lien bonds.

SUMMARY RATING RATIONALE

The assignment of the Aaa ratings is based on the strong default tolerance of 26% for all of Massachusetts Water Pollution Abatement Trust's indentures, additional security from the deficiency fund, and a large, highly rated pool of borrowers.

STRENGTHS

- * The loan pool for all of the Trust's indentures could experience a significant, but highly unlikely, default of approximately 26% of the loan payments securing the bonds through final maturity of the bonds outstanding and all debt service payments would still be met.
- * Additional security provided by the pool program reserve fund and deficiency fund that captures de-allocated reserves and excess revenues from all series and all Trust programs. The de-allocated reserves may be used to cure shortfalls in any series and any program.
- * Large and diverse pool of underlying borrowers with sound credit characteristics. On a weighted-average basis, the portfolio's loan pool is rated or has rating characteristics of Aa3 and 42% of the loans outstanding are to borrowers with loans that compose less than 1% of the pool.
- * In the unlikely event of a loan default, the Trust has the right to intercept state aid revenues allocated to borrowers and direct the payments to the bonds.
- * Strong program management and oversight include sound underwriting standards and on-going surveillance of program borrowers; to-date, no borrower has defaulted on any leveraged loan repayment.

CHALLENGES

- * The Trust is exposed to counterparty risk, as its reserve investments are held in guaranteed investment contracts (GICs). Several of the Trust's larger GIC counterparties have their ratings on review for downgrade, such as Assured Guaranty Municipal Corp. (Aa3/RUR) and Natixis Funding Corp (Aa3/RUR/P-1)
- * The Series 16 and 2012 bonds have a large exposure to Massachusetts Water Resources Authority (MWRA), as MWRA provides 28% of all loan repayments to the SRF Pool Program. This is mitigated by the credit strength of MWRA which is rated Aa2 with a stable outlook (subordinate rating) and the diversity of entities that provide revenue to MWRA. In total, 61 entities provide revenue streams to MWRA with a weighted average rating of Aa2. Boston Water and Sewer provides 31% of MWRA's revenues and is rated Aa1.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The Series 16 bonds are being issued to finance or refinance costs of certain water pollution abatement and drinking water projects and to pay the Trust's \$100 M State Revolving Fund Bond Anticipation Notes, Series 16. The Series 2012 bonds are being issued to refund certain bonds previously issued by the Trust.

LEGAL SECURITY: The bonds are special obligations of the Trust. The Series 16 and Series 2012 bonds are payable from a senior lien on scheduled repayments of loans financed with the Series 16 bonds, payments made to the Trust by the Commonwealth of Massachusetts, federal subsidy payments, and earnings on and amounts held in the reserve fund. In addition, the bonds will be payable from a junior subordinate lien on scheduled revenues (loan repayments and contract assistance payments from the Commonwealth) from the MWRA Series 2002A Bonds. The bonds claim to the revenues from the MWRA Series 2002A is subordinate to the un-refunded portion of the MWRA Series 2002A Bonds. The bonds are further secured by semi-annual de-allocations of reserves pledged to all series that flow through the pool program reserve fund and deficiency fund.

INTEREST RATE DERIVATIVES: In November 2006, the Trust entered into two CPI swaps with JP Morgan (rated Aa1/RUR, P-1) associated with the Series 2006 refunding pool program bonds which carry an interest rate indexed to CPI. The Series 2006-1 swap has a notional value of \$46.6 million and terminates on August 1, 2023. Under the agreement, the counterparty will pay the Trust CPI plus 0.99% and the Trust will pay 3.9%. The Series 2006-2 swap has a notional value of \$30.7 million and matures on August 1, 2022. Under the agreement, the counterparty will pay the Trust CPI plus 0.99% and the Trust will pay 3.88%. Termination events include a downgrade of the Trust's parity bonds to below A3 or a downgrade of the counterparty's credit support provider to below Baa3.

PROGRAM STRUCTURE: LOAN REPAYMENTS AND SERIES RESERVES PROVIDE STRONG DEFAULT TOLERANCES

The Series 16 bonds are issued under the Trust's pool program. The bonds in the Pool Program are secured by loan repayments to be made by borrowers, earnings on a reserve fund pledged to the bonds funded from federal and state grants, federal subsidy payments, and contract assistance payments made by the Commonwealth of Massachusetts (G.O. rated Aa1 with a Stable outlook) to the Trust on behalf of the borrowers. The earnings on reserve funds and the commonwealth contract assistance subsidize the borrowers' loan repayments. The obligation of the commonwealth under the contract assistance constitutes a general obligation of the commonwealth, to which its full faith and credit is pledged. Upon receipt by the Trust, contract assistance monies are pledged to the repayment on the bonds. The bonds, like all pool program bonds, are being issued pursuant to a separate bond resolution under the Trust's master indenture.

In the past, the Trust has leveraged its federal and state capitalization grants by using the bonds it issues to fund loans and the grants to fund the large reserves on bonds. The substantial reserves were funded in an amount between 33% and 50% of bonds outstanding, depending on the type of project financed, the length of time the loan will remain outstanding, and the date of project funding approval by the Trust. Interest from the investments subsidized the loans and are an important source of revenue available for debt service. The bonds issued under the Trust are also secured by a parity lien on de-allocated reserves (as loans are repaid, a proportional amount of reserves are released) as they flow through the pool program reserve fund and deficiency fund under the program resolution.

In the case of the Series 16 and Series 2012 bonds, the federal and state capitalization grants will be used to fund a portfolio of direct loans. Interest repayments from the loans will be available to pay debt service and principal payments will provide additional, pledged security for the bond series.

The Series 2012 bonds are issued under the Trust's pool program and are being issued to refund pool program bonds and also a portion of the Trust's MWRA Series 2002A Bonds. The Series 2012 bonds that refunded the MWRA Series 2002A Bonds are payable from a junior subordinate lien on scheduled revenues (loan repayments and contract assistance payments from the Commonwealth) from the MWRA Series 2002A Bonds. The 2012 bonds claim is subordinate to the un-refunded portion of the MWRA Series 2002A Bonds. The Series 2012 bonds are also secured by all of the payment streams and reserves that secure the Series 16 bonds.

Loan repayments along with reserves and funds released under the program provide sufficient cash flow to withstand a sizable but unlikely default of approximately 26% of the loan repayments through the life of the outstanding bonds and debt service can still be paid. This default tolerance includes loans, bonds and reserves held under the Pool Program trust indenture, the MWRA trust indenture, the South Essex Sewer District trust indenture and the New Bedford trust indenture.

The sizable reserves are generally invested in GIC or repurchase agreements. Several of the Trust's investment agreement providers have been downgraded since the agreement date and some of the investment providers have their ratings on review for downgrade. The Trust's reserves are held with the following investment providers: AIG-MF LLC (1%) (Baa1/P-2/Stable), Bayerische Landesbank (1%) (Grandfathered - Aaa), Citigroup (8%) (A3/P-2), Assured Guaranty Municipal Corp. (18%) (Aa3/RUR), HSBC Bank USA, NA (1%), (Aa3/RUR/P-1), JP Morgan Chase Bank, NA (1%) (Aa1/RUR/P-1), Natixis Funding Corp (15%)(Aa3/RUR/P-1), Societe Generale (2%) (A1/RUR/P-1), Trinity Funding Company, LLC (19%) (A1/P-1) and West LB, NY (Grandfathered - Aa1). The remaining 33% of investments are in US Treasuries and Agencies. In conjunction with the 2012 refunding, \$119.1 M of the Trust's GICs with Trinity Funding Company, LLC will be terminated. The 26% default tolerance of the program does not include any funds invested in GICs with Citigroup or AIG.

BORROWER PORTFOLIO: LARGE PORTFOLIO EXHIBITS ABOVE AVERAGE CREDIT QUALITY

In Moody's opinion, the strong credit profile of individual borrowers in the pool is another key element of the Aaa rating. As of the Series 16 issuance, on a weighted average basis the portfolio's loan pool is rated or has rating characteristics of Aa3. Most loans carry a general obligation repayment pledge (70% of principal outstanding) with the remaining districts and commissions making water and wastewater revenue pledges. There has never been a loan default or delinquent payment in the history of the program. In the unlikely event that a borrower does not make a loan payment (due 15 days prior to debt service), the Trust has the right to intercept local aid payments due from the Commonwealth to a city or town to make up the deficiency to the Trustee for bond payment.

Portfolio size and diversity also contributes to the strength of the program. The program has approximately 290 borrowers and 42% of the borrowers each comprise less than 1% of the pool. However, the program does have some larger exposure to certain borrowers. The pool's largest borrower, Massachusetts Water Resources Authority

(MWRA subordinate obligations to the Trust rated Aa2), will account for approximately 28% of loan obligations outstanding, followed by Fall River (3.7%; rated A2), New Bedford (3.6%; rated A1), Upper Blackstone Water Pollution Abatement District (3.5%; rated A1), and Brockton (2.6%; rated Aa3). Note that the percentage of loans for MWRA and New Bedford include loans made under the MWRA and New Bedford indentures, as many of the loan repayments made under those indentures flow into the Pool Program Trust in order to repay refunding bonds such as the Series 2012 bonds.

While MWRA holds a significant amount of loans from the program, MWRA has a very diverse revenue stream. In total, 61 entities provide revenue streams to MWRA with a weighted average rating of Aa2. Boston Water and Sewer provides 31% of MWRA's revenues and is rated Aa1.

Outlook

The stable outlook on the bonds reflects Moody's expectation that the strong credit quality and diversity of the pool of borrowers will remain relatively stable.

WHAT COULD CHANGE THE RATING - DOWN

A decrease in the available reserves and default tolerance levels or a material change in the credit quality of the pool or the investment providers could put downward pressure on the rating.

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The principal methodology used in this rating was U.S. State Revolving Fund Debt published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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