

RatingsDirect®

Summary:

Massachusetts Clean Water Trust; State Revolving Funds/ Pools

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Credit Profile

US\$259.645 mil state revolving fd bnds ser 26A due 02/01/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$144.565 mil state revolving fd bnds ser 26B due 02/01/2045		
<i>Long Term Rating</i>	AAA/Stable	New
US\$131.835 mil state revolving fd rfdg bnds ser 2025 due 02/01/2037		
<i>Long Term Rating</i>	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Massachusetts Clean Water Trust's (MCWT) \$259.645 million series 26A state revolving fund (SRF) bonds (designated as green bonds), \$144.565 million series 26B SRF bonds (designated as sustainability bonds), and \$131.835 million series 2025 SRF refunding bonds (designated as green bonds).
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on MCWT's SRF Prior Pool program bonds outstanding.
- The outlook is stable.

Security

The trust will use the series 26A and 26B bond proceeds to finance or refinance costs of certain clean water and drinking water projects through loans to pool borrowers. The series 2025 bond proceeds will refinance the series 20 bonds for debt service savings. The bonds are being issued pursuant to a master trust agreement (MTA). All liens created for all the trust's previous SRF programs are closed for new debt issuances, but refunding bonds would be allowed.

Revenue from borrower loan repayments, commonwealth assistance payments, and an equity fund secure the debt service on bonds issued under the MTA. The commonwealth's general obligation secures the pledged assistance payments, which amount to about 8% of total debt service. Revenue in the equity fund (\$1.24 billion as of Sept. 30, 2024) is also available to cure defaults on the trust's other program bonds. Revenue deposited to the equity fund includes excess revenue not needed to pay debt service on the trust's aggregate program and pool bonds.

The trust's Prior Pool SRF program has approximately \$301.3 million principal amount outstanding. Revenue from borrower loan repayments, commonwealth assistance payments, and both earnings and principal on various reserve funds as well as a deficiency fund and equity fund secure the Prior Pool SRF bonds outstanding and bonds secured under the MTA.

Credit overview

MCWT's MTA and the Prior Pool SRF program have about 1,500 loans outstanding involving 243 unique borrowers. The individual participants' general obligation or water and sewer user fees secure the loans. The pool's largest borrower is MWRA (AA+/Stable), representing 17.4% of all pool loans outstanding. We do not view this as a credit concern given the pool's overall credit strength mainly due to the robust overcollateralization and strong credit quality of the borrowers in the pool.

The rating reflects our opinion of the combination of extremely strong enterprise and financial risk scores including:

- An extremely strong market position reflected in financial support from multiple levels of government to make loans from the trust;
- A diverse and highly rated borrower portfolio, with borrowers throughout the entire state and 87% rated 'AA' or higher;
- Ample equity and excess reserves available that support pool program cash flows supporting an extremely strong loss coverage score (LCS);
- Long track record of no payment defaults among participants in leveraged funding programs; and
- Generally strong financial management policies and practices.

Ratings above the sovereign

Because we view securitizations backed by pools of public sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given that the U.S. sovereign rating is 'AA+'.

Outlook

The stable outlook reflects our expectation that pledged revenue will likely continue providing high overcollateralization based on the trust's large equity fund and lack of loan defaults due to the strong credit quality of the borrowers. The outlook also reflects S&P Global Ratings' expectation that MCWT's strong loan portfolio management will likely continue, and that collateralization will likely sustain high debt service coverage (DSC) in case of potential defaults and delinquencies.

Downside scenario

Although unlikely, we could lower the rating within the two-year outlook horizon if pledged assets become insufficient for the rating, or if any other program factors weaken the enterprise or financial risk profiles.

Credit Opinion

Enterprise risk profile--Extremely strong

We view the program's enterprise risk profile as extremely strong, resulting from a combination of the low industry risk profile for municipal pools and the program's market position, which we also consider extremely strong. The trust 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 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 believe the financial benefits received by borrowers through various grant programs as well as the interest rate subsidies on loans will sustain the program in the long term.

Financial risk profile--Extremely strong

We consider MCWT's financial risk profile as extremely strong. The pool is currently composed of \$4.31 billion in loan principal and approximately \$283 million of commonwealth payments, along with \$62.69 million in debt service reserve funds from the previous pool SRF and a large equity fund totaling about \$1.2 billion as of Sept. 30, 2024, against \$2.46 billion in bonds outstanding (post-bond Issuance) across all programs. DSC by MTA loan revenue is at least 1.28x, which exceeds the 1.05x coverage that the additional bonds test requires. Projected cash flows are capable of withstanding S&P Global Ratings' loss coverage scenario, based on the credit quality of the asset pool and consolidated cash flows, run at our 'AAA' category stress level. Supporting the LCS is a large equity fund totaling about \$1.2 billion as of Sept. 30, 2024, that could cover loan defaults in any of the programs, if need be. The equity fund is restricted to the SRF and cannot be transferred out for general state government purposes and is primarily invested in the Massachusetts Municipal Depository Trust, the commonwealth's short-term external mixed investment pool consisting of cash and a short-term bond fund.

In the event a pool participant defaults on loan payments (which has never occurred), the trust is authorized to intercept local aid payable to the participant. Furthermore, a regional entity providing utility services (such as MWRA) can intercept the aid payable of a local government that it serves if said government fails to pay assessments or charges and the regional entity thus defaults on loan payments to the trust.

Our aggregate view of the trust's financial policies and practices is adequate, reflected in management's direct relationship with borrowers in planning for additional loan payments within their budget constraints, execution of the regulatory agreement that outlines conditions related to borrower compliance with the loan, and loan payment dates that are 15 days prior to payment of debt service on the bonds. Management works with the Massachusetts Department of Environmental Protection to annually prioritize projects using the intended-use plan, and engineers conduct site inspections for construction oversight to ensure the project is proceeding as planned.

Management reports no loan defaults or delinquent payments on any pledged loans since 1993, when it started providing loans under various SRF programs. The trust has since financed more than \$9 billion in loans.

Credit Snapshot

- **Program descriptions:** The trust serves as a public instrumentality of the commonwealth and collaborates with the Massachusetts Department of Environmental Protection (Mass DEP) to assist communities in building or upgrading water quality infrastructure. Its mission is to ensure safe drinking water, protect public health, and foster resilient communities. Through the Massachusetts SRF programs, the trust offers low-interest loans and grants to cities, towns, and water utilities. It manages the flow of funds to borrowers while MassDEP manages the development and oversight of projects.
- **Flow of funds:** All program revenues, borrower payments, contract assistance payments related to loans, and earnings from specific funds held under the MTA will be deposited into the revenue fund. When debt service payments are due, the necessary amount will be withdrawn from the revenue fund and transferred to the senior debt service fund. If the pledged revenue from the program is insufficient to cover the debt service, the required shortfall will be drawn from the equity fund and deposited into the senior debt service fund.
- **Summary statistics:** The trust currently has a total debt outstanding of \$2.07 billion, which will increase to \$2.46 billion following the current issuance. The borrowing portfolio comprises approximately 243 distinct obligors. Among these, 216 obligors have individually borrowed less than 1% of the total outstanding loans. The largest obligor is the MWRA, accounting for 17.4% of all loans outstanding. In addition, the top 10 obligors collectively hold 46% of the total loans outstanding. The entity's loan portfolio is well-diversified across various obligors, with the majority of the borrowers rated 'A' or higher.

Ratings Detail (As Of January 9, 2025)

Massachusetts Clean Wtr Trust (MWRA In prog)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts Clean Wtr Tr (Pool Ln Prog)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts Clean Wtr Trust st revolving bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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