

## Fitch Rates Massachusetts Water Pollution Abatement Trust Pool Program's

**\$497MM Revs 'AAA'** Ratings

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Fitch Ratings-Chicago-22 June 2010: Fitch Ratings assigns an 'AAA' rating to the following Massachusetts Water Pollution Abatement Trust Pool Program's series state revolving fund (SRF) program bonds:

- \$121.9 million subseries 15A;
- \$332 million subseries 15B (Federally Taxable - Direct Pay to Issuer Build America Bonds [BABs]);
- \$41 million refunding bonds, series 2010A.

The bonds are expected to price via negotiation during the week of June 28, 2010.

Proceeds of the bonds will be primarily used to fund loans for water and wastewater capital projects for 85 governmental units. A portion of the proceeds will also be used to refund a portion of the Trust's outstanding stand-alone program bonds.

In addition, Fitch affirms the following ratings:

- \$1.68 billion in outstanding pool program revenue bonds (series 1-14) at 'AAA';
- \$1.371 billion in outstanding pool program refunding bonds at 'AAA'.

The Rating Outlook is Stable.

### RATING RATIONALE:

- Massachusetts Water Pollution Abatement Trust's (MWPAT, or the trust) SRF program's large reserves, excess loan repayments, interest earnings and dedicated state subsidy provide significant loan default tolerance.
- The program's underlying borrower credit quality is strong, with at least 81% of outstanding loan principal exhibiting investment grade characteristics.
- The program maintains prudent investment practices.

### KEY RATING DRIVERS:

- Credit quality of the bonds is linked to repayment performance on the program's loan portfolio and credit quality of investments in the reserve fund.
- Balancing of future leveraging with capitalization grants and program resources is necessary to maintain high tolerance to potential loan defaults.

### SECURITY:

The series 15A, 15B, series 2010A bonds and outstanding series 1-14 program bonds (senior lien) are secured by borrower loan repayments, Commonwealth Contract Assistance Payments (CAP), debt service reserve funds, interest earnings from the reserve funds and deallocated reserves. In addition, the series 15A, 15B and 2010A bonds are secured by BAB federal subsidy payments.

The outstanding refunding bonds are secured by excess loan repayments from the senior lien and deallocated reserves. In addition, the series 2004 refunding bonds have a dedicated reserve.

### CREDIT SUMMARY:

The 'AAA' ratings for MWPAT's federally capitalized state revolving fund (SRF) programs are the result primarily of the large amount of senior lien reserves, which will total over \$1.1 billion or approximately 39% of outstanding pool bonds after this issue. Of the total loans outstanding to the MWPAT, approximately 68% represent general obligations of the

participants, with the remainder backed by water and wastewater revenues. Contract assistance payments by the Commonwealth of Massachusetts (general obligation bonds rated 'AA' with a Stable Outlook by Fitch) constitute 16% of pledged revenues.

MWPAT issues bonds to provide subsidized financing to municipalities throughout Massachusetts for its water pollution abatement and drinking water SRF projects. The bonds are special obligations of the Trust payable solely from the funds pledged pursuant to the Program Resolution and the series Bond Resolution. MWPAT currently uses a bond series-based reserve fund structure commonly seen in SRFs. The reserves are funded from federal capitalization grants.

The program's reserves, which equal approximately \$1.1 billion or 36% of outstanding bonds (including refunding bonds), provide significant levels of tolerance to loan repayment defaults. The senior and subordinate refunding bonds could continue to meet debt service requirements, assuming 30.2% defaults over a four-year period; this exceeds what Fitch would assume in an 'AAA' level stress test given the size, credit quality of the loans and pool diversification.

Loan repayments, combined with reserve fund investment earnings and the CAPs, are used to pay SRF bond debt service. Use of the reserve earnings and contract assistance makes possible the 2% loan interest rate subsidy that is set by Commonwealth statute. While the amount of the CAP subsidy has historically totaled around 17% of pledged revenues, the subsidy is generally set at bond debt service net of loan debt service and reserve fund earnings. The obligation of the Commonwealth under Commonwealth assistance contracts constitute a general obligation of the Commonwealth, for which its full faith and credit are pledged. The assistance contracts are pledged under the program resolution to the program trustee for the benefit of all holders of the Trust's SRF bonds.

As a series of bonds amortize, series reserves will be released to the program reserve, so that the original reserve level is maintained relative to outstanding bond principal. Released reserves for each series of bonds become available for deficiencies in payments of other state-wide loan pool borrowers, as well as for deficiencies on pool program refunding bonds. Any excess funds are then transferred to the deficiency fund.

Deficiency fund moneys may be used to prevent bond defaults resulting from loan repayment interruptions in the other SRF programs or by other Massachusetts SRF borrowers, including the MWRA, the South Essex Sewer District (SESD), and the City of New Bedford. The MWPAT financed large loans to these borrowers historically through separately secured programs to reduce concentration risk in the state-wide pool. If not needed by either of the state-wide loan pools or the CWSRF bonds of the MWRA, SESD, or New Bedford, all released reserves are recycled and used to secure additional SRF loans.

The loan pool consists of approximately 277 borrowers. Massachusetts Water Resources Authority (MWRA; senior and subordinate lien revenue bonds rated 'AA+' and 'AA' with a Stable Outlook, respectively) remains the largest borrower in the pool program's portfolio, making up approximately 29% of outstanding loan principal. The top 10 borrowers make up over 50% of outstanding obligations. The MWPAT has the flexibility of providing future loans to the MWRA through a stand-alone program, allowing the MWPAT to manage the pool program's exposure to the MWRA.

Pledged revenue sources exhibit strong credit quality. Fitch estimates that at least 81% of program participants exhibit investment-grade credit quality. Underlying loans are also subject to a state intercept mechanism in the event of delinquent repayments. Loan security is also strong with approximately 68% of total loan principal secured by general obligation pledges of city and towns, with the remainder secured by local or regional water and sewer entities.

MWPAT's program reserve investment practices are generally strong. Assets are primarily invested in investment agreements, with providers rated at least in the second highest rated category and/or fully collateralized by direct U.S. Treasuries or Agencies with third-party custodians.

Applicable criteria on Fitch's website at '[www.fitchratings.com](http://www.fitchratings.com)' include:

--'Revenue-Supported Rating Criteria' (Dec. 29, 2009);

--'State Revolving Fund and Municipal Loan Pool Rating Guidelines' (April 28, 2008).

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