

Summary:

**Oklahoma Water Resources Board;
State Revolving Funds/Pools**

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Credit Profile

US\$26.385 mil state loan prog rev bnds ser 2019C due 10/01/2034

Long Term Rating

AAA/Stable

New

Rationale

S&P Global Ratings assigned its 'AAA' rating to the Oklahoma Water Resources Board's (OWRB) series 2019C state loan program revenue bonds, and affirmed its 'AAA' rating on OWRB's state loan revenue bonds outstanding. The outlook is stable.

The long-term rating reflects our view of OWRB's strengths, including the combination of its very strong enterprise risk profile and its extremely strong financial risk profile, bolstered by the board's access to the Water Infrastructure Credit Enhancement Reserve Fund (WICERF). The rating also reflects the board's:

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

The short term 'A-1+' rating on the board's series 1999, 2001, and 2003A bonds is based on the rating on State Street Bank and Trust. Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, we have capped the rating on the securitization at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

The series 2019C bonds will be the 11th bond series issued under the 2016 general bond resolution, bringing the total debt outstanding under the new resolution to about \$260 million. Although not on parity with the rating on the bonds issued under the previous 1986 resolution, the ratings on these bonds and the previous bonds--issued under the 2016 resolution--equally benefit from the board's access to the WICERF. The 2019C bond proceeds will be used to make loans to Miami Special Utility District and Owasso Public Works Authority.

In November 2012, Oklahoma citizens voted in favor of State Question No. 764, which authorizes the OWRB to issue up to \$300 million of state general obligation (GO) bonds should additional funds be needed to avoid a default on bonds issued by the board. The WICERF debt-issuance process will begin immediately following any drawdown of the OWRB reserve funds for avoiding a payment default on any OWRB obligations. The board has developed policies and procedures for accessing the WICERF, including triggers for initiating a bond sale.

The very strong enterprise risk score reflects our view of the board's low industry risk, similar to that of all municipal pool programs, and its very strong market position. This reflects the support from the state government, along with the statutes establishing the program, and the structure of program management.

The extremely strong financial risk score reflects our view of OWRB's extremely strong initial LCS, extremely low rate of delinquencies and defaults, and generally strong financial policies and practices. Before access to the WICERF, the LCS was weakened by the high degree of concentration in the program, which did not allow the pool to meet the largest obligor test for the same rating category. However, with the availability of the credit-enhancement program, the scores are strengthened.

Based on the board's ability to issue bonds supported by a state GO pledge, in an amount up to \$300 million, combined with the program's strong loan-repayment history, we applied a one-notch positive override to assign the 'AAA' rating. The ability to issue state GO bonds is contingent on the state retaining strong market access. Considering the current high rating on the state, we do not believe this is a concern. However, should the state's access to the bond market become less certain, the enhancement provided by access to the WICERF could be diminished.

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 is a high degree of concentration in the pool, with the four-largest borrowers (Broken Arrow Municipal Authority, Enid Municipal Authority, Tulsa Metropolitan Utility Authority, and Waurika Lake Master Conservancy District) accounting for more than 70% of the combined loan balance outstanding under the 1986 and 2016 resolutions following the 2018B issuance.

Following this issuance, OWRB will have about \$10.9 million for the 1986 general reserve, and \$15.3 million for the 2016 general reserve, not including any surety bonds. Cash flows show a modest annual coverage level under a no-default scenario. OWRB administrative fees are subordinate and thus create a small coverage margin each year that could be used to absorb a small degree of defaults or delinquencies.

Outlook

The stable outlook reflects our expectation that the pool's concentration will remain significant and that the board will manage its loan-origination process to provide sound protection against loan-default risks. We expect that modest coverage levels, coupled with available reserves, will provide protection against potential loan delinquencies or defaults.

While it is unlikely, we could lower the rating should there be a sudden increase in loan delinquencies or defaults, or an increase in leverage and a resulting mismatch between loan payments and bond payments. A lower rating would also be likely should there be any concerns regarding the OWRB's access to the WICERF.

Ratings Detail (As Of June 27, 2019)

Oklahoma Wtr Resources Brd		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Oklahoma Wtr Resources Brd st revolv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Ratings Detail (As Of June 27, 2019) (cont.)		
Oklahoma Wtr Resources Brd st revolv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Oklahoma Wtr Resources Brd JOINT		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
Oklahoma Wtr Resources Brd JOINT		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
Oklahoma Wtr Resources Brd JOINT		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed

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