

RatingsDirect®

Summary:

Massachusetts Water Pollution Abatement Trust; State Revolving Funds/Pools

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Summary:

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Credit Profile

US\$214.9 mil st revolving fd bn ds ser 17 due 02/01/2043

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Massachusetts Water Pollution Abatement Trust's (MWPAT) series 17 state revolving fund (SRF) 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 (SESD) SRF bonds. The outlook on all the ratings is stable.

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 17 bonds to make new loans. Pool SRF bonds are secured with 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. For MWPAT's MWRA, SESD, and New Bedford SRF bonds, these are secured primarily with 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 also consider extremely strong. MWPAT was created by Chapter 29C of the General Laws of the Commonwealth of Massachusetts 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, reflecting the combination of the loss coverage score, historical operating performance, and management policies.

Aggregate program cash flows (for all four SRF programs) 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 just under 1.4x.

Pledged to \$3.5 billion of outstanding bonds for all programs are \$3.7 billion of loan principal and commonwealth payments, as well as \$1.2 billion of reserves. Reserve balances are invested primarily in U.S. Treasury obligations and guaranteed investment contracts with various providers. There are about \$440 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 CDO 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 \$234 million, that management could use 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 \$6 billion of loans since then.

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.

Program and bond characteristics

MWPAT's pool and other program SRFs have about 1,600 outstanding loans 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 \$522 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) can also 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.

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. As per those trends, the outlook also reflects our expectation that the trust will maintain a large equity position, and that direct loans made out of equity funds would be amortized in a manner consistent with existing loans.

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 weaken the enterprise or financial risk profiles.

Related Criteria And Research

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

Ratings Detail (As Of April 18, 2013)		
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

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