MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST'S $455.965 M STATE REVOLVING FUND BONDS, SERIES 15 AND $41.165 M STATE REVOLVING FUND REFUNDING BONDS, SERIES 2010A.

Global Credit Research - 22 Jun 2010

TRUST HAS A TOTAL OF $3.06 BILLION OF RATED POOL PROGRAM DEBT OUTSTANDING

State Revolving Funds
MA

Moody's Rating

ISSUE		RATING
State Revolving Fund Bonds, Subseries 15B (Federally Taxable - Direct Pay to Issuer - Build America Bonds)		Aaa
Sale Amount	$334,045,000	
Expected Sale Date	07/05/10	
Rating Description	Revenue	
State Revolving Fund Bonds, Subseries 15A Tax Exempt		Aaa
Sale Amount	$121,920,000	
Expected Sale Date	07/05/10	
Rating Description	Revenue	
State Revolving Fund Refunding Bonds, Series 2010 A		Aaa
Sale Amount	$41,165,000	
Expected Sale Date	07/05/10	
Rating Description	Revenue	

Opinion

NEW YORK, Jun 22, 2010 -- Moody's Investors Service has assigned a Aaa rating to the Massachusetts Water Pollution Abatement Trust's $455 million State Revolving Fund Bonds, Series 15 and $41.165 million State Revolving Fund Refunding Bonds, Series 2010 A. The Series 15 bonds will consist of approximately $121.92 million in Subseries 15A (Tax Exempt) and $334.045 million Subseries 15B (Federally Taxable - Direct Pay To Issuer - Build America Bonds). Moody's is also affirming the Aaa ratings on outstanding bonds under the Massachusetts Water Resources Authority program, the South Essex Sewerage District program, the New Bedford program senior lien, and the Aa3 rating on the New Bedford program subordinate lien bonds. The outlook on all the ratings is stable.

USE OF PROCEEDS: The Series 15 bonds are being issued to finance or refinance costs of certain water pollution abatement and drinking water projects. The Series 2010A are being issued to refund a portion of the Trust's Subordinate Revenue Refunding Bonds (New Bedford Program), 1998 Series A which were previously issued to refund a portion of the Trust's Water Pollution Abatement Revenue Bonds (New Bedford Loan Program), 1996 Series A.

LEGAL SECURITY: The bonds are special obligations of the Trust. The Series 15 and Series 2010A bonds are payable from a senior lien on scheduled repayments of loans financed with the Series 15 bonds, payments made to the Trust by the Commonwealth of Massachusetts, federal subsidy payments, and earnings on and amounts held in the reserve fund. In addition, the bonds are payable from a junior subordinate lien on scheduled revenues (loan repayments and contract assistance payments from the Commonwealth) from the New Bedford Series 1996A Bonds. The bonds claim to the revenues from the New Bedford Series 1996A is subordinate to the un-refunded portion of the 1996A and 1998A New Bedford Bonds.

The bonds are further secured by semi-annual de-allocations of reserves pledged to all series that flow through the pool program reserve fund and deficiency fund.

INTEREST RATE DERIVATIVES: In November 2006, the Trust entered into two CPI swaps with JP Morgan (rated Aa3/Stable) associated with the Series 2006 refunding pool program bonds which carry an interest rate indexed to CPI. The Series 2006-1 swap has a notional value of $46.6 million and terminates on August 1, 2023. Under the agreement, the counterparty will pay the Trust CPI plus 0.99% and the Trust will pay 3.9%. The Series 2006-2 swap has a notional value of $30.7 million and matures on August 1, 2022. Under the agreement, the counterparty will pay the Trust CPI plus 0.99% and the Trust will pay 3.88%. Termination events include a downgrade of the Trust's parity bonds to below A3 or a downgrade of the counterparty's credit support provider to below Baa3.

STRENGTHS

* The loan pool could experience a significant, but highly unlikely, default of approximately 33.15% 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 the pool program reserve fund and deficiency fund that captures de-allocated reserves and excess revenues from all series and all Trust programs. The de-allocated reserves may be used to cure shortfalls in any series and any program.

* Large and diverse pool of underlying borrowers with sound credit characteristics. On a weighted-average basis, the portfolio's loan pool is rated or has rating characteristics of Aa3 and 40% of the loans outstanding are to borrowers with loans that compose less than 1% of the pool.

* In the unlikely event of a loan default, the Trust has the right to intercept state aid revenues allocated to borrowers and direct the payments to the bonds.

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

CHALLENGES

* Counterparty risk is concentrated at the series level, as debt service reserves can only be tapped for their associated series; this concentration risk is somewhat mitigated by the parity claim of all series on semi-annual debt service reserve de-allocations.

* The Series 15 and 2010A bonds have a large exposure to MWRA, as MWRA provides 29% of all loan repayments to the SRF Pool Program. This is mitigated by the credit strength of MWRA which is rated Aa2 with a negative outlook (subordinate rating) and the diversity of entities that provide revenue to MWRA. In total, 61 entities provide revenue streams to MWRA with a weighted average rating of Aa2. Boston Water and Sewer provides 31% of MWRA's revenues and is rated Aa1.

PROGRAM STRUCTURE: LOAN REPAYMENTS AND SERIES RESERVES PROVIDE STRONG DEFAULT TOLERANCES

The Series 15 bonds are issued under the Trust's pool program and are secured by loan repayments to be made by borrowers, earnings on a reserve fund pledged to the bonds funded from federal and state grants, federal subsidy payments, and contract assistance payments made by the Commonwealth of Massachusetts (G.O. rated Aa1 with a Stable outlook) 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, like all pool program bonds, are being issued pursuant to a separate bond resolution under the Trust's master indenture. The Series 15 bonds are also secured by all of the payment streams that secure the Series 2010A bonds.

The Series 2010A are issued under the Trust's pool program and are being issued to refund a portion of the Trust's Subordinate Revenue Refunding Bonds (New Bedford Program), 1998 Series A which were previously issued to refund a portion of the Trust's Water Pollution Abatement Revenue Bonds (New Bedford Loan Program), 1996 Series A. The Series 2010A bonds are payable from a junior subordinate lien on scheduled revenues (loan repayments and contract assistance payments from the Commonwealth) from the New Bedford Series 1996A Bonds. The 2010A bonds claim is subordinate to the un-refunded portion of the 1996A and 1998A New Bedford Bonds. The Series 2010A bonds are also secured by all of the payment streams and reserves that secure the Series 15 bonds.

Typically for new issue bonds like the Series 15 bonds, 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 bonds. The substantial reserves are funded in an amount between 33% and 50% of bonds 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. Interest from the investments subsidizes the loans and is an important source of revenue available for debt service. The bonds issued under the Trust are also secured by a parity lien on de-allocated reserves (as loans are repaid, a proportional amount of reserves are released) as they flow through the pool program reserve fund and deficiency fund under the program resolution. The reserves and funds released under the program resolution provide sufficient cash flow to withstand a sizable but unlikely default of approximately 33.15% of the loan repayments through the life of the outstanding senior and subordinate bonds and debt service can still be paid. Furthermore, without the subsidy from the Subseries 15B Build America Bonds, the indenture could still withstand a default of 33.13% of the loan repayments.

The sizable reserves are generally invested in GIC or repurchase agreements from a provider rated Aa3 or higher at the agreement date. The Series 15 bonds will have a reserve fund sized at between 35-40% of bonds outstanding and are expected to be invested in US Treasuries and/or Agency securities. The Trust's policy is not to invest more than 30% of its total reserve funds with a single provider, however higher concentration levels do exist at the series level. Several of the Trust's investment agreement providers have been downgraded since the agreement date. On a series by series basis, the exposure to downgraded providers is well-diversified except in the Series 12 reserves which are invested in repurchase agreements with Citigroup, Inc. (82%; rated A3/P-1) and Depfa (18%; rated A3/P-1). This exposure is substantially mitigated by the additional security of the program's de-allocated reserves, deficiency fund, and unpledged but available reserves that may not be maintained at current levels but provide cushion in the near term.

The reserves backing the Series 2004A subordinate lien pool program bonds (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. Pledged revenues include excess loan repayments after payment of senior debt service, excess loan repayments associated with the MWRA and SESD programs, contract assistance payments, and earnings on the subordinate debt service reserve fund. Series 2004A projected cash flows are included in the program's 33.15% default tolerance, and 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.

BORROWER PORTFOLIO: 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. As of the Series 15 issuance, on a weighted average basis the portfolio's loan pool is rated or has rating characteristics of Aa3. Most loans carry a general obligation repayment pledge (roughly 68% of principal outstanding) with some districts and commissions making water and wastewater revenue pledges (about 31%). There has never been a loan default or delinquent payment in the history of the program. In the unlikely event that a borrower does not make a loan payment (due 15 days prior to debt service), the Trust has the right to notify the state treasurer who will divert a portion of any state aid distribution to make up the deficiency to the Ttrustee for bond payment.

Portfolio size and diversity also contributes to the strength of the program. The program has 290 borrowers and 40% of the borrowers each comprise less than 1% of the pool. However, the program does have some larger exposure to certain borrowers. The pool's largest borrower, Massachusetts Water Resources Authority (MWRA subordinate obligations to the Trust rated Aa2), will account for approximately 29% of loan obligations outstanding, followed by Fall River (3.94%; rated A1), Upper Blackstone Water Pollution Abatement District (3.73%; rated A1), New Bedford (3.6%; rated A1), and Brockton (2.77%; rated Aa3). Note that the percentage of loans for MWRA and New Bedford include loans made under the MWRA and New Bedford indentures, as many of the loan repayments made under those indentures flow into the Pool Program Trust in order to repay subordinate bonds such as the Series 2010A bonds.

While MWRA holds a significant amount of loans from the program, MWRA has a very diverse revenue stream. In total, 61 entities provide revenue streams to MWRA with a weighted average rating of Aa2. Boston Water and Sewer provides 31% of MWRA's revenues and is rated Aa1.

THREE SMALLER PROGRAMS BENEFIT FROM LARGE RESERVES, AVERAGE TO ABOVE-AVERAGE BORROWER CREDIT QUALITY, AND DEFICIENCY FUND

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 (senior lien and subordinate lien rated Aaa), the South Essex Sewerage District Program (SESD, rated Aaa), and the New Bedford Program (senior lien rated Aaa, subordinate lien 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.

The MWRA program bonds ($54.545 million in senior bonds outstanding and $63.775 million in subordinate bonds outstanding) are secured by a senior lien on $419.2 million of outstanding loans, $160.125 million of reserves, and contract assistance payments. The MWRA program has a subordinate claim on MWRA's revenues, (rated Aa2). MWRA consists of 61 member municipalities with a weighted average rating of Aa2. Due to the large amount of reserves under the program, all of the loan repayments could default for the life of the bonds and debt service would still be paid.

The $6.44 million in SESD program bonds are secured by a senior lien on $6.44 million of loans, $31.98 million in reserve and contract assistance payments. SESD, rated Aa2, consists of 6 member municipalities with a Aa-quality weighted average rating. Due to the large amount of reserves under the program, all of the loan repayments could default for the life of the bonds and debt service would still be paid.

The New Bedford program bonds ($4.605 million senior lien, $94.935 million subordinate lien outstanding) are secured by $99.54 million of loans, $39.816 million of reserves, and contract assistance payments. The City of New Bedford, the sole borrower in this program, is rated A1, but like all series, has additional enhancement provided by the state intercept. The borrower concentration and credit quality are a key factor in the rating distinction for the New Bedford subordinate bonds.

All three programs additionally benefit from the de-allocated reserves that pass through the deficiency fund as principal on all series is repaid. While the de-allocated reserves under the SRF 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.

Outlook

The stable outlook on the bonds reflects Moody's expectation that the strong credit quality and diversity of the pool of borrowers will remain relatively stable and that reserve levels will remain substantial despite recent investment contract provider downgrades.

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 or the investment providers could put downward pressure on the rating.

KEY INDICATORS

Pool Program (senior and subordinate lien):

Revolving Fund Structure: Hybrid - Reserve Model / Cash Flow Program (subsequent to 2006 amendment)

Number of Borrowers: 290

Indenture Requirements: Reserves between 33% and 50%

Pool Loans Outstanding: $3.152 billion

Pool Bonds Outstanding: $3.058 billion

Pool Reserves: $1.173 billion

Default Tolerance: Approximately 33.15% of loans could default without causing a default on the bonds

Portfolio Credit Quality: On a weighted-average basis, the portfolio's loan pool is rated or has rating characteristics of Aa3

Largest Borrowers: Massachusetts Water Resources Authority (29%), Fall River (3.94%), Upper Blackstone Water Pollution Abatement District (3.73%), New Bedford (3.6%), and Brockton (2.77%).

ISSUER CONTACT

G. David Riedell, Executive Director, 617-367-9333 x 579

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

Massachusetts Water Pollution Abatement Trust's bond rating was assigned by evaluating factors believed to be relevant to the credit profile of the instrument such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, and iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals. These attributes were compared against other issues both within and outside of the Trust's core peer group and their ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

The last rating action was on July 28, 2009 when a municipal finance scale rating of Aaa was assigned to the MWPAT's State Revolving Fund Refunding Bonds, 2009A. The rating was subsequently recalibrated to Aaa on May 7, 2010.

Analysts

Rachael Royal McDonald
Analyst
Public Finance Group
Moody's Investors Service

Cristin Wagner
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653