S&P Global
Ratings

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Summary:
Oklahoma Water Resources Board; State Revolving Funds/Pools

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Credit Profile		
US$222.96 mil revolving fd rev rfdg bnds ser 2019 due 04/01/2042		
Long Term Rating	AAA/Stable	New
Oklahoma Water Resources Board (Clean Water Program)		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to the Oklahoma Water Resources Board's (OWRB) revolving fund revenue refunding bonds, series 2019 (2019 Master Trust), and affirmed its 'AAA' rating on the board's outstanding 2003 Master Trust clean water and drinking water revenue bonds outstanding. The proceeds of the series 2019 bonds will be used to refund OWRB's series 2011 and 2012 bonds issued under the 2003 Master Trust. The outlook is stable.

The 'AAA' rating reflects the combination of extremely strong enterprise and financial risk profiles, reflecting our assessment of the program's:

- Low industry risk score and extremely strong market position;
- Extremely strong loss coverage score (LCS) due to program reserves and annual coverage generated from borrower payments;
- Excellent history of borrower repayment, with no loans in default; and
- Generally strong financial policies and practices.

The 2019 bonds are secured by a 2019 Master Trust Indenture (MTI) and are issued pursuant to a 2019 bond indenture authorizing the issue under the 2019 MTI. It is our understanding that the refunding of certain bonds issued under the 2003 Master Trust Agreement (MTA) will achieve interest savings for OWRB, but will also simplify OWRB's state revolving fund (SRF) program flow of funds in that the 2019 MTI consolidates pledged loans and revenues being collected in MTI-level accounts instead of separate bond indenture accounts. We would expect OWRB to eventually refinance all of its 2003 MTA bonds into the 2019 MTI over time, which is consistent with representations from management.

In conjunction with the issue of the 2019 bonds, OWRB is also amending its 2003 MTA by effectively closing the indenture. The closure is put into effect by implementing a sweep of excess funds, after 2003 MTA annual debt service is paid, into the 2019 MTI.

Currently, our ratings on bonds issued under both the 2003 MTA and 2019 MTI are the same because the excess revenues from each are restricted for any SRF purpose, which we generally consider to include an availability for bondholders if there are not enough revenues immediately available within each trust estate to make debt service payments, although in this scenario, we understand that OWRB needs to specifically direct the trustee to deposit sufficient revenues into a pledged account.

Loans pledged to the 2011 and 2012 bonds are being transferred to the 2019 MTI. A summary of the 2019 MTI provisions that we view as most credit relevant include the following:

- Accounts for both clean water and drinking water bonds/revenues and leveraged and state match bonds will all reside under the 2019 MTI.
- Bond proceeds are allocated pursuant to the parameters established under specific bond indentures.
- Each loan agreement establishes whether the loan will be deposited to the clean water or drinking water revenue fund.
- After the trustee makes all required deposits (mostly pertaining to debt service and required reserve funds, if any), all excess funds can be used for any legal SRF purpose, including cross-collateralization if there is a shortfall in either the clean or drinking water fund.
- Because the excess revenues are legally restricted for any SRF purpose, we generally consider them available for all MTI bondholders if there are not enough revenues immediately available from a pledged trust estate, although the same restriction explained above regarding the requirement that OWRB specifically direct the trustee to deposit sufficient revenues into a pledged account still applies.

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 the U.S. sovereign rating is 'AA+'.

After the issuance of these bonds and execution of subsequent loans, there will be about 160 borrowers through the clean and drinking water SRF programs, with about $1.1 billion due on those loans. There is some concentration in the programs, with the five-largest borrowers accounting for about 45% of the combined loans that will be outstanding. With the issuance of the 2019 bonds, there will be approximately $526 million of revolving fund program bond principal outstanding.

Criteria scoring framework

The extremely strong enterprise risk score reflects low industry risk, similar to that of all municipal pool programs, and an extremely strong market position. This reflects the ongoing levels of support from the federal and state government, along with the statutes establishing the program and the structure of program management.

OWRB, established in 1957, is empowered to provide state loan program funds to local entities to finance water and sewage system improvements to conserve and develop water resources, or to control and develop sewage treatment facilities. The state loan program bonds may also be issued to provide funds to facilitate the refinancing needs of interim construction loan borrowers under the state's Clean Water SRF and Drinking Water Treatment Revolving Loan programs.

OWRB is composed of a nine-member board appointed by the Governor with Senate confirmation for seven-year terms. Geographic representation is ensured, as one member must be appointed from each of the state's nine regions, and four are appointed at large. Members must have experience in and be well-versed in a water use industry. The board appoints an executive director with a minimum of six years of experience in water resource management.

The extremely strong financial risk score is the result of an extremely strong initial LCS, an extremely low rate of delinquencies and defaults, and generally strong financial policies and practices. The LCS reflects the ability for program cash flows and reserves to cover a high level of defaults, followed by less than 100% recovery.

There are currently two separate reserve funds still in place, totaling about $39 million. This amount is scheduled to be gradually reduced. As borrowers remit payments, funds flow through separate accounts, but all payments from all borrowers are available to the master trustee to cover payment shortfalls on any of the series. In addition, as the reserve fund requirement associated with each series decreases, reserve amounts are released and can flow through the deficiency fund as well, thereby providing additional funds to cover delinquencies or defaults. Management intends to use the de-allocated reserve funds to make additional loans. The current reserve balance is scheduled to gradually decline until it reaches $0 by 2026.

Cash flows currently show a minimum coverage level of loan repayments to debt service of at least 2x through the amortization schedule. This coverage margin, coupled with the significant amount of reserves and other program funds, provides a level of over-collateralization that allows the program to withstand a very high level of loan delinquencies or defaults, in our view.

Financial policies and practices

Under the revolving loan programs, OWRB is authorized to make loans to qualifying local entities, which must enter into a loan agreement with the board. The loan application process includes a review of borrower credit quality and loan application review. Projects are prioritized and funded in conjunction with the board's Intended Use Plan. Participants must enact an ordinance or resolution that provides for loan repayments through the issuance of a local note. Participating local entities are required to adopt rate covenants, obligating them to establish and collect the rates that will provide net revenues available for debt service, equal to or exceeding 125% of the MADS required to amortize the local loans. For the clean water program, the interest rate is based on OWRB's rate less a loan subsidy of up to 40%, while the interest rate for the drinking water program based on OWRB's rate less a loan subsidy of up to 30%.

Once loans are made, OWRB staff monitors project construction and oversees borrower repayments and debt servicing. Loan payments are due 15 days prior to scheduled bond payment dates. OWRB staff receives monthly income statements from borrowers, along with annual audited statements that are reviewed for minimum coverage requirements. The board's investments are reviewed annually by the audit committee, but more frequently by OWRB staff.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the substantial reserve funds, coupled with cash flows realized annually, will continue to provide protection against a significant amount of defaults or delinquencies. Strong program management and oversight are anticipated to contribute to a low level of program defaults.

Downside scenario

Because of these credit features, within the two-year outlook horizon we do not expect the rating to change. However, an unanticipated rise in defaults or delinquencies, or a shift in the cash flows that creates significantly lower annual coverage could lead to a lower rating.