

# RatingsDirect®

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## Summary:

# Massachusetts Clean Water Trust; State Revolving Funds/Pools

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## Summary:

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### Credit Profile

US\$148.89 mil state revolving fd bnds (green bnds) ser 25A due 02/01/2040		
<i>Long Term Rating</i>	AAA/Stable	New
US\$140.795 mil state revolving fd rfdg bnds (green bnds) ser 2023 due 02/01/2038		
<i>Long Term Rating</i>	AAA/Stable	New
US\$115.435 mil state revolving fd bnds (sustainability bnds) ser 25B due 02/01/2044		
<i>Long Term Rating</i>	AAA/Stable	New

### Credit Highlights

S&P Global Ratings assigned its 'AAA' long-term rating to the Massachusetts Clean Water Trust's series 25A state revolving fund (SRF) bonds (designated as green bonds), series 25B SRF bonds (designated as sustainability bonds), and series 2023 SRF refunding bonds (designated as green bonds).

At the same time, we affirmed our 'AAA' long-term rating on the trust's and the Massachusetts Water Resources Authority's (MWRA) SRF bonds outstanding.

The outlook is stable.

### Security

The trust will use the series 25A and 25B bond proceeds to finance or refinance costs of certain wastewater and drinking water projects through loans to pool borrowers. The series 2023 bond proceeds will refinance the series 18 bonds 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 for new debt issuances, but refunding bonds would be allowed.

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 (\$1.2 billion as of Aug. 31, 2023) 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 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 pool SRF bonds outstanding. Loan repayments from that entity, series reserve funds, reserve earnings, and a deficiency fund secure the MWRA \$6.8 million single-obligor program bonds outstanding, prior pool bonds outstanding, and bonds secured under the MTA.

## **Credit overview**

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 or water and sewer user fees secure the loans. The pool's largest borrower is MWRA (AA+/Stable), representing about 18% of all pool loans outstanding. We do not view this as a credit concern given the trust's own credit strength.

The rating reflects our view of the trust's:

- Extremely strong market position reflected in financial support from multiple levels of government to make loans from the trust;
- Lack of geographic concentration among borrowers that are highly rated, with 86% rated 'AA' or higher; and
- Ample equity and excess reserves available that support pool program cash flows, including an extremely strong loss coverage score (LCS) and favorable operating performance.

## **Outlook**

The stable outlook reflects our expectation that pledged revenue will likely continue providing high overcollateralization 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**

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 believe the financial benefits received by borrowers through various grant programs as well as the interest rate subsidies on loans will sustain the program in the long term.

Pledged to \$2.2 billion of bonds outstanding for all programs are \$3.5 billion in loan principal and commonwealth payments as well as \$201 million in debt service reserve funds from the prior pool SRF and MWRA single-obligor loan programs. Debt service coverage by MTA revenue is at least 1.18x, which exceeds the 1.05x coverage that the additional bonds test requires. 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 about \$1.2 billion as of Aug. 31, 2023, that could cover loan defaults in any of the programs, if need be. 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 the aid payable of a local government that it serves if said government fails to pay assessments or charges and the regional entity thus defaults on 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 started providing loans under various SRF programs. The trust has since financed more than \$8.6 billion in loans.

### Ratings above the sovereign

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+'.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 26, 2023)		
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

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