

New Issue: [Massachusetts Wtr Poll Abatement Tr](#)

MOODY'S ASSIGNS Aaa RATING TO MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST'S \$354 MILLION POOL PROGRAM BONDS, SERIES 13;

TRUST HAS A TOTAL OF \$2.4 BILLION OF RATED POOL PROGRAM DEBT OUTSTANDING

Water/Sewer
MA

Moody's Rating

ISSUE	RATING
Pool Program Bonds, Series 13	Aaa
Sale Amount	\$354,175,000
Expected Sale Date	11/26/07
Rating Description	Revenue

Moody's Outlook Stable

Opinion

NEW YORK, Nov 19, 2007 -- Moody's Investors Service has assigned a Aaa rating to the Massachusetts Water Pollution Abatement Trust's \$354 million Pool Program Bonds, Series 13. In addition, Moody's has affirmed the Aaa rating on \$2.4 billion of outstanding senior and subordinate pool program bonds. The outlook is stable.

USE OF PROCEEDS: Proceeds from the Series 13 bonds will be used to finance loans to borrowers for water pollution abatement projects and drinking water projects.

LEGAL SECURITY: The Series 13 bonds are payable from a senior lien on scheduled loan repayments by borrowers, payments made to the trust by the Commonwealth of Massachusetts under the pool program, and earnings on and amounts held in the Series 13 reserve fund. The bonds are further secured by amounts held in the trust's pool program reserve fund and deficiency fund.

INTEREST RATE DERIVATIVES: None

STRENGTHS

* The loan pool could experience a significant, but highly unlikely, default of approximately 38.4% 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 deficiency fund that captures excess revenues from other trust programs. These funds may be used to cure shortfalls in the loan pool program

* Large and diverse pool of underlying borrowers with sound credit characteristics. Eighty-nine percent of the portfolio's loan principal is rated or has rating characteristics of A3 or better and 43% is rated Aa3 or better. Overall, more than 94% of the loan principal is payable by borrowers rated investment grade

* In the unlikely event of a loan default, the trust has the right to intercept state shared revenues

* Strong program management and oversight include sound underwriting standards and on-going surveillance of program borrowers; to-date, no borrower has defaulted on its loan repayment

CHALLENGES

* Cutback of commonwealth appropriations could cause narrowing of coverage levels

* Meeting increasing borrower demand amid declining federal capitalization

BONDS SECURED BY DIVERSE, HIGH QUALITY SOURCE OF REVENUE, WHICH TOGETHER WITH HIGH DEFAULT TOLERANCE SUPPORTS Aaa RATING

The bonds are issued under the trust's pool program and are secured by a senior lien on loan repayments to be made by borrowers, earnings on a reserve fund pledged to the bonds funded from federal and state grants, and contract assistance payments (17.5%) made by the Commonwealth of Massachusetts (G.O. rated Aa2) 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 are being issued pursuant to the trust's master indenture, known as the program resolution, established in 1993.

Typically, the trust leverages its federal and state capitalization grants by using the bonds it issues to fund loans and the grants to fund the large reserves on senior lien bonds. The substantial reserves are funded in an amount between 33% and 50% of loan par 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. The sizable reserves are generally invested in guaranteed investment contracts (GIC) from a provider rated Aa3 or higher. The trust's policy is not to invest more than 30% of its funds with a single provider. Interest from the GICs subsidizes the loans and is an important source of revenue available for debt service. The bonds are also secured by a parity lien on de-allocated reserves (as loans are repaid, a proportional amount of reserves are released) that reside in the pool program reserve fund and deficiency fund under the program resolution.

The reserves and funds released under the master trust provide sufficient cash flow to withstand a sizable but unlikely default of approximately 38.5% of the loan repayments through the life of the outstanding senior and subordinate bonds and debt service can still be paid. In Moody's opinion, the default tolerance provided by the reserves and the master trust structure is a key element of the highest quality rating on the bonds. Of note is that the default tolerance declined from 43.9% at the time of the last sale (Pool 12) on account of a refunding that moved bonds to the subordinate from the senior lien, thereby releasing reserves that are required for senior lien but not for the subordinate lien bonds.

DEFICIENCY FUND PROVIDES ADDITIONAL SECURITY

The pool program is one of several programs established by the trust. Bonds issued under other resolutions, which are separate and distinct from the pool program, include the MWRA Program (rated Aaa), the SESD Program (rated Aaa), and the New Bedford Program (rated Aa3). These stand-alone programs, for entities which also borrow through the pool program, are similarly secured with reserve funds of up to 50% of the bond principal outstanding. As principal is repaid, the amount required in the reserve fund is reduced. Those de-allocated reserves flow to the deficiency fund created under the program resolution and are available to cure a deficiency in any borrower's loan repayment. While the de-allocated reserves under the trust's pool program are first available to participants in the pool program issues, they ultimately flow to the deficiency fund where they are available to all borrowers in other programs. The deficiency fund fills up only as needed to cover a shortfall in one or more programs on the debt service due date. After meeting the deficiency fund test, excess funds flow to the equity fund to secure new loans. Although amounts in the equity fund are not pledged to bondholders, such funds are legally available should the pool program require them.

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. The general portfolio credit quality ranks among the highest of all state revolving fund programs: 89% of the portfolio's loan principal outstanding is rated or has rating characteristics of A3 or better and 43% is rated Aa3 or better. Overall, more than 94% of the loan principal is payable by borrowers rated investment grade and the remaining 6% of borrowers is not rated. Most loans carry a general obligation repayment pledge (roughly 75% of principal outstanding) with some districts and commissions making water and wastewater revenue pledges (about 25%). Upon the issuance of Series 13, the pool program will have 274 borrowers with a total of \$2.7 billion in borrower obligations. The Pool Series 13 will have 75 borrowers, of which one is new. In the unlikely event of a loan default, the trust has the right to intercept state shared revenues, which can be substantial especially for Baa-category borrowers. This is a credit strength in Moody's opinion.

Portfolio size and diversity also contribute to the strength of the program, with the top 10 borrowers expected to account for only 43% of loan principal and approximately 253 individual borrowers to account for less than 1%. The pool's largest borrower, Massachusetts Water Resources Authority (MWRA senior obligations to the trust rated Aa3), will account for approximately 24% of loan obligations outstanding, followed by Fall River (rated Baa1), Brockton (rated A2), the South Essex Sewerage District (SESD rated Aa3), and the Upper Blackstone Water Pollution Abatement District (rated Baa1) each accounting for between approximately 3% and 4% of loan principal.

ADEQUATE DEBT SERVICE COVERAGE IS EXPECTED FOR THE SUBORDINATE BONDS

The reserves backing the subordinate lien pool program bonds (Series 2004A), which are also rated Aaa, are not as large as those for the senior lien bonds. The Series 2004A bonds instead are secured by a debt service reserve fund equal to 10% of principal bond outstanding and funded with bond proceeds. The trust expects that revenues available for Series 2004A debt service will provide better than 1x coverage. These revenues include excess loan repayments after payment of senior debt service, loan repayments associated with the MWRA and SESD programs, contract assistance payments, and earnings on the subordinate debt service reserve fund. Additional security is provided by amounts de-allocated from the senior lien debt service reserve funds to the pool program reserve fund and deficiency fund, to the extent that other loan defaults do not occur

Outlook

The stable outlook reflects the consistency of the strong trust structure for the pooled program. The outlook also incorporates Moody's expectation that the pool of borrowers will continue to exhibit above average credit quality.

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 could put downward pressure on the rating.

KEY INDICATORS (Pool Loan Program)

Revolving Fund Structure: Reserve Model / Cash Flow Program (subsequent to new resolution)

Indenture Requirements: Reserves between 33% and 50%

Pool Reserves: \$982 million

Pool Reserves to Pool Debt: 41%

Lowest Projected Coverage: 1.0x

Number of Borrowers: 274

Pool Loans Outstanding: \$2.21 billion

Pool Bonds Outstanding: \$2.42 billion

Default Tolerance: Approximately 38.4% of loans (senior lien) could default without causing a default on the bonds

Portfolio Credit Quality: Approximately 94% Investment Grade

Largest Borrowers: Massachusetts Water Resources Authority (senior rated Aa2, 23.5% of outstanding obligations); Fall River (Baa1, 4.1%); Brockton (A2, 3.6%); Upper Blackstone Water Pollution Abatement District (rated Baa1, 3.5%)

RATED POOL PROGRAM DEBT (amounts in millions; senior lien only; rated Aaa)

Series 1, \$1

Series 2, \$5

Series 3, \$19

Series 4, \$27

Series 5, \$59

Series 6, \$93

Series 7, \$41

Series 8, \$113

Series 9, \$129

Series 10, \$117

Series 11, \$186

Series 12, \$419

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