

# RatingsDirect®

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## Summary:

# Massachusetts Clean Water Trust; State Revolving Funds/Pools

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### Credit Profile

US\$162.385 mil st revolving fd bnds (Green Bnds) ser 21 due 08/01/2038

*Long Term Rating* AAA/Stable New

Massachusetts Clean Wtr Trust (MWRA In prog)

*Long Term Rating* AAA/Stable Affirmed

Massachusetts Clean Wtr Tr (Pool Ln Prog)

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to the Massachusetts Clean Water Trust's series 21 state revolving fund (SRF) bonds, which are also being issued as green bonds. At the same time, we affirmed our 'AAA' rating on the trust's outstanding debt consisting of pool SRF bonds and Massachusetts Water Resources Authority (MWRA) SRF bonds. The outlook on all issues is stable.

The ratings reflect our view of:

- An extremely strong enterprise risk profile, since the pool has ongoing support from multiple levels of government and was established by state statute; and
- An extremely strong financial risk profile, reflected by its loss coverage score (LCS), operating performance, and financial policies.

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 the U.S. sovereign rating is 'AA+'.

The trust plans to use the series 21 bond proceeds to finance 60 new loans to pool borrowers. The bonds are being issued pursuant to a master trust indenture. All liens created for all the trust's prior SRF programs are closed.

Pool SRF bonds are secured with revenues from borrower repayments, commonwealth assistance payments, and both earnings and principal on various reserve funds. The commonwealth's general obligation (GO) pledge secures the pledged assistance payments, which currently total \$217 million. The trust's MWRA SRF bonds are secured primarily with loan repayments from that entity, series reserve funds, reserve earnings, and a deficiency fund. Series reserve funds for the pool SRF bonds are sized between 33% and 50% of the loans' original principal.

Bonds issued under the master trust indenture are additionally secured by an equity fund. Revenues in the equity fund

can also be used to cure defaults on the trust's other program bonds. Revenues deposited to the equity fund include excess revenues not needed to pay debt service on the trust's aggregate program and pool bonds.

Massachusetts Clean Water Trust's pool and other program SRFs have about 1,800 outstanding loans involving about 300 unique borrowers. All loans are backed by the participants' GO pledge or with water/sewer revenue pledges. The pool's largest borrower is MWRA, representing about 25% of all pool loans outstanding. We do not view this as a credit concern given the authority's own credit strength.

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

We view the program's enterprise risk profile 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. 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 (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 program's financial risk profile as extremely strong, reflecting a combination of the LCS, historical operating performance, and management policies.

Aggregate program cash flows (aggregating for all SRF programs) indicate that annual revenues from loan repayments, investment earnings, and commonwealth assistance payments exceed debt service by at least 1.3x in the program's early years, then generally increase over time before settling to about 1.6x.

Pledged to \$2.4 billion of outstanding bonds for all programs are \$3.5 billion in loan principal and commonwealth payments, as well as \$625 million in reserves. Reserve balances are invested primarily in U.S. Treasury obligations and guaranteed investment contracts with various providers. There are about \$300 million of reserves invested in guaranteed investment contracts with various counterparties. Even when including these reserves as assets in S&P Global Ratings' CDO (collateralized debt obligation) Evaluator and receiving related reductions in value, our default tolerance analysis indicates cash flows are still strong enough to achieve an extremely strong LCS. Supporting this score is a large corpus of equity funds totaling \$397 million as of August 2018, which management could use to cure defaults in any program if needed. The use of equity funds is restricted to the SRF and cannot be transferred out for general state government purposes.

Averaging all financial policies and practices, we view the corpus of these as adequate. Management works directly with borrowers to manage additional loan payments within their budget constraints, but does not necessarily undertake a formal credit review for all borrowers because many, if not all, loans are with existing borrowers. The trust does not perform direct annual surveillance, but has represented that the commonwealth's Department of Revenue tracks credit ratings. Loan payments are made 15 days before debt service. Management works with the 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 indicates 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 roughly \$7 billion in loans since then.

## **Outlook**

The stable outlook reflects our expectation that pledged revenues will continue to provide strong debt service coverage consistent with the current rating, given historical trends. Based on those trends, the outlook also reflects our expectation that the trust will maintain a large equity position, and that direct loans making up equity funds will be amortized in a manner consistent with existing loans.

We could lower the rating within the two-year outlook horizon if reserves become insufficient for the rating, in our view, or if any other program factors weaken the enterprise or financial risk profiles.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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