

Massachusetts Clean Water Trust [State Revolving Fund]

The 'AAA' rating reflects the ability of the combined Massachusetts Clean Water Trust (MCWT) programs' (together, the program) financial structures to absorb hypothetical pool defaults more than Fitch's 'AAA' liability rating stress hurdle without causing an interruption in bond payments. Aggregate pool credit risk is measured using Fitch's Portfolio Stress Model (PSM), and the strength of the program's financial structure is measured using Fitch's Cash Flow Model.

Security

Bonds are secured by pledged loan repayments, the commonwealth contract assistance payments, rights and interest of the master trust agreement (MTA), and certain other pledged funds, including the equity fund.

Key Rating Drivers

Portfolio Credit Risk

The pool is large with nearly 250 obligors; the top 10 obligors account for about 43% of the total loan portfolio. The Massachusetts Water Resources Authority (MWRA) is the largest obligor and represents 16% of the total pool. MWRA is rated 'AA+'/'AA' (senior/subordinate) by Fitch; its payments to the MCWT constitute a subordinate obligation. The remaining top 10 obligors range from just under 2% to about 6.5% of the total pool.

Obligor security is solid, with 73% of the pool backed by general obligation pledges and about 27% backed by water and/or sewer revenue pledges. The program's underlying obligor credit quality is very strong with over 98% of obligors exhibiting investment-grade credit characteristics. These pool characteristics translate to implied pool credit quality of a very high 'AA-'.

Financial Structure

Fitch's cash flow modeling demonstrates that program resources are sufficient to withstand hypothetical pool defaults more than Fitch's 'AAA' liability rating stress hurdle, as derived using the PSM, without causing an interruption in bond payments. Projected Fitch-calculated minimum annual debt service coverage (DSC) is about 1.3x, considering bonds under the MTA and prior bonds on a consolidated basis. Assuming defaults beginning Feb. 1, 2026 and excluding the program's equity fund, Fitch's cash flow modelling demonstrates that the program can continue to pay bond debt service even with a default rate of 80.7%, providing a net cushion of 68.4%.

The 80.7% default tolerance includes the scheduled release of about \$46.2 million of debt service reserve funds (DSRF), related interest earnings, and about \$430.8 million in contract assistance program (CAP) payments through the life of the bonds. The DSRF are available on a subordinated basis to all program bonds. CAP payments are a contractual obligation of the Commonwealth of Massachusetts. Equity funds are also pledged to the bonds. Assuming about \$110 million from the equity fund, the default tolerance rate rises to 100% in each of the four-year periods. In either case, as the default tolerance is more than the 'AAA' stress hurdle, this implies a passing result under Fitch criteria.

Program Management

MCWT manages one of the largest SRF programs in the nation. The Massachusetts Department of Environmental Protection (Mass DEP) determines the eligibility of projects for funding, reviews each financing application and oversees regulatory compliance. To date, there have been no pledged loan defaults in MCWT's pool programs.

New Issue

\$705,595,000 State Revolving Fund Refunding Bonds, Series 27 (Green Bonds)

AAA

Sale Date

The bonds are expected to sell via negotiation the week of Jan. 19.

Outstanding Debt

[Issuer Ratings Information](#)

Rating Outlook

Stable

Applicable Criteria

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(February 2025\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(January 2025\)](#)

Related Research

[Fitch Rates Massachusetts Clean Water Trust's SRF Bonds 'AAA'; Outlook Stable \(January 2026\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Inability to pass Fitch's 'AAA' liability rating stress hurdle due to significant deterioration in aggregate borrower credit quality, material increases in pool concentration and/or significant increases in program leverage.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- The ratings are at the highest level on Fitch's scale and cannot be upgraded.

Credit Profile

The MCWT is governed by a three-member board of trustees, consisting of the state treasurer (who also serves as the chair), the secretary of the Executive Office for Administration and Finance and the commissioner of the Mass DEP. The bylaws of the MCWT establish officer positions, including the executive director, who serves as the chief executive officer of the MCWT and the chair of the executive committee.

The MCWT, in collaboration with the Mass DEP, helps communities build or replace water quality infrastructure that enhances ground and surface water resources, ensures the safety of drinking water, protects public health, and develops resilient communities. It accomplishes these objectives by providing low-interest loans and grants to cities, towns, and water utilities primarily through its SRF programs.

In addition to the 2014 MTA, MCWT administers the clean water and drinking water SRF programs under its 1993 program resolution, which includes the prior pool program. The prior pool program is closed for new-money issuances. The MCWT has also issued single obligor bonds, none of which remain outstanding. The MTA program pledges amounts available in the equity fund to all bondholders on a parity basis.

The medians cited within this report are based on similar 'AAA' rated municipal finance pools, which primarily consist of SRFs, and are further described in Fitch's most recent peer review report. The medians are for comparative purposes only; the primary driver for an assigned rating is Fitch's model results, as described below.

High-Quality Loan Pool with Moderate Concentration

Fitch estimates that over 98% of the aggregate SRF program participants exhibit investment-grade credit quality, with an estimated 82% in the 'AA' or 'AAA' rating categories. This drives the very low 'AAA' liability rating stress hurdle (LSRH) of less than 13%, compared to Fitch's 'AAA' latest median of about 30% (lower liability stresses correlate to stronger credit quality). Loan security is also solid, as the programs are secured by general obligation pledges of cities and towns or local utility revenue pledges.

The top 10 and single borrower concentration are 43.3% and 16.0%, respectively, while similar 'AAA' rated peer medians are 56.7% and 17.5%, respectively. MWRA comprises 16.0% of the pool total, which has declined from almost 25% in 2021 with growth in the overall pool. Springfield Water & Sewer Commission, not publicly rated by Fitch but considered to be of very strong credit quality, is the second largest pool participant at 6.5% of the total pool. The remainder of the top 10 borrowers range in size from slightly under 2% to just about 3.5%. All of the 10 largest borrowers are assessed as strong or very strong.

Sound Financial Structure

Fitch considered its cash flow modelling analysis with and without the program's equity fund. Without any equity funds, Fitch's cash flow modeling demonstrates that the program can continue to pay bond debt service even with hypothetical loan defaults of 80.7% in the first four year-period, and 100% in the middle and last four-year periods (per Fitch criteria, a 90% recovery is also applied in its cash flow model when determining default tolerance). This result is more than Fitch's 'AAA' liability stress hurdle of 12.4% as produced by the PSM. The LSH is calculated based on overall pool credit quality, as measured by the ratings, loan size and term of underlying borrowers.

The program would only need about \$110 million from the pledged equity fund to achieve a default tolerance rate of 100% in each of the four-year periods.

In addition to its modeling analysis, Fitch measures the financial strength of pools by calculating the program asset strength ratio (PASR). The PASR, an asset-to-liability ratio, includes total scheduled pledged loan repayments from all programs, CAP payments, and reserve fund earnings, divided by total scheduled bond debt service. Excluding the equity fund, MCWT's pool program PASR is 1.4x. Including the equity fund, MCWT's pool program PASR is about 1.7x. This is compared to Fitch's 'AAA' median level of 2.1x.

Fitch calculates annual DSC as annual loan repayments from all programs, CAP payments, and reserve fund earnings over total annual debt service (inclusive of all MTA and prior program bonds). Over the life of the bonds, Fitch-calculated minimum DSC is 1.3x, compared to Fitch's 'AAA' median level of 1.6x.

Pledged Accounts Provide Substantial Loss Protection

Bondholders are primarily protected from losses by surplus loans made in excess of bond debt service. Bondholders of the prior pool program bonds are also protected from losses by pledged reserves of approximately \$46.2 million, equal to about 1.6% of all outstanding program bonds. As the prior program bonds amortize and/or are refunded, related loan repayment surpluses and reserves are released first to the deficiency fund before being released to program equity. The equity fund balance currently approximates about \$1.4 billion, or about 50% of all outstanding bonds.

Through a series of refundings, defeasance and ongoing amortization, the DSRF requirement has declined to about \$46.2 million from over \$450 million in 2021. Fitch ran the cash flow model excluding remaining DSRF and associated interest. Under this scenario, which also excludes the equity fund, the default tolerance remains a robust 61.5% in the first four years relative to the 'AAA' LRSR. The default tolerance remains 100% in each of the middle and final four-year periods.

Strong Program Management

MCWT is an interagency management team composed of officials from the commonwealth's treasurer's office and executive office of administration and finance. Mass DEP administers Massachusetts' SRFs in an arrangement typical of such programs nationwide. Mass DEP staff members review and monitor projects for several water and wastewater programs, including the pool program. The MCWT exhibits strong program management, having never experienced a pledged or leveraged loan default across any of its SRF programs.

Historical Program Metrics

	2024 'AAA' Median ^a	Series 27	Series 26A/26B, Series 2025	Series 25A/25B, Series 2023	Series 24A/24B, Series 2022	Series 23A/23B
Revolving Fund Type	—	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF
Purpose	—	Financing/ Refunding	Financing/ Refunding	Financing/ Refunding	Financing/ Refunding	Financing/ Refunding
Total New Issuance (\$ Mil.)	—	705.6	536.0	405.0	415.0	355.5
Fitch Rating	—	AAA	AAA	AAA	AAA	AAA
Rating Date	—	1/7/2026	1/9/2025	10/26/2023	11/18/2022	4/9/2021
Fitch Default Tolerance Test (%)						
Minimum Default Tolerance Rate	100	100	100.0	100.0	100.0	100.0
Less: Fitch PSM Stress Hurdle ^b	29.7	12.4	14.6	14.5	15.0	11.3
Net Rating Stress Cushion	70.3	87.6	85.4	85.5	85.0	88.7
Financial Structure (\$ Mil.)						
Total Outstanding Program Bonds	467	2,911	2,462	2,436	2,690	1,438
Program Assets (\$ Mil.)						
Total Pledged Revenues Excluding Reserves	1,641	6,175	4,929	4,727	4,861	5,051
Total Pledged Revenues Including Reserves	1,687	6,332	4,992	6,187	6,268	5,516
Debt Service Reserve Fund Balance	3	46	63	259	408	466
Program Liabilities (\$ Mil.)						
Total Debt Service	719	4,408	3,514	3,437	3,635	3,509
Financial Ratios						
Projected Minimum Annual DSC (x)	1.6	1.3	1.3	1.2	1.2	1.3
Program Asset Strength Ratio (x)	2.1	1.4	1.4	1.8	1.7	1.6
DSRF as % of Bonds Outstanding	0.3	1.6	2.5	10.6	15.1	32.4
Portfolio Summary						
No. of Borrowers	172	244	243	250	258	253
Implied WA Pool Rating (PSM)	BBB	AA-	AA-/A+	AA-/A+	AA-/A+	AA-
WA Life (Years)	17.3	17.8	20.9	22.1	21.6	20.4
% Investment Grade	77.4	98.4	97.9	97.3	97.0	98.6
Top 10 Concentration (%)	56.7	43.3	46.0	45.6	47.5	50.1
Largest Single Borrower (%)	17.5	16.0	17.4	18.3	19.9	24.4
Largest Borrower Composite Rating	AA-	AA	AA	AA+	AA+	AA+
Security Pledge Distribution (%)						
Pledge 1	—	GO (73.4)	GO (73.1)	GO (73.6)	GO (73.6)	GO (71.9)
Pledge 2	—	Utility Revenues (26.6)	Utility Revenues (26.9)	Utility Revenues (26.4)	Utility Revenues (26.4)	Utility Revenues (28.1)
Pledge 3	—	-	—	—	—	—
Pledge 4	—	-	—	—	—	—

^a Based on data collected for Fitch's peer review (through Dec. 2024). ^b PSM changes on March 4, 2021 and on Sept. 22, 2021 may result in differences in liability stress hurdles before and after these dates. See Fitch's related criteria for details. WA - Weighted average.

Source: Fitch and Massachusetts's Revolving Fund.

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