MOODY'S
INVESTORS SERVICE

New Issue: Moody's Assigns Aaa Rating To MA Clean Water Trust SRF Bonds, Series 18

Global Credit Research - 02 Dec 2014

$3.1 B in debt affected

MWPAT-MASTER TRUST AGREEMENT
State Governments (including Puerto Rico and US Territories)
MA

Moody's Rating

ISSUE	RATING
State Revolving Fund Bonds Series 18 (Green Bonds)	Aaa

Sale Amount	$231,095,000
Expected Sale Date	12/09/14
Rating Description	Revenue: Pool

Moody's Outlook

Opinion

NEW YORK, December 02, 2014 --Moody's Investors Service has assigned a Aaa rating to the Massachusetts Clean Water Trust's (formerly known as Massachusetts Water Pollution Abatement Trust) $231.095 million State Revolving Fund Bonds, Series 18 (Green Bonds). The outlook on the rating is stable. Moody's is also affirming the Aaa ratings and maintaining stable outlooks on all outstanding Pool Program senior and subordinate lien bonds, all Massachusetts Water Resources Authority (MWRA) SRF senior and subordinate lien bonds, all New Bedford SRF bonds and all South Essex Sewerage District (SESD) SRF bonds.

SUMMARY RATING RATIONALE

The assignment of the Aaa ratings is based on the default tolerance of 25% for all of Massachusetts Clean Water Trust's indentures combined, additional security from the deficiency fund and equity 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 25% of the loan payments securing the bonds through final maturity of the bonds outstanding and all debt service payments would still be met. This default analysis does not include any taps to the $296 million pledged equity fund.

* The Master Trust Indenture (MTA), Pool Program, the MWRA, New Bedford and SESD bonds are cross-collateralized via the deficiency fund (which supports the pool program and the single obligor programs) and the equity fund (which supports the MTA) both of which capture de-allocated reserves and excess revenues from their related programs. The de-allocated reserves may be used to cure shortfalls in any series and any program across the trust indentures.

* Large and diverse pool of underlying borrowers with sound credit characteristics. 40% of the loans outstanding are to borrowers with loans that compose less than 1% of the pool.

CHALLENGES

*The Trust is exposed to counterparty risk, as its reserve investments are held in guaranteed investment contracts (GICs). However, funds held with counterparties rated below A1 have been haircut in the program cash flows and default tolerance.

* The bonds have a large exposure to Massachusetts Water Resources Authority (MWRA), as MWRA holds 28% of all outstanding loans. 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 18 bonds are being issued finance or refinance costs of certain wastewater and drinking water projects for governmental units or other eligible borrowers.

LEGAL SECURITY: The bonds are special obligations of the Trust, payable solely from the funds pledged pursuant to the MTA including borrower payments, contract assistance payments, loans and financing agreements, and other funds held under the MTA including the principal in the Equity Fund.

INTEREST RATE DERIVATIVES: In November 2006, the Trust entered into two CPI swaps with JP Morgan Chase Bank, NA (rated Aa3/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 $46.605 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 $30.65 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 18 bonds are issued under the Trust's new Master Trust Indenture, which is an open indenture that allows additional parity debt. Bonds under the indenture are secured by loan repayments and agreements, contract assistance payments made by the Commonwealth of Massachusetts to the Trust on behalf of the borrowers, the program's Equity Fund, and debt service reserves if any. The Series 18 bonds will not have a debt service reserve, as overcollateralization for the series will be provided via pledged direct loan repayments. The Equity Fund has been pre-funded with approximately $296 M and will also receive excess revenues from each MTA series. The Equity Fund can receive releases from the Deficiency Fund, which secures the Pool Program and single obligor programs, to cure defaults within the MTA. Furthermore, the Equity Fund is available to cure deficiencies for the Pool Program and single obligor program bonds if needed.

The obligation of the Commonwealth under the contract assistance payments constitutes a general obligation of the Commonwealth (G.O. rated Aa1 with a Stable outlook), 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 in the Pool Program and single obligor indentures are payable by a combination of loan repayments to be made by borrowers, earnings on reserve funds pledged to the bonds funded from federal and state grants (reserves were typically funded in an amount between 33% and 50% of bonds outstanding), and Commonwealth contract assistance payments. The earnings on reserve funds for certain series and the Commonwealth contract assistance subsidize the borrowers' loan repayments. All of the bonds issued under the Pool Program and single obligor programs are also secured by a parity lien on de-allocated reserves (as loans are repaid, a proportional amount of reserves are released) and excess loan repayments from pledged direct loans as they flow through the flow of funds into the Deficiency Fund under the Program Resolution.

Loan repayments along with reserves and funds released under the MTA, Pool Program and single obligor programs provide sufficient cash flow to withstand a sizable but unlikely default of approximately 25% 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 MTA, Pool Program trust indenture, the MWRA trust indenture, the South Essex Sewer District trust indenture and the New Bedford trust indenture. In the default tolerance analysis, investments with GICs from providers rated below A1 received partial credit per Moody's methodology, the Build America Bond subsidy payments were not included as revenue, and short term investment rates were 0%. This analysis does not include the $296 M Equity fund, which provides additional security for the bonds.

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. The Trust's reserves are held with the following investment providers: AIG-MF LLC (0.5%), Bayerische Landesbank (0.4%), Citigroup (10%), FSA Capital Management Services (Guaranteed by Financial Security Assurance Inc) (21%), HSBC Bank USA, NA (1%), JP Morgan Chase Bank, NA (1%), Natixis Funding Corp (Guaranteed by CDC Ixis)(16%), Societe Generale (Guaranteed by Financial Security Assurance Inc) (1%), and Trinity Funding Company, LLC (15%). The remaining 34% of investments are in US Treasuries and Agencies.

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. Most loans carry a general obligation repayment pledge with the remaining districts and commissions making water and wastewater revenue pledges. There has never been a loan default or delinquent payment on a pledged loan 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 296 (including the Series 18 borrowers) and 40% 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), accounts for approximately 28% of loan obligations outstanding. 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 loan pool, cash flow projections and counterparty profile will remain relatively stable.

WHAT COULD CHANGE THE RATING - UP

N/A

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.

RATING METHODOLOGY

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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