

RatingsDirect®

Summary:

Massachusetts Clean Water Trust; State Revolving Funds/ Pools

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Summary:

Massachusetts Clean Water Trust; State Revolving Funds/Pools

Credit Profile

US\$149.7 mil st revolving fd bnds (Sustainability Bnds) ser 24B due 02/01/2043		
<i>Long Term Rating</i>	AAA/Stable	New
US\$143.33 mil st revolving fd bnds (Green Bnds) ser 24A due 02/01/2043		
<i>Long Term Rating</i>	AAA/Stable	New
US\$111.75 mil st revolving fd rfdg bnds ser 2022 due 02/01/2043		
<i>Long Term Rating</i>	AAA/Stable	New
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

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Massachusetts Clean Water Trust's approximately \$293.0 million series 24A state revolving fund (SRF) bonds (designed as Green Bonds) and 24B SRF bonds (designed as Sustainability Bonds), and approximately \$111.8 million 2022 SRF refunding bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the trust's pool SRF bonds outstanding and Massachusetts Water Resources Authority (MWRA) SRF bonds.
- The outlook is stable.

Security

The trust will use the series 24A and 24B bond proceeds to finance or refinance costs of certain wastewater and drinking water projects through loans to pool borrowers. The series 2022 bond proceeds will refinance the series 17A for debt service savings. The bonds are being issued pursuant to a master trust agreement (MTA). All liens created for all the trust's prior SRF programs are closed.

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 total about 5% of total debt service. Revenue in the equity fund 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 SRF programs include the Pool SRF program and MWRA Single Obligor Program. Revenue from borrower loan repayments, commonwealth assistance payments, and both earnings and principal on various reserve funds secure the debt service on the pool SRF bonds outstanding. Loan repayments from that entity, series reserve funds, reserve earnings, and a deficiency fund secure the debt service on the MWRA \$7.4 million Single Obligor Program bonds outstanding.

Credit overview

The rating reflects our view of the trust's strengths, including the combination of its extremely strong enterprise risk and financial risk profiles across all three programs.

The ratings further reflect our view of the trust's:

- Extremely strong enterprise risk profile reflected in its establishment under state statute in 1989 as well as its ongoing support from multiple levels of government; and
- 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 that the U.S. sovereign rating is 'AA+'.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that pledged revenue will likely continue providing high over-collateralization based on the trust's large equity fund and lack of loan defaults.

Downside scenario

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

Massachusetts Clean Water Trust's MTA and other program SRFs have about 1,500 loans outstanding involving more than 250 unique borrowers. The individual participants' general obligation pledge or water and sewer user fees secure the loans. The pool's largest borrower is MWRA (AA+/Stable), representing about 20% of all pool loans outstanding. We do not view this as a credit concern given the trust's own credit strength.

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

Pledged to \$2.4 billion of bonds outstanding for all programs are \$4.2 billion in loan principal and commonwealth payments as well as \$284.1 million in debt service reserve funds from the prior pool SRF and MWRA single-obligor loan programs. Coverage of debt service on bonds from MTA revenue is at least 1.18x, which exceeds the additional bonds test that requires 1.05x coverage. Furthermore, our default tolerance analysis indicates that cash flows are more than sufficient to achieve an extremely strong LCS. Supporting the LCS is a large equity fund totaling in excess of \$1 billion as of June 2022 that could cover loan defaults in any of the programs, if needed. 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 a local government's aid payable that it serves if it fails to pay its assessments or charges, which then results in the regional entity's defaulting on its 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 first started providing loans under various SRF programs. The trust has financed more than \$8.1 billion in loans since.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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