

Oklahoma Water Resources Board's \$160 Million Series 2025 Revolving Fund Revenue Bonds Rated 'AAA'; Outlook Stable

Month xx, 202x

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the **Oklahoma Water Resources Board's** (OWRB) anticipated \$160 million series 2025 revolving fund revenue bonds (2019 master trust indenture, or MTI).
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the board's outstanding series 2003 MTI clean water and drinking water revenue bonds and series 2019 MTI bonds outstanding.
- The outlook is stable.

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Rationale

Security

Borrower loan repayments provide the majority of the security for the bonds, along with other pledged funds under a 2019 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 series 2025 bond proceeds to finance eligible Drinking Water State Revolving Fund (DWSRF) projects, to reimburse amounts previously advanced to make such loans, to provide state matching requirements, and to pay costs of issuance.

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 State Revolving Fund (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 will do so when, and if, needed.

Credit highlights

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;
- Solid 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 revenue, 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.
- 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.

Rating 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 the program will retain available funds in reserve or excess coverage sufficient to cover borrower defaults under our stress scenarios, similar to what it is now demonstrating. We expect continued loan performance showing no defaults, minimal delinquencies, and management to address the growing percentage of late loan payments with the process they outlined by sending the loan payments earlier to the borrowers giving them more time for their approval process.

Downside scenario

Although unlikely, we could lower the rating should defaults or delinquencies occur, resulting in our view of the policies weakening, or if excess collateral declines to a level such that the program could not maintain positive overall cash flows under our stress scenarios.

Credit Opinion

Enterprise risk--extremely strong

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 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--extremely strong

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.

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 from 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. While the late payments beyond five days from the due date grew in 2024 management addressed this by sending the future payment letters out 45 days before the due date and contacting issuers immediately rather than waiting five days as the prior policy indicated. This has reduced late payments year over year to more in line with historical trends. OWRB staff receives monthly income statements from borrowers, along with annual audited statements that are reviewed for minimum coverage requirements.

Credit Snapshot

- Program description: 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 State Revolving Fund (CWSRF) and DWSRF loan programs.
- Flow of funds: 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.
- Summary statistics: As of April 30, 2025, the total investment balances across both the CWSRF and DWSRF programs was \$128.7 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 that mitigates credit risk in the event of significant borrower defaults. There are 163 borrowers between both SRF programs, with about \$1.92 billion in loans outstanding supporting the bonds. There is some concentration, with the five largest borrowers accounting for 55% of total loans outstanding. With the issuance of the series 2025 bonds, there will be approximately \$909 million on the 2019 trust of revolving fund program bond principal outstanding.

Ratings List

New Issue Ratings

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Month xx, 202x 4

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Ratings List

US\$160,000,000 Oklahoma Water Resources Board, Oklahoma, Revolving Fund Revenue Bonds-Drinking Water Program, Series 2025, dated: Date of delivery, due: April 01, 2055

Long Term Rating AAA/Stable

Ratings Affirmed

Water & Sewer

Oklahoma Water Resources Board, OK State Revolving Fund Drinking Water Program & Clean Water Program AAA/Stable

Oklahoma Wtr Resources Brd, OK State Revolving Fund Master Trust AAA/Stable

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