

RatingsDirect®

Summary:

Oklahoma Water Resources Board; State Revolving Funds/ Pools

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Credit Profile

US\$175.0 mil revolving fd rev bnds ser 2023A due 04/01/2053

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 \$175 million revolving fund revenue bonds, series 2023A (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

Borrower loan repayments provide the majority of the security for the bonds, along with other pledged funds under a 2019 master trust indenture (MTI). In 2019, OWRB amended its 2003 master trust agreement (MTA) and effectively closed that 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 drinking water loans.

Following the issuance of the series 2023A bonds, there will be 164 borrowers between both 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. With the issuance of the series 2023A bonds, there will be approximately \$1.05 billion of revolving fund program bond principal outstanding.

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 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.

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 retain available funds in reserve sufficient to cover borrower defaults under our stress scenarios, similar to what it is now demonstrating. We likewise expect continued loan performance showing no defaults, delinquencies, and at most a small overall percentage of late loan payments.

Downside scenario

Although unlikely, we could lower the rating should defaults or delinquencies occur, or if available reserves decline to a level such that the program could not maintain positive overall cash flows under our stress 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 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; one member must be appointed from each of the state's nine regions, ensuring geographic representation. 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 LCS, an extremely low rate of delinquencies and defaults, and generally strong financial policies and practices.

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. As of Mar. 21, 2023, the total investment balances across both the clean and drinking water SRF programs was \$313 million. This provides the board with 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 typically receives a small share of payments beyond five days after the due date, although this is largely due to administrative reasons and collection has not proven to be problematic or have a significant effect on the pool. OWRB staff receives monthly income statements from borrowers, along with annual audited statements that are reviewed for minimum coverage requirements.

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