

Tax Supported
New Issue

Massachusetts Water Pollution
Abatement Trust

Ratings

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Massachusetts Water Pollution
Abatement Trust Pool Program
Bonds, Series 13 AAA

Outstanding Debt

Pool Program Bonds, Series 1-12..... AAA
Pool Program Refunding Bonds AAA

Rating Outlook Stable

Analysts

Adrienne M. Booker
+1 312 368-5471
adrienne.booker@fitchratings.com

David Litvack
+1 212 908-0593
david.litvack@fitchratings.com

Issuer Contact

Scott Jordan
Executive Director
+1 617 367-3900

New Issue Details

Approximately \$354,175,000 Massachusetts Water Pollution Abatement Trust Pool Program Bonds, Series 13, are expected to sell during the week of Nov. 26 through a syndicate led by JP Morgan.

Purpose: Bond proceeds will be used to finance costs of certain water pollution control projects and drinking water projects for 75 borrowers.

■ Outlook

The 'AAA' ratings for Massachusetts Water Pollution Abatement Trust's (MWPAT, or the trust) federally capitalized state revolving fund (SRF) programs are due primarily to the large amount of senior lien reserves, which total over \$1 billion, or approximately 38% of outstanding pool bonds. Approximately 72% of the total loans outstanding to the MWPAT represent GOs of the participants, with the remainder backed by water and wastewater revenues. Contract assistance payments by the Commonwealth of Massachusetts (GO bonds rated 'AA' by Fitch Ratings) constitute 17% of pledged revenue.

■ Rating Considerations

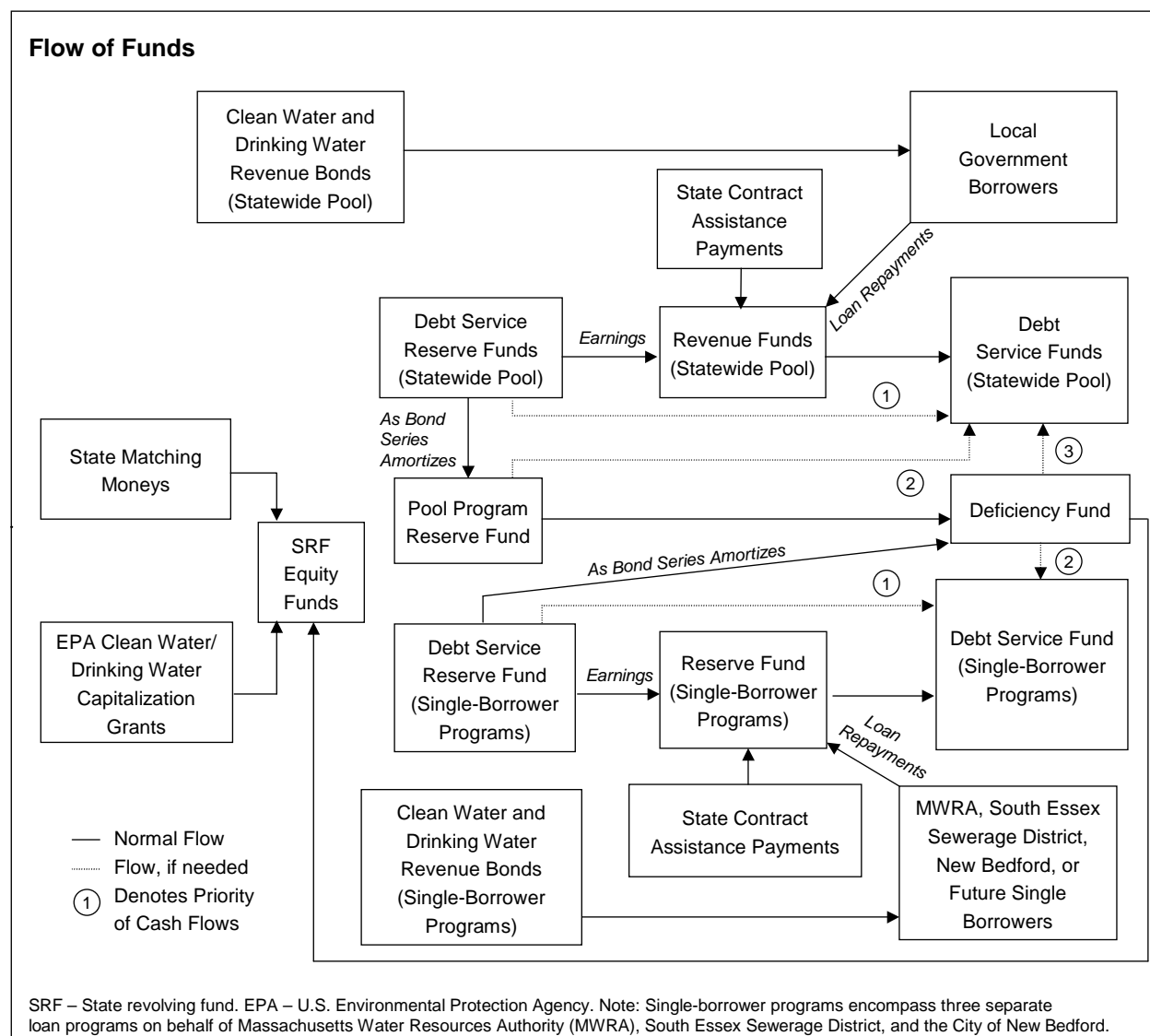
The loan pool consists of over 270 borrowers. Massachusetts Water Resources Authority (MWRA, senior and subordinate lien revenue bonds rated 'AA' and 'AA-', respectively, by Fitch) remains the largest borrower in the pool program's portfolio, accounting for approximately 24% of outstanding loan principal. The top 10 borrowers constitute nearly 47% of outstanding obligations. While the pool's concentration is likely to continue to grow, the MWPAT has the flexibility of providing future loans to the MWRA through the separate MWRA program, allowing the MWPAT to manage the pool program's exposure to the MWRA.

The MWPAT's program bonds issued for its clean water SRF (CWSRF) and drinking water SRF (DWSRF) exhibit significant levels of tolerance to loan repayment defaults. The senior and subordinate refunding bonds could continue to meet debt service requirements, assuming 50.9% defaults for the first four years. Given the loan pool's current credit quality, structural default tolerance levels exceed Fitch's 'AAA' SRF bond rating guidelines by a 3.07:1 margin.

Pledged revenue sources exhibit strong credit quality. Fitch estimates that at least 89% of program participants exhibit investment-grade credit quality. Underlying loans are also subject to a state intercept mechanism in the event of delinquent repayments, further enhancing bondholder security. Loan repayments provide an estimated 72% of pledged revenues, while the commonwealth's 'AA' rated GO contract assistance payments provide approximately 17% of pledged revenues. Interest earnings on MWPAT's substantial reserves, which come from reserve fund investment agreements meeting Fitch's 'AAA' investment guidelines and serve to subsidize borrower interest costs, provide the remaining 11% of pledged revenues.

■ Strengths

- Substantial loan pool collateralization, resulting in significant tolerance to borrower defaults.
- Significant subsidy provided by the commonwealth.



- Diverse loan pool with more than 270 borrowers.
- Ability to intercept substantial local aid to municipalities, if needed, to cover loan defaults.
- Sound investment practices.

- Risks
- Minimal.

■ Structural and Legal Characteristics
Bond Security: The MWPAT lends bond proceeds to municipalities throughout Massachusetts to provide subsidized financing of water pollution abatement and drinking water projects. Loan repayments, combined with reserve fund investment earnings and the commonwealth’s contract assistance payments, are used to pay SRF bond debt service.

Use of the reserve earnings and contract assistance makes possible the interest rate subsidy.

Debt Service Reserve Funds: EPA CWSRF and DWSRF capitalization grants and commonwealth matching moneys fund the reserves. The program has a bond series-based debt service reserve fund structure. The reserve funds are available to prevent debt service payment defaults on the related series of bonds and are funded in an amount equal to 33%–50% of the outstanding principal amount of the related loans, depending on the types of loans being financed by the 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 statewide loan pool borrowers, as well as for deficiencies on refunding bonds on a subordinate basis. Any excess funds are then transferred to the deficiency fund.

Deficiency fund moneys of each SRF program may be used to prevent bond defaults resulting from loan repayment interruptions in the other SRF program or by other Massachusetts SRF borrowers, including the MWRA, the South Essex Sewer District (SESD), and the city of New Bedford. (Historically, the MWPAT financed large loans to these borrowers through separately secured programs to reduce concentration risk in the statewide pool.) If not needed by either of the statewide 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.

Prior to pool program bonds issued in 2005 (Series 11), reserve funds were loan specific, and as loans amortized, project reserves were released to the program reserve. MWPAT's change in program structure has allowed administrative efficiency, greater program flexibility, and the ability to offer simpler loan terms to pool borrowers.

Loan Subsidy Provisions: Although borrowers are ultimately responsible for making loan repayments sufficient to cover their share of bond debt service costs, the MWPAT's program structure provides for approximately 17% of pledged revenue to be paid from commonwealth contract assistance and a portion from reserve fund investment earnings. The MWPAT credits receipts from these sources against borrowers' repayment obligations to provide subsidized project financing, consistent with the mission of SRFs as established by federal law.

■ **Management**

An interagency management team composed of officials from the commonwealth treasurer's office, the executive office of administration and finance, and the commonwealth's Department of Environmental Protection (DEP) administers Massachusetts' SRFs in an arrangement typical of such programs nationwide. DEP staff members review and monitor projects for several water and wastewater programs, including SRF projects. These officials review environmental, engineering, and construction matters related to the projects. The MWPAT utilizes automated loan collection

procedures and existing state revenue department processes to monitor borrowers' finances.

Investment Practices: The MWPAT places reserve funds in fully collateralized investment agreements, with providers in the 'AA' and 'AAA' long-term rating categories that also typically carry Fitch's highest short-term rating of 'F1+'. The agreements generally allow for termination if a provider rating downgrade would otherwise result in a downgrade of the bonds' ratings.

MWRA Concentration: MWRA is the largest borrower in the pool program's portfolio, accounting for approximately 24% of outstanding loan principal. While the pool's concentration is likely to continue to grow, the MWPAT has the flexibility of providing future loans to the MWRA through the separate MWRA program, allowing the MWPAT to manage the pool program's exposure.

■ **Borrowers**

Loan Portfolio Credit Quality

Because loan repayments constitute the bonds' principal security source, strong borrower credit quality proves a key component of the bonds' superior ratings. Fitch estimates that approximately 89% of all outstanding loans individually exhibit investment-grade credit quality. In addition, loans are secured by MWPAT's ability to intercept commonwealth aid payments (predominantly education funds) otherwise due to cities and towns, if related borrowers do not make timely SRF loan payments. Massachusetts' law allows other commonwealth programs to intercept commonwealth aid for various purposes.

Largest Borrowers*

	Principal	(%)
MWRA	653,524,320	23.51
Fall River	113,869,735	4.10
Brockton	100,953,662	3.63
Upper Blackstone Water Pollution District	95,862,100	3.45
South Essex Sewerage District	66,288,958	3.21
Lynn Water Sewer Commission	60,716,121	2.38
Nantucket	44,337,875	2.18
Attleboro	38,997,620	1.59
Chelmsford	38,248,286	1.40
Springfield Water & Sewer Commission	36,137,286	1.38
Total	1,248,935,963	46.83

*After current issuance.

Even without consideration of the local aid intercept mechanism, underlying loan security provisions are strong, with approximately 72% of SRF pool program loans secured by GO pledges of cities and towns, with the remainder secured by the water and sewer commissions' revenue pledges.

■ Stress Tests — Exceptional
Structural Default Tolerance

Reserves provide significant enhancement, allowing the bonds to withstand borrower defaults of 50.9%

during the first four-year period, which is approximately three times greater than Fitch would assume in an 'AAA' level stress test given the credit quality of the loans.

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