FITCH RATES MASSACHUSETTS WATER RESOURCES AUTHORITY'S $239MM REVS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-19 March 2012: Fitch Ratings assigns an 'AA+' rating to the following Massachusetts Water Resources Authority's (MWRA or the authority) bonds:

--Approximately $150 million general revenue bonds, 2012 series A';
--Approximately $89.3 million general revenue refunding bonds, 2012 series B.

The general revenue bonds, 2012 series A and B are scheduled for negotiated sale March 22. Proceeds of the 2012 series A bonds will provide funds for the authority's ongoing capital program while proceeds of the series B bonds will refund outstanding bonds for cost savings with no extension of maturity.

In addition, Fitch affirms the following ratings:

--$3.4 billion general revenue bonds at 'AA+';
--$1.1 billion subordinate general resolution revenue bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY:

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. The bonds currently being issued will have a cash-funded debt service reserve equal to average annual debt service.

KEY RATING DRIVERS

REGIONAL PROVIDER OF ESSENTIAL SERVICE: MWRA provides an essential service to a large and diverse service area with strong economic underpinnings.

STRONG PROTECTIONS ENSURE PAYMENT: Local governments served by the authority are required to pay for MWRA services as a general obligation, and non-payment is subject to a tested state aid intercept.

ABILITY TO SET RATES INDEPENDENTLY: The authority maintains independent rate-setting authority, prudent budgetary practices, comprehensive long-term planning, and vigilant project oversight and prioritization of its capital program

DIMINISHED FLEXIBILITY: Financial flexibility has diminished over time due to significant leveraging and notably high user charges.

EXPECTED DECLINE IN CAPITAL PROJECTS: The authority's capital program continues to transition from costly court-mandated projects to ongoing rehabilitation.

IMPECCABLE COLLECTIONS: MWRA has achieved perfect collection rates of 100% since its inception.

ABUNDANT CAPACITY: The wholesale system benefits from an ample long-term water supply and sufficient excess water and sewer treatment capacity.

CREDIT PROFILE

LARGE, DIVERSE SERVICE TERRITORY

MWRA provides wholesale water and wastewater services to 61 communities located primarily in eastern Massachusetts. Almost 2.8 million people (or 43% of the population of the commonwealth) reside in the authority's service areas. The largest of these is the city of Boston, which contributes one-third of MWRA's revenue derived from rates and charges (Fitch rates the Boston Water and Sewer Commission's general revenue bonds 'AA+' with a Stable Outlook). The service areas are generally economically diverse, and wealth levels are above state and national averages.

The 61 local communities included in the service area are required to pay for MWRA services as a general obligation and rate-setting is not subject to any limitations, including the state's Proposition 21/2. These protections, coupled with the authority's ability, pursuant to its enabling act, to utilize a local aid intercept to recover amounts unpaid by one of its member communities, excluding revenues of the Boston Water and Sewer Commission, provide significant operating flexibility and are important credit considerations.

HIGH RATES LIMIT FLEXIBILITY

MWRA's rates are among the highest in the urban U.S. and an ongoing credit concern as flexibility continues to diminish. However, the size of needed rate hikes has trended downward as annual capital spending has begun to decline in recent years.

Over the last five years the authority raised rates on average by a moderate 3.6% annually over the last five years. For fiscals 2011 and 2012, the board adopted nominal rate hikes of 1.5% and 3.5%, respectively, in order to give ratepayers some degree of rate relief amid the economic downturn. Going forward, rates are forecast to rise by an annual average of 6% through fiscal 2016 to keep pace with rising debt service.

STABLE FINANCIAL PERFORMANCE

The authority's financial operations have remained relatively stable despite escalating debt service and the elimination of Commonwealth debt service assistance. Fiscal 2011 ended with a sizeable operating surplus that was prudently applied to the defeasance of approximately $22.6 million of senior lien obligations and a redemption of about $7 million in subordinate bonds. Historical coverage on senior lien annual debt service (ADS) has been strong, averaging 1.9 times (x) over the prior five fiscal years, and all-in coverage has been adequate at just above the 1.1x threshold established by bond resolution. Audited results for fiscal 2011 show coverage of 1.7x and 1.1x on senior lien and all-in ADS, respectively. Liquidity is good, with unrestricted cash remaining at just above 300 days cash.

SUBSTANTIAL LEVERAGE TEMPERED BY IMPROVING CAPITAL CYCLE

MWRA's capital program is now increasingly focused on completion of combined sewer overflow (CSO) projects, regulatory compliance, and system rehabilitation and maintenance following the massive capital investments undertaken during the prior two decades. The fiscal years 2012-2016 capital improvement plan (CIP), which totals approximately $1.2 billion and addresses substantially all current regulatory compliance issues, is significantly reduced from prior CIPs, reflecting the large scale of capital spending on the cleanup of Boston Harbor in the 1990s and the completion of the majority of the CSO master plan.

Fitch believes future capital costs will remain manageable given MWRA's vigilant project oversight and its board's self-imposed spending cap. Funding for capital needs will continue to come almost entirely from long-term borrowings, including revenue bonds and state loans.

The authority's debt levels have been and will remain high for the foreseeable future due to historical borrowings. Debt to net plant is notably high at 94%, and annual debt service costs consume about half of gross revenues. However, the authority's capital cycle has declined substantially over the last several years with annual spending now equal to about half the amount expended each year in the 1990s. Fitch expects this trend to continue.

SOUND OVERSIGHT OF VARIABLE-RATE DEBT PORTFOLIO

Exposure to variable-rate debt and derivatives is fairly sizeable, although management's demonstrated ability to prudently monitor debt portfolio performance offsets this risk. Of the total amount of debt outstanding, approximately 21% is variable rate with each series of variable-rate bonds backed by liquidity agreements from a diverse pool of liquidity providers. Almost two-thirds of outstanding variable-rate debt is hedged through floating-to-fixed-rate swaps. The outstanding notional amount totals $708 million, and the most recent (February 2012) mark-to-market value of the swaps totaled negative $162.5 million.

Contact:

Primary Analyst
Christopher Hessenthaler
Senior Director
+1-212-908-0773
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Doug Scott
Managing Director
+1-512-215-3725

Committee Chairperson
James Mann
Senior Director
+1-212-908-9148

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 20, 2011);
--'Water and Sewer Revenue Bond Rating Guidelines' (Aug. 10, 2011);
--'2012 Water and Sewer Medians' (Dec. 8, 2011);
--'2012 Outlook: Water and Sewer Sector' (Dec. 8, 2011).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130
U.S. Water and Sewer Revenue Bond Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647331
2012 Water and Sewer Medians
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=657111
2012 Outlook: Water and Sewer Sector
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=657110