

## Research Update:

# Massachusetts Clean Water Trust Series 27 State Revolving Fund Bonds Assigned 'AAA' Rating; Outlook Stable

January 9, 2026

## Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the [Massachusetts Clean Water Trust](#)'s (MCWT) \$705.595 million series 27 state revolving fund (SRF) bonds (designated as green bonds).
- We also affirmed our 'AAA' long-term rating on MCWT's SRF Prior Pool program bonds outstanding.
- The outlook is stable.

## Rationale

### Security

The trust will use the series 27 bond proceeds to finance or refinance costs of certain clean water and drinking water projects through loans to pool borrowers, and to refinance the outstanding series 19 bonds (designated as green bonds). The bonds are being issued pursuant to a master trust agreement (MTA). All liens created for all the trust's previous 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. Revenue in the equity fund (\$1.4 billion as of June 30, 2025) 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 Pool SRF program has approximately \$252.13 million principal amount outstanding. Revenue from borrower loan repayments, commonwealth assistance payments, and both earnings and principal on various reserve funds, as well as a deficiency fund and equity fund, secure the Prior Pool SRF bonds outstanding and bonds secured under the MTA.

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## Credit highlights

MCWT's MTA and the Prior Pool SRF program have about 1,600 loans outstanding involving 244 unique borrowers. The individual participants' general obligation or water and sewer user fees secure the loans. The pool's loan portfolio is well-diversified across various obligors, with the majority of the borrowers rated 'A' or higher. The pool's largest borrower is the Massachusetts Water Resources Authority (MWRA; AA+/Stable), representing 16% of all pool loans outstanding. We do not view this as a credit concern given the pool's overall credit strength, which is mainly due to the robust overcollateralization and strong credit quality of the borrowers in the pool.

The rating reflects our opinion of the combination of extremely strong enterprise and financial risk scores including:

- An extremely strong enterprise risk profile, benefiting from ongoing support from state and federal government sources;
- Robust overcollateralization, which is capable of withstanding S&P Global Ratings' loss coverage scenario, based on credit quality of the asset pool and consolidated cash flows, run at our 'AAA' category stress level;
- Healthy operating performance, with no loan defaults in the program's history;
- Generally strong financial management policies and practices.

## Rating above the sovereign

Because we view securitizations backed by pools of public sector assets as highly sensitive to national risk, we cap the rating on the securitization at two notches above the U.S. sovereign rating. However, we do not apply any specific sovereign default stress because the U.S. sovereign rating is 'AA+'.

## 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, which is due to the strong credit quality of the borrowers. The outlook also reflects S&P Global Ratings' expectation that MCWT's strong loan portfolio management will likely continue, and that collateralization will likely sustain high debt service coverage (DSC) in case of potential defaults and delinquencies.

## Downside scenario

Although unlikely, 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

### Enterprise Risk Profile: Extremely Strong

We view the program's enterprise risk profile as extremely strong given a combination of the low industry risk profile for municipal pools and the program's extremely strong market position. 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 (MassDEP) 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.

## Financial Risk Profile: Extremely Strong

We consider MCWT's financial risk profile extremely strong. The pool is currently composed of \$5.07 billion in loan principal and approximately \$430 million of commonwealth assistance payments, along with \$54.28 million in debt service reserve funds from the previous pool SRF, and a large equity fund totaling about \$1.4 billion as of June 30, 2025, against \$2.91 billion in bonds outstanding (post-bond issuance) across all programs. The commonwealth's general obligation secures the pledged commonwealth assistance payments, which amount to about 9.8% of total debt service. DSC by MTA loan revenue is at least 1.45x, which exceeds the 1.05x coverage that the additional bonds test requires. We assess the program's loss coverage score as extremely strong based on our view of overcollateralization under our loss coverage test. The cash flow pattern can withstand the highest default stress, reflecting strong overcollateralization through excess revenue. The program also receives a favorable score on our largest obligor test. Supporting the LCS is a large equity fund totaling about \$1.4 billion as of June 30, 2025, 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. It 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 therefore defaults on loan payments to the trust.

Operating performance remains strong with no loan defaults or delinquencies during the past 12 months. We view financial management and policies as ranging from strong to adequate. This assessment reflects the following factors:

- Management works with MassDEP 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.
- MassDEP and the trust's borrowers enter into project regulatory agreements, which outline the disbursement schedule as well as the set of conditions related to borrower compliance.
- Management has plans for addressing payment delinquencies, and loan payment dates are 15 days prior to debt service.
- The program uses its own investment management policy, but the policy contains little detail above those specified by state statutes.

### Credit Snapshot

- Program description: The trust serves as a public instrumentality of the commonwealth and collaborates with MassDEP to assist communities in building or upgrading water quality infrastructure. Its mission is to ensure safe drinking water, protect public health, and foster resilient communities. Through the Massachusetts SRF programs, the trust offers low-interest loans and grants to cities, towns, and water utilities. It manages the flow of funds to borrowers while MassDEP manages the development and oversight of projects.
- Flow of funds: All program revenue, borrower payments, contract assistance payments related to loans, and earnings from specific funds held under the MTA will be deposited into the revenue fund. When debt service payments are due, the necessary amount will be withdrawn from the revenue fund and transferred to the senior debt service fund. If the pledged revenue from the program is insufficient to cover the debt service, the required shortfall will be drawn from the equity fund and deposited into the senior debt service fund.
- Summary statistics: The trust currently has a total debt outstanding of \$2.32 billion, which will increase to \$2.91 billion following the current issuance. The borrowing portfolio comprises approximately 244 distinct obligors. Among these, 220 obligors have individually borrowed less than 1% of the total outstanding loans. The largest obligor is MWRA, accounting for 16% of all loans outstanding. In addition, the top 10 obligors collectively hold 43.27% of the total loans outstanding. The entity's loan portfolio is well-diversified across various obligors, with the majority of the borrowers rated 'A' or higher.

### Ratings List

#### New Issue Ratings

US\$705.595 mil st revolving fd bnds (Green Bonds) ser 27 due 2/1/2056

Long Term Rating	AAA/Stable
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#### Ratings Affirmed

#### Water & Sewer

Massachusetts Clean Wtr Trust, MA State Revolving Fund MWPAT	AAA/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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