

Oklahoma Water Resources Board [State Revolving Fund]

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 38.8% in the PSM, while Fitch's cash flow modeling demonstrates that the program can continue to pay bond debt service even with a default tolerance rate of up to 58.0%, assuming release of surplus funds, and up to 85.6% 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 modeling analysis with a net cushion of 19.2% and 46.9%, with and without releasing surplus, respectively.

Security

The 2019 master trust bonds, including the series 2025 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 63% of OWRB's loan pool consists of borrowers exhibiting investment-grade credit quality. This translates to an implied pool quality, measured by aggregate rating and loan terms, of 'BBB'/'BBB-'. The pool consists of 163 obligors, with the top 10 obligors comprising about 68.6% of the loan portfolio. Obligor security is solid, with nearly all 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 modeling 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.

New Issue

\$160,000,000 (2019 Master Trust)
Revolving Fund Revenue Bonds,
Series 2025 AAA

Sale Date

June 2 via negotiation

Outstanding Debt

[Issuer Ratings Information](#)

Rating Outlook

Stable

Applicable Criteria

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(February 2025\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(January 2025\)](#)

Related Research

[Fitch Rates Oklahoma Water Resources Board's Series 2025 SRF Revs 'AAA'; Outlook Stable \(May 2025\)](#)

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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.

Credit 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 DWSRF and clean water state revolving fund (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 2024, resulting in an improved PSM stress hurdle. Minimum debt service coverage is level. OWRB continues to leverage its program, causing its rating cushion to thin slightly from pre-2023 levels, but the program continues to pass Fitch's modeling 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.

The medians cited within this report are based on similar 'AAA' rated municipal finance pools, which primarily consist of SRFs, and are further described in Fitch's most recent peer review report. The medians are for comparative purposes only; the primary driver for an assigned rating is Fitch's model results, as described below.

Mixed Loan Pool with Moderate Concentration

The combined loan pool is composed of 163 pledged obligors. Around 63.4% of the portfolio is considered to be of investment-grade credit quality, which compares to Fitch's 'AAA' median of 74.8%. As a result of the concentration of unrated pool participants and elevated weighted-average life, the program's 'AAA' liability hurdle of 38.8% is weaker than Fitch's 'AAA' median of 30.6% (higher stress hurdles correlate with lower pool quality). However, as all borrowers are secured by water and/or wastewater revenue pledges, loan security is strong and thus helps to balance the overall pool quality.

The Oklahoma City Water Utilities Trust (OCWUT; 19.2% of the pool total), Enid Municipal Authority (11.5%), and Edmond Public Works Authority (9.6%) are the pool's largest obligors. (While each of these entity's parity bonds are not publicly rated by Fitch, they are assessed to be of strong or very strong credit quality.) The remaining top 10 borrowers range from 2.0% to 8.5% in size relative to the aggregate pool. To account for concentration risk, the PSM by default assessed an additional stress on the top five risk contributors that adversely affect pools with higher concentration, and thus the risk is captured in the rating. OCWUT's percentage in the overall pool has declined, leading to improved diversity and reducing concentration risk. No additional recovery sensitivities were run in Fitch's analysis.

Financial Structure Exhibits Strong Default Tolerance

Fitch's cash flow modeling, assuming release of surplus funds, demonstrates that the availability of program resources allows for hypothetical loan defaults of 58.0% in the first four years, 88.6% in the middle four years, and 100% in the last four years of the program's life (as per Fitch's criteria, a 90% recovery is also applied in its cash flow model when determining default tolerance) while still paying bond debt service in full. With all else equal but retaining surplus in the event of a default, the program allows for hypothetical loan defaults of 85.6% in the first four years, 89.0% in the middle four years, and 100% in the last four years of the program's life. In both cases, the default tolerance is in excess of Fitch's 'AAA' liability rating stress hurdle of 38.8%, thereby indicating a passing result under Fitch's quantitative analyses.

As an additional measure of financial strength, Fitch calculates the program asset strength ratio (PASR). The PASR, an asset-to-liability ratio, includes total scheduled loan repayments plus any additional pledged funds divided by total scheduled bond debt service. The resulting PASR for OWRB's program is strong at 1.6x, but is below Fitch's 'AAA' median level of 2.1x.

Loss Protection Provided by Overcollateralization and Reserves

The prior indenture bonds use a reserve-fund structure, wherein loss protection for bondholders is provided primarily by dedicated debt service reserve funds. However, as bonds mature, the debt service reserve fund balance is declining, and now approximates just \$3.2 million. All other outstanding bonds issued since 2010, including those issued under the 2019 master trust, use a cash flow structure, wherein loss protection is provided primarily by surplus pledged loan repayments in excess of bond debt service, or overcollateralization. The prior indenture bonds were closed with the issuance of the series 2019 bonds.

On an annual basis, aggregate loan repayments plus reserve releases overcollateralize bond debt service by a minimum of 1.4x, which is favorable and mostly in-line with Fitch's 'AAA' rating category median of 1.6x. Debt service reserve funds from the prior indenture bonds currently stand at approximately \$3.2 million, which equates to only about 0.2% of total projected bonds outstanding.

In accordance with the amended prior indenture bonds, on a semi-annual basis, excess funds released from the prior indenture bonds are transferred to the 2019 master trust's revenue fund and are then available for debt service payments. Because of this feature and the cross-collateralization of the CWSRF and DWSRF, which allows for shortfalls in one program to be covered by surpluses in the other, Fitch combines the two funds and two master trust programs in its modeling analyses.

Experienced Program Management and Sound Underwriting

The OWRB is responsible for administering state laws related to water rights and developing and updating the state comprehensive water plan.

The board's formal SRF underwriting procedures consist of approval of clean water or drinking water project feasibility, review of loan credit, and application and approval by OWRB. Borrower loan agreements typically must demonstrate 1.25x annual debt service coverage on outstanding loans, including any planned additional debt. Loans to smaller systems are secured further by a mortgage on the local borrower's system facilities.

In the event of a loan default, OWRB has the right to directly impose, enforce and collect charges on users of the defaulting system. OWRB has never experienced a default by any borrower within its pledged loan programs. It is the sole administrator of the CWSRF, while administration of the DWSRF is shared between OWRB and the state's Department of Environmental Quality.

Historical Program Metrics

	2023 'AAA' Median ^a	Series 2025	Series 2024	Series 2023A	Series . 2021	Series . 2020
Revolving Fund Type	–	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DW SRF
Purpose	–	Financing	Financing	Financing	Financing	Financing
Total New Issuance (\$ Mil.)	–	160.0	130.0	175.0	199.0	95.0
Fitch Rating	–	AAA	AAA	AAA	AAA	AAA
Rating Date	–	5/13/2025	7/9/2024	3/22/2023	9/22/2021	9/25/2020
Fitch Default Tolerance Test (%)						
Minimum Default Tolerance Rate	100	58.0	56.1	59.0	84.7	100.0
Less: Fitch PSM Stress Hurdle ^b	30.6	38.8	39.2	41.9	45.8	65.1
Net Rating Stress Cushion	69.4	19.2	16.9	17.2	38.9	34.9
Financial Structure (\$ Mil.)						
Total Outstanding Program Bonds	370	1,273	1,244	1,121	628	537
Program Assets (\$ Mil.)						
Total Pledged Revenues Excluding Reserves	1,606	2,836	2,565	2,236	2,067	1,425
Total Pledged Revenues Including Reserves	1,734	2,922	2,623	2,292	2,096	1,457
Debt Service Reserve Fund Balance	0	3	15	24	29	32
Program Liabilities (\$ Mil.)						
Total Debt Service	676	1,873	1,651	1,600	1,125	710
Financial Ratios						
Projected Minimum Annual DSC (x)	1.6	1.4	1.4	1.3	1.4	1.6
Program Asset Strength Ratio (x)	2.1	1.6	1.6	1.4	1.9	2.1
DSRF as % of Bonds Outstanding	0.0	0.2	1.2	2.2	4.6	6.0
Portfolio Summary						
No. of Borrowers	171	163	163	163	163	160
Implied WA Pool Rating (PSM)	BBB	BBB/BBB-	BBB-	BBB-	BBB-	BBB-
WA Life (Years)	17.1	26.4	26.3	24.2	23.8	23.1
% Investment Grade	74.8	63.4	61.6	52.8	43.4	42.6
Top 10 Concentration (%)	57.3	68.6	66.8	64.0	62.0	63.6
Largest Single Borrower (%)	15.7	19.2	21.2	24.7	27.6	27.2
Largest Borrower Composite Rating	AA	AA+	AA+	AA+	AA+	AA+
Security Pledge Distribution (%)						
Pledge 1	–	Utility Revenues (100)	Utility Revenues (100)	Utility Revenues (100)	Utility Revenues (100)	Utility Revenues (100)
Pledge 2	–	-	-	-	-	-
Pledge 3	–	-	-	-	-	-
Pledge 4	–	-	-	-	-	-

^aBased on data collected for Fitch's peer review (through Dec. 2023). ^bPSM changes on March 4, 2021 and on Sept. 22, 2021 may result in differences in liability stress hurdles before and after these dates. See Fitch's related criteria for details. WA – Weighted average.
Source: Fitch and Oklahoma's Revolving Fund.

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