

Revenue
New Issue

Massachusetts Water Resources Authority

Ratings

New Issues	
General Revenue Bonds, Series 2010A	AA
General Revenue Refunding Bonds, Series 2010B	AA
Outstanding Debt	
General Revenue Bonds	AA
Subordinate General Revenue Bonds	AA-

Rating Outlook

Stable

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New Issue Details

Sale Information: \$100,000,000 General Revenue Bonds, Series 2010A and \$166,000,000 General Revenue Refunding Bonds, Series 2010B, scheduled to sell on April 26 via negotiation.

Purpose: Series A bonds fund construction projects of the authority and the series B bonds will refund certain maturities of outstanding parity bonds for savings.

Final Maturity: Series A: 2041; series B: 2031.

Related Research

Applicable Criteria

- [Revenue-Supported Rating Criteria, Dec. 29, 2009](#)
- [Water and Sewer Revenue Bond Rating Guidelines, Aug. 6, 2008](#)

Other Research

- [2010 Water and Sewer Medians, April 6, 2010](#)
- [2010 Water and Sewer Sector Outlook, Feb. 10, 2010](#)
- [Boston Water and Sewer Commission, Massachusetts, March 6, 2009](#)
- [Massachusetts Water Resources Authority, May 23, 2008](#)

Rating Rationale

- Massachusetts Water Resources Authority (MWRA, or the authority) has maintained sound financial operations.
- Effective financial management is demonstrated by the authority's ability to achieve favorable operating results despite significant declines in commonwealth debt service assistance.
- The authority maintains prudent budgetary practices, comprehensive long-term planning, and vigilant project oversight and prioritization of its CIP.
- Legacy costs associated with the authority's historical borrowings are high and will remain so for some time.
- Leveraging is expected to slow considerably as the authority's CIP transitions from court-mandated projects to ongoing rehabilitation.
- Reserves are expected to remain strong despite amendments to the bond indenture, and strong debt service coverage is expected to continue.
- Rates charged by the authority are among the highest in the urban U.S. and remain one of the most significant credit vulnerabilities.
- Wealth levels of the service areas are above average.
- The authority has achieved impeccable collection rates of 100% since its inception.

Key Rating Drivers

- Containment of capital costs is critical given existing leverage, and user charges are already high.
- Maintenance of good financial metrics will maintain system flexibility.

Credit Summary

MWRA provides wholesale water and wastewater services to 61 communities located primarily in eastern Massachusetts. Approximately 2.8 million people (or 43% of the total population of the commonwealth) reside in the authority's service areas, the

Recalibration

On April 30, Fitch will recalibrate the ratings on the bonds (listed above left) as shown below (*for more information, see the March 25, 2010 report "Recalibration of U.S. Public Finance Ratings," available at www.fitchratings.com.*)

New Issues

- General Revenue Bonds, Series 2010A revised to 'AA+', Rating Outlook Stable.
- General Revenue Refunding Bonds, Series 2010B revised to 'AA+', Rating Outlook Stable.

Outstanding Debt

- General Revenue Bonds revised to 'AA+', Rating Outlook Stable.
- Subordinate General Revenue Bonds revised to 'AA', Rating Outlook Stable.

Rating History — General Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	4/13/10
AA	Upgraded	Stable	3/8/05
AA-	Affirmed	Positive	12/11/03
AA-	Upgraded	Stable	6/7/00
A+	Upgraded	Stable	6/22/98
A	Assigned	Stable	9/14/92

Rating History — Subordinate General Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	4/13/10
AA-	Upgraded	Stable	3/8/05
A+	Affirmed	Positive	12/11/03
A+	Assigned	Stable	10/12/00

largest of which is the city of Boston, which contributes nearly one-third of MWRA's revenue derived from rates and charges. The service areas are economically diverse generally, and wealth levels are above state and national averages.

Although partially mitigated by historically strong collection rates and higher income levels throughout much of the service area, MWRA's elevated rates continue to be a credit concern. Annual increases in commonwealth debt service assistance from fiscal years 2004–2008 allowed for relatively low rate hikes ranging from 4%–5%, although the average bill for rate-payers already exceeded 1% of median household income. Despite midyear cuts in the state's 2009 budget that eliminated the debt service assistance, the authority enacted for 2010 and proposed for 2011 notably smaller rate increases compared to the prior year's projections in an effort to provide some relief to customers given the regional and national economic distress.

While state assistance typically accounts for less than 4% of total operating revenues, the slower rate of growth in charges prompted management to implement several prudent cost containment measures, including a freeze on wages for all staff, suspension of prepayments to the pension fund, and consolidation of operations and maintenance of facilities, among other initiatives. While management continues to be proactive in trimming costs where possible and reducing staffing, Fitch Ratings remains concerned over the viability of further cuts and staff reductions without impacting service delivery.

Despite the volatility in the state assistance, financial operations are healthy and historical debt service coverage is solid. Senior lien debt service coverage in fiscal 2009 was good at 2.0x, and 1.2x with the inclusion of subordinate-lien debt obligations. Projected results for fiscal years 2010 and 2011 indicate comparable debt service coverage ratios. Prudently, the authority maintains multiple reserve funds used to minimize rate increases and redeem outstanding bonds. Overall, the authority maintains ample liquidity with nearly 300 days of available cash on hand for operations.

Following the massive capital investments undertaken during the 1990s and the early part of the prior decade, MWRA's focus continues to shift toward the mandated reduction of combined sewer overflows (CSOs) and system rehabilitation and maintenance. The adopted fiscal years 2010–2013 CIP totals approximately \$901 million and addresses substantially all current regulatory compliance issues, as well as \$36 million for new projects, primarily related to alternative energy initiatives. By the close of fiscal 2013, the authority anticipates having 95% of CSO projects completed. The current CIP is significantly lower than in prior years, partially reflecting the notable scale of capital spending utilized for the clean-up of Boston Harbor and the completion of the majority of the CSO master plan. While system leveraging is high for the rating category, about 80% of historical capital spending has gone toward mandated projects, compared to 36% of projected spending. Fitch believes future capital costs should remain manageable given MWRA's vigilant project oversight and its board's existing self-imposed spending cap.

Legal Provisions

Strong Legal Structure: MWRA was formed in 1985 to assume possession and control of the Metropolitan District Commission's water and sewer systems. The 61 local communities that make up the MWRA's service area are required to pay for MWRA services as a general obligation. All member communities currently impose some form of user charge on their retail customers, although not all of these charges are sized to fully recover local costs, including the MWRA's assessments. The rates MWRA charges to local members are exempt from Proposition 2½ tax limits. Notably, MWRA has achieved

an impeccable collection rate at 100% on charges assessed to the local communities since the authority's inception in 1985.

MWRA is governed by an 11-member board appointed by the governor of Massachusetts, Boston's mayor, and an advisory board of member community representatives. MWRA uses its autonomous rate-setting authority to raise rates as required. Legal provisions are stronger than average, and a tested state aid intercept that collects charges from municipal customers provides a powerful and effective backup mechanism. Bond covenants also establish conservative liquidity requirements.

Security Pledge: MWRA's debt is secured by senior and subordinated liens on net authority revenues derived largely from wholesale rates and charges assessed on local units of government.

State Aid Intercept: In the event of nonpayment by a local entity to MWRA, the state treasurer may intercept state aid to certain localities to cover the assessment.

Rate Covenant and Parity Issuance Test: Rates and charges, including operating and rate stabilization reserve withdrawals, must equal at least 1.2x annual senior lien debt service and at least 1.1x subordinated lien debt service. Debt service assistance by the commonwealth is effectively treated as a reduction in debt service requirements under MWRA's covenant tests. MWRA may adjust the senior lien debt service covenant to at least 1.1x annually, provided this action does not result in a rating downgrade on any series of outstanding authority debt. Additional bonds tests are similar to the rate covenant requirements.

Operating and Insurance Reserve Funds: The operating reserve requirement is at least one-sixth of annual operating expenses. The insurance fund level is determined by an

Financial Summary (by General Resolution)

(\$000, Fiscal Years Ended June 30)

	2005	2006	2007	2008	2009
Operating Revenue	456,595	490,984	510,476	540,409	555,193
Interest and Other Income	34,925	43,762	40,262	33,517	73,513
Rate Stabilization Withdrawals	—	10,740	—	—	5,073
Total Revenues	491,520	545,486	550,738	573,926	633,779
Operating Expenses	191,678	205,354	209,282	217,634	278,884
Net Revenues	299,842	340,132	341,456	356,292	354,895
Less: Provision for Transfer to Rate Stabilization Fund	(2,000)	(8,840)	(2,192)	—	(3,108)
Net Revenues Available for Debt Service	297,842	331,292	339,264	356,292	351,787
CORE Fund Balance	20,881	19,962	20,105	20,508	20,769
Debt Service					
Senior Lien	155,564	184,751	161,189	153,746	171,958
Subordinate Lien	108,474	116,423	119,262	151,267	132,032
Total Debt Service	264,038	301,174	280,451	305,013	303,990
Debt Service Coverage by Net Revenues Available (x)					
Senior Lien	1.9	1.8	2.1	2.3	2.0
Senior and Subordinate Lien Combined	1.1	1.1	1.2	1.2	1.2
Senior and Subordinate Lien, Including CORE Balance	1.2	1.2	1.3	1.2	1.2

CORE – Community Obligation and Revenue Enhancement.

outside consultant and currently has a balance of \$19 million.

2006 Amendments to Bond Indenture: In 2006, the board approved amendments to the current bond indenture that will take effect once two-thirds of MWRA's outstanding bonds are issued under the amended indenture, expected to occur no earlier than 2015. Under the amended indenture, the debt service reserve requirement changed to just 50% of MADS from the current requirement of the standard three-prong lesser of test.

Amendments to the indenture also included eliminating the obligation to maintain the Community Obligation and Revenue Enhancement (CORE) fund, which was designed to provide an extra layer of bondholder protection in the event of nonpayment by a local member community. The CORE fund balance requirement was 10% of annual debt service requirements for senior lien general revenue bonds without consideration of debt service assistance by the commonwealth. The fund still exists and continues to carry a \$20 million balance.

The renewal and replacement (R&R) fund requirement did not change under the amended indenture, but the manner in which MWRA can fund the reserve does. Instead of funding the current requirement of \$35 million with cash, MWRA will fund \$10 million with cash and use capacity under its commercial paper program to fund the remainder. The R&R fund is for catastrophic events and has never been tapped. The size of MWRA's commercial paper program is \$350 million, and at no time is more than \$250 million expected to be outstanding, leaving ample capacity to supplement the R&R fund, if needed.

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