

Summary:

Massachusetts Water Pollution Abatement Trust; State Revolving Funds/Pools

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Summary:

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Credit Profile		
US\$226.71 mil st rev fund bnds ser 16 dtd 06/13/2012 due 08/01/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$125.87 mil st rev fund rfdg bnds ser 2012 dtd 06/13/2012 due 08/01/2035		
<i>Long Term Rating</i>	AAA/Stable	New
Massachusetts Wtr Poll Abatement Trust (MWRA loan prog)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts Wtr Poll Abatement Tr (Pool Ln Prog)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts Wtr Poll Abatement Tr (Sesd In Prog)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Massachusetts Water Pollution Abatement Trust's (MWPAT) series 16 state revolving fund (SRF) bonds and series 2012 SRF refunding bonds. In addition, we have affirmed our 'AAA' long-term rating on MWPAT's various series of pool SRF bonds, Massachusetts Water Resources Authority (MWRA) SRF bonds, and South Essex Sewerage District (SESSED) SRF bonds. The ratings reflect the following characteristics:

- An extremely strong enterprise risk profile, given that the pool has ongoing support from multiple levels of government and was established by statute; and
- An extremely strong financial risk profile, with a loss coverage score, operating performance, and financial policies consistent with this profile.

The trust will use the series 16 bonds to make new loans and the 2012 bonds to retire existing debt. Securing pool SRF bonds are revenues from borrower repayments, commonwealth assistance payments, and earnings and principal on various reserve funds. The commonwealth's (AA+/Stable) general obligation (GO) pledge secures assistance payments. Primarily securing MWPAT's MWRA, SESSED, and New Bedford SRF bonds are loan repayments from those specific entities, series reserve funds, reserve earnings, and the deficiency fund. Series reserve funds are sized between 33% and 50% of the original principal of the loans.

We view the enterprise risk profile of the program as extremely strong. This is due to a combination of the low industry risk profile for municipal pools, and the program's market position, which we consider to be extremely strong. MWPAT was created by Chapter 29C of the General Laws of the Commonwealth of Massachusetts in order to administer the state SRF program. The Massachusetts Department of Environmental Protection (DEP) develops the SRF intended use plan and reviews borrower applications. The SRF program receives support from multiple levels of government, including federal capitalization grants and state matching funds.

We view the financial risk profile of the program as extremely strong. The combination of the loss coverage score, historical operating performance, and management policies lead to this profile.

Aggregate program cash flows indicate that annual revenues from loan repayments, investment earnings, and commonwealth assistance payments exceed debt service by at least 1.2x in early years of the program and then generally increase over time to slightly less than 1.4x.

Pledged to \$3.6 billion of outstanding bonds for all programs are \$4 billion of loan principal and total commonwealth payments, as well as \$1.4 billion of reserves. Reserve balances are invested primarily in U.S. treasury obligations and guaranteed investment contracts with various providers. There is about \$550 million of reserves invested with counterparties rated below 'AA-', which do not meet our counterparty criteria for transactions rated 'AAA'. Even when including these reserves as assets in the Collateralized Debt Obligation Evaluator and receiving related reductions in value, our default tolerance analysis indicates that cash flows are still strong enough to achieve an extremely strong loss coverage score. Supporting this score is a large corpus of equity funds currently totaling \$226 million that could be used by management to cure defaults if needed. The use of equity funds is restricted to the SRF and cannot be transferred out for general state government purposes.

Averaging all of the financial policies and practices, we view the corpus of these as adequate. Management works with borrowers directly to manage additional loan payments within their budget constraints, but does not necessarily do a formal credit review for all borrowers because many, if not all, loans are with existing borrowers. MWPAT does not directly perform annual surveillance, but has stated that credit ratings are tracked by the state Department of Revenue. Loan payments are made 15 days before debt service. Management works with DEP to prioritize projects annually using the intended use plan. Investment guidelines are fairly permissive, but the current portfolio only includes U.S. Treasuries and guaranteed investment contracts.

Management has indicated that there have been no loan defaults or delinquent payments on any pledged loans since 1993 when it first started providing loans under various SRF programs. The trust has financed more about \$5.6 billion of loans since this time.

Given these enterprise and financial risk profiles, the indicative rating matches the final rating of 'AAA' because we did not make any negative overriding adjustments.

Outlook

The stable outlook reflects our expectation that pledged revenues will continue to provide strong debt service coverage consistent with the rating level, given historical trends. The stable outlook also reflects our expectation that MWPAT will continue to maintain a large equity position and that direct loans made out of equity funds would be amortized in a manner consistent with existing loans. The existence of revenues in equity is important in our default tolerance analysis because the use of these revenues to potentially cure defaults would preclude premature liquidation of reserve fund assets.

Within the two-year outlook horizon, we could lower the rating if reserves become insufficient for the rating level, in our view, or any other program factors negatively affect the enterprise or financial risk profiles.

Program And Bond Characteristics

MWPAT's pool and other program SRFs have about 1,600 outstanding loans to 290 borrowers. About 75% of the loans are backed by participants' GO pledge with water or sewer revenue pledges backing the remainder of loans. The pool's largest borrower is Massachusetts Water Resources Authority (AA+/Stable), representing about 30% of all pool loans outstanding. We do not view this as a credit concern given the authority's own credit strength (senior-lien debt rated AA+/Stable). Cash flow projections from the trust indicate that commonwealth assistance payments will total about \$580 million through maturity on the trust's bonds.

Excess pool SRF revenues and reserve fund deallocations flow to a pool program reserve fund pledged to senior-lien bonds and then to a deficiency fund available for debt service on senior-lien, subordinate-lien, MWRA, SESD, and New Bedford bonds. Reserve fund deallocations related to MWRA, SESD, and New Bedford bonds flow directly to the deficiency fund (unless a series is refunded with pool SRF bonds; in that case deallocations flow to the pool program reserve fund).

In the case of a pool participant defaulting on its loan payments, MWPAT is authorized to intercept local aid payable to the participant. A regional entity that provides utility services (such as MWRA or SESD) is also able to intercept a local government's aid payable if the regional entity defaults on its loan payments to MWPAT because a local government it serves fails to pay assessments or charges due.

Related Criteria And Research

USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012

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