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## Summary:

# Oklahoma Water Resources Board; State Revolving Funds/ Pools

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## Summary:

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### Credit Profile

US\$138.525 mil rev fd rev bnds (Clean Wtr Prog) ser 2023 due 04/01/2043

*Long Term Rating* AAA/Stable New

Oklahoma Water Resources Board (Clean Water Program)

*Long Term Rating* AAA/Stable Affirmed

Oklahoma Wtr Resources Brd (Master Trust) st revolv

*Long Term Rating* AAA/Stable Affirmed

Oklahoma Wtr Resources Brd (Master Trust) st revolv

*Long Term Rating* AAA/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Oklahoma Water Resources Board's (OWRB) anticipated \$138.5 million revolving fund revenue bonds, series 2023 (2019 Master Trust).
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the board's previously issued 2003 Master Trust clean water and drinking water revenue bonds and 2019 Master Trust bonds outstanding.
- The outlook is stable.

### Security

The series 2023 bonds are secured by a 2019 master trust indenture (MTI) and are issued pursuant to a 2023 bond indenture authorizing the issue under the 2019 MTI. In 2019, OWRB amended its 2003 master trust agreement (MTA) and effectively closed the indenture. As a result, after 2003 MTA bond debt service is paid, any excess funds are swept into the funds maintained under the 2019 MTI. The board may refinance all its 2003 MTA bonds into the 2019 MTI over time.

The board will use the proceeds from the series 2023 bonds to fund future loans and manage its current cash flows, primarily funding clean water loans.

After the issuance of these bonds and execution of subsequent loans, there will be 163 borrowers through the clean and drinking water state revolving fund (SRF) programs, with about \$1.42 billion in loans outstanding. There is some concentration in the programs, with the five-largest borrowers accounting for 52% of total loans outstanding. We note that the largest single borrower, which has a subordinate-lien utility revenue pledge backing its loans, is highly rated: Oklahoma City Water Utilities Trust has 24.7% of loans outstanding and senior-lien water and sewer system revenue bonds that are rated AAA/Stable. With the issuance of the series 2023 bonds, there will be approximately \$865 million of revolving fund program bond principal outstanding.

Currently, our ratings on bonds issued under both the 2003 MTA and 2019 MTI are the same, because the excess revenue generated within each program is restricted for any SRF purpose and is available to support debt service in the event of borrower default or delinquency. OWRB would need to specifically direct the trustee to deposit sufficient revenue into the debt service account to use SRF fund balances to make debt service payments in a delinquency or default scenario, and we expect the board to do so when and if needed.

### **Credit overview**

The 'AAA' rating reflects our view of the combination of the OWRB's 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.

A summary of the 2019 MTI provisions that we view as most relevant include the following:

- Accounts for both clean water and drinking water bonds and 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 funds; and
- All excess funds remaining after annual debt service payments are made can be used for any legal SRF purpose. This effectively means the programs are cross-collateralized and available funds under the 2003 MTA can support debt service payments under the 2019 MTI, if needed, and vice versa.

Excess revenue generated and held as SRF reserves, whether as dedicated reserves or as funds available to make future loans, is legally restricted for any SRF purpose. Therefore, we consider these funds available for all MTI bondholders in the event a borrower defaults or is delinquent in repaying the board and the board needs to direct the trustee to transfer available funds to make debt service payments.

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+'.

## **Outlook**

The stable outlook reflects our expectation that the program will continue to retain available funds in reserve sufficient to cover borrower defaults under our stress scenarios. We expect strong program management and oversight will contribute to a low level of program defaults, as it has historically.

## **Downside scenario**

Although unlikely, we could lower the rating should there be an increase in defaults or delinquencies, or if available reserves decline to a level such that the program could not maintain positive overall cash flows under our default scenarios.

## **Credit Opinion**

### **Enterprise risk**

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, and statutory authorization granted by, the federal and state governments.

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 of borrower loans under the state's clean water SRF and drinking water SRF loan programs.

OWRB comprises a nine-member board appointed by the governor with senate confirmation for seven-year terms. Geographic representation is ensured by a requirement that one member must be appointed from each of the state's nine regions. Statute requires at least one member of the board to have experience and expertise in at least one of eight different water use industries, soil conservation work, and oil and gas production. The board appoints an executive director with a minimum of six years of experience in water resource management.

### **Financial risk**

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 dedicated reserve funds still in place, totaling about \$24 million. The board plans to spend this balance down in support of its loan programs through about fiscal 2026. As borrowers remit payments, funds flow through separate accounts, but the programs are cross-collateralized and all SRF funds are available to the master trustee to cover any payment shortfalls, should those occur. As of Dec. 31, 2022, the total SRF balance across both the clean and drinking water SRF programs was \$167 million. This balance provides the board both a strong foundation upon which it can make additional loans to municipal entities throughout the state, and a robust cushion mitigating credit risk in the event of significant borrower defaults.

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 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 maximum annual debt service

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%; the interest rate for the drinking water program is 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 investments are reviewed annually by the audit committee, but more frequently by OWRB staff.

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