

# RatingsDirect®

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## Summary:

# Oklahoma Water Resources Board; State Revolving Funds/ Pools

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## Summary:

# Oklahoma Water Resources Board; State Revolving Funds/ Pools

### Credit Profile

US\$78.805 mil state loan prog rev bnds ser 2024A due 10/01/2053

*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 \$78.805 million state loan program revenue bonds, series 2024A.
- 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 2024A 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 2024A bond proceeds to make loans to Minco Municipal Authority and Muskogee Municipal Authority.

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 \$891.9 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 rating reflects our view of OWRB's credit strengths, including a long history of borrower repayment with no defaults in program history and no recent delinquencies, as well as generally strong financial policies and practices. The rating further reflects our view of the credit support that the WICERF provides to cure any potential defaults by the program's borrowers, and the program's extremely strong loss coverage score as determined per our criteria, which 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.

Based on the board's ability to issue bonds supported by a state GO pledge in an amount up to \$300 million (WICERF), the program's strong ability to withstand even a heightened default scenario, and the program's strong loan repayment

history, we applied a one-notch positive override to assign the 'AAA' rating. The board's ability to issue state GO bonds is contingent on the state retaining strong market access. Considering the state rating (AA/Positive), we do not believe a lack of market access is a significant risk. However, should the state's access to the bond market become less certain, the enhancement provided by access to the WICERF could be diminished. For more on the State of Oklahoma's credit quality, see our analysis published July 20, 2023, on RatingsDirect.

## 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 strong 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 and a resulting mismatch between loan payments and bond payments. A lower rating would also be likely if OWRB's access to the WICERF comes into question.

## Credit Opinion

### Enterprise risk profile

We view the program's enterprise risk profile as very strong, given a combination of the low industry risk profile for municipal pools and the program's market position, which we consider strong due to the support from the state government, along with the statutes establishing the program, and the structure of program management.

### Financial risk profile

We view the program's financial risk profile as 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 (Broken Arrow Municipal Authority, Edmond Public Works Authority, Enid Municipal Authority, Muskogee Municipal Authority, and Oklahoma City Water Utilities Trust) accounting for about 45% of the combined loan balance outstanding under the 1986 and 2016 resolutions following the series 2024A 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 \$2.10 million for the 1986 general reserve and \$27.26 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.

### 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.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of January 16, 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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