

RATING ACTION COMMENTARY

Fitch Rates Oklahoma Water Resources Board's Series 2024 SRF Revs 'AAA'; Outlook Stable

Wed 10 Jul, 2024 - 4:48 PM ET

Fitch Ratings - New York - 10 Jul 2024: Fitch Ratings has assigned a 'AAA' rating to the following bonds issued by the Oklahoma Water Resources Board (OWRB):

--Approximately \$130 million state revolving fund (SRF) revenue bonds, Series 2024 (2019 master trust).

Bond proceeds will be used to finance eligible clean water state revolving fund (CWSRF) projects, to reimburse OWRB for amounts previously advanced to make such loans, to provide state matching requirements and to pay costs of issuance. The bonds are expected to price via negotiation the week of July 22.

In addition, Fitch has affirmed the 'AAA' rating on the following OWRB outstanding bonds:

--Approximately \$157.8 million outstanding revolving fund revenue bonds (2003 master trust);

--Approximately \$807.4 million outstanding revolving fund revenue bonds (2019 master trust).

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Oklahoma Water
Resources Board (OK)
[State Revolving Fund]

Oklahoma Water Resources Board (OK) /State Revolving Fund Revenues - 2003 MTA/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
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Oklahoma Water Resources Board (OK) /State Revolving Fund Revenues - 2019 MTI/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
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[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' rating reflects the ability of OWRB's financial structure to absorb hypothetical pool defaults in excess of Fitch's 'AAA' liability 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 (CFM). The PSM's liability stress hurdle is measured against the CFM's breakeven default tolerance rate to produce a model-implied rating. A positive net difference (the default tolerance less the hurdle) in the calculation suggests a passing model output at a given rating stress.

The program's pledged pool produced a 'AAA' liability stress hurdle of 39.2% in the PSM, while Fitch's cash flow modelling demonstrates that the program can continue to pay bond debt service even with a default tolerance rate of up to 56.1%, assuming release of surplus funds, and up to 72.5% when surplus funds are retained. As the default tolerance is in excess of the 'AAA' stress hurdle, this implies a passing result under Fitch's modelling analysis with a net cushion of 16.9% and 33.3%, with and without releasing surplus, respectively.

SECURITY

The 2019 master trust bonds, including the series 2024 bonds, are secured by pledged loan repayments (excluding administrative fees), annual surplus and reserve releases from the

2003 master trust program, amounts in certain funds and accounts and account earnings.

The 2003 master trust bonds (the prior indenture bonds) are secured by pledged loan repayments, amounts in certain funds and accounts and account earnings.

KEY RATING DRIVERS

Portfolio Credit Risk

Approximately 62% of OWRB's loan pool consists of borrowers exhibiting investment-grade ratings. This translates to an implied pool quality, measured by aggregate rating and loan term, of 'BBB-'. The pool consists of 163 obligors, with the top 10 obligors comprising about 66.8% of the loan portfolio. Obligor security is solid, with nearly all of the pool backed by water or sewer revenue pledges.

Financial Structure

The program's cash flows are adequate with projected minimum annual DSC of about 1.4x. Fitch's cash flow modelling demonstrates that program resources are sufficient to withstand hypothetical pool defaults in excess of Fitch's 'AAA' liability rating stress hurdle, as derived using the PSM, without causing an interruption in bond payments.

Program Management

Management has demonstrated strength and capability in its underwriting and monitoring processes, as evidenced by the fact that the program has never experienced a pledged loan default.

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 material increases in leveraging, increases in pool concentration and/or significant deterioration in aggregate borrower credit quality.

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

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

PROFILE

OWRB was established in 1957 as an agency and department of the state of Oklahoma, and serves as the state's financing vehicle for local government water and wastewater capital funding. In addition to managing the drinking water SRF (DWSRF) and CWSRF, the OWRB administers an additional state loan program and three grant programs.

Pool and financial metrics have been sound over time. With the current offering, the percentage of investment-grade pool participants is up since Fitch's review in 2023, resulting in an improved PSM stress hurdle. Minimum debt service coverage is up slightly at this review, but is down from years prior. OWRB continues to leverage its program, causing its rating cushion to thin slightly from historical levels, but the program continues to pass Fitch's modelling analysis.

Funds and assets of the CWSRF and the DWSRF are cross-collateralized with one another, providing common security for any bonds issued or outstanding under the indenture. For this reason, Fitch combines the CWSRF and DWSRF programs in its modeling analyses.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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APPLICABLE CRITERIA

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(pub. 01 Nov 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Stress Model, v1.11.1 (1)

State Revolving Fund Cash Flow Model, v1.18.2 (1)

ADDITIONAL DISCLOSURES

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Oklahoma Water Resources Board (OK)

EU Endorsed, UK Endorsed

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