

RatingsDirect®

Summary:

Oklahoma Water Resources Board; State Revolving Funds/ Pools

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Credit Profile

US\$109.125 mil state loan prog rev bnds ser 2024C due 10/01/2054

Long Term Rating

AAA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Oklahoma Water Resources Board's (OWRB) anticipated \$109.125 million state loan program revenue bonds, series 2024C.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on OWRB's state loan revenue bonds outstanding.
- The outlook is stable.

Security

The 2024C bonds are secured by borrower loan repayments and the debt service reserve fund established under the 2016 general bond resolution.

The OWRB will use the series 2024C bond proceeds to make loans to the following eligible entities:

- Broken Arrow Municipal Authority,
- Cherokee Development Authority,
- Edmond Public Works Authority,
- Jenks Public Works Authority,
- Okemah Utilities Authority, and
- Rogers County Rural Sewer District #1.

The bonds will be issued under the 2016 general bond resolution--the board's active indenture--bringing the total debt outstanding under the new resolution to about \$1.11 billion, while the total debt outstanding under the (inactive) 1986 general bond resolution is \$68.8 million. The ratings on OWRB's bonds issued under both the 2016 and (inactive) 1986 resolutions equally benefit from the board's access to the state's Water Infrastructure Credit Enhancement Reserve Fund (WICERF). The state statute authorizing the WICERF authorizes the OWRB to issue as much as \$300 million of state general obligation (GO) bonds, as needed, to prevent or cure a default on bonds issued by the board.

Credit overview

The 'AAA' long-term rating reflects our view of OWRB's credit strengths, including a solid market position, no defaults in program history, as well as generally strong financial policies and practices. The rating further reflects the credit

support to cure any potential defaults by the program's borrowers and the program's extremely strong loss coverage score. The loss coverage score reflects the combination of ample program reserves and annual coverage generated from borrowers that we believe substantially mitigates credit risk even under a default scenario.

We have applied a positive holistic adjustment to arrive at the 'AAA' rating that we believe reflects the program's strong ability to withstand a heightened default scenario and the program's strong loan repayment history. The board's ability to issue state GO bonds is contingent on the state retaining strong market access. Considering the state GO rating (AA/Positive), we believe Oklahoma has ample market access. However, should its access to the bond market become less certain, the enhancement provided by access to the WICERF could be diminished. For more on Oklahoma's credit quality, see our analysis published July 20, 2023, on RatingsDirect.

The rating also reflects our view of the following factors:

- The program's very strong market position, given that the program was established by state statute and receives ongoing support from the state government;
- Extremely strong loss coverage score, which is capable of withstanding S&P Global Ratings' loss coverage scenario, based on the credit quality of the asset pool and consolidated cash flows, run at our 'AAA' category stress level;
- Very strong operating performance with no defaults in the program's history; and
- Strong-to-adequate financial management policies and conditions, including formal credit review of all loans annually by seasoned program staff.

Ratings above the sovereign

Because we view securitizations backed by pools of public sector assets as highly sensitive to national risk, we cap the rating on the securitization at two notches above the sovereign. However, we apply no specific sovereign default stress given the strength of the U.S. sovereign rating.

Outlook

The stable outlook reflects our expectation that there will be no changes in the WICERF authorization because it is formalized in the state constitution, and that the board will manage its loan origination process to provide robust protection against loan default risks. We expect that modest coverage, coupled with available reserves, will provide protection against potential loan delinquencies or defaults.

Downside scenario

We could lower the rating in the unlikely event of a material increase in loan delinquencies or defaults, or an increase in leverage that reduces the surplus of loan payments over bond payments. A lower rating would also be likely if OWRB's access to the WICERF comes into question.

Credit Opinion

Enterprise risk profile: Very strong

The program's enterprise risk profile is very strong, based on the combination of the low industry risk profile for municipal pools and the program's market position. The strong market position reflects the support from the state government, along with the statutes establishing the program and the structure of program management.

Financial risk profile: Extremely strong

The program's financial risk profile is extremely strong, based on a combination of the loss coverage score, historical operating performance, and our view of management policies.

The program's extremely strong loss coverage score reflects the ability of program cash flows and reserves to cover a high level of defaults, followed by less than 100% recovery. The pool is highly concentrated, with the five largest borrowers (Edmond Public Works Authority, Broken Arrow Municipal Authority, Enid Municipal Authority, Oklahoma City Water Utility Trust, and Muskogee Municipal Authority) accounting for about 43.7% of the combined loan balance outstanding under the 1986 and 2016 resolutions following the series 2024C issuance.

Key to our analysis is the WICERF's availability to cover debt service, to the extent necessary. The WICERF debt issuance process would begin immediately following depletion of the OWRB reserve funds to avoid 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; we consider the board's practices relative to the WICERF a particular governance strength, further reflected in the rating.

Following this issuance, OWRB will have about \$1.6 million for the 1986 general reserve and \$28.2 million for the 2016 general reserve. Our cash flow analysis indicates modest annual coverage under a no-default scenario. OWRB administrative fees are subordinate and therefore create a thin coverage margin each year that could be used to absorb a small degree of defaults or delinquencies.

Credit Snapshot

- Program description: OWRB was established in 1957 by state statute to provide financing to eligible municipalities in Oklahoma for the development of facilities for the treatment and distribution of water from storage or filtration and treatment plants to wholesale or retail purchasers, and any system necessary to improve or develop sewage treatment, collection, or distribution capabilities or to refinance existing indebtedness originally incurred for such purpose. The board is authorized to issue its obligations, the proceeds of which may be loaned to these eligible municipalities to finance the costs of such projects. OWRB is funded by appropriations annually from the Oklahoma Legislature and other sources.
- Flow of funds: Loan payments are typically made monthly, and the flow of funds directs the trustee to transfer those payments from the revenue fund to the debt service fund to pay the principal and interest due on the bonds. Any collateral that the trustee receives as a result of asset sales is pledged to bondholders.
- Summary statistics: As of September 2024, total loan revenue pledged to the 2016 and (inactive) 1986 resolutions was \$1.93 billion. This provides the board with a strong foundation on which it can make additional loans to municipal entities throughout the state. In addition to the loan revenue, bondholders benefit from the WICERF as well as reserves that equal \$329.8 million, providing additional cushion that mitigates credit risk in the event of significant borrower defaults. The borrower portfolio consists of 77 separate entities of which the largest is Edmond Public Works Authority, with \$142.6 million outstanding, constituting 12.1 % of all loans outstanding. The top 10 obligors hold 61.8% of all loans outstanding.

Ratings Detail (As Of September 17, 2024)

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
Oklahoma Wtr Resources Brd st revolv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Oklahoma Wtr Resources Brd st revolv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Oklahoma Wtr Resources Brd (2016 Resolution)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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