

ISSUER COMMENT

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MWRA's release of reserve funds does not reduce credit quality

On April 23, 2015, the Massachusetts Water Resources Authority released \$46.3 million in reserves as authorized under a 2007 amendment to the General Bond Resolution, which took effect earlier this year. The reduction in available reserves does not detract from the authority's credit quality, due to its strong rate setting history, extremely high collection rates, and tested ability to intercept member municipalities' state aid in the event of non-payment to the authority.

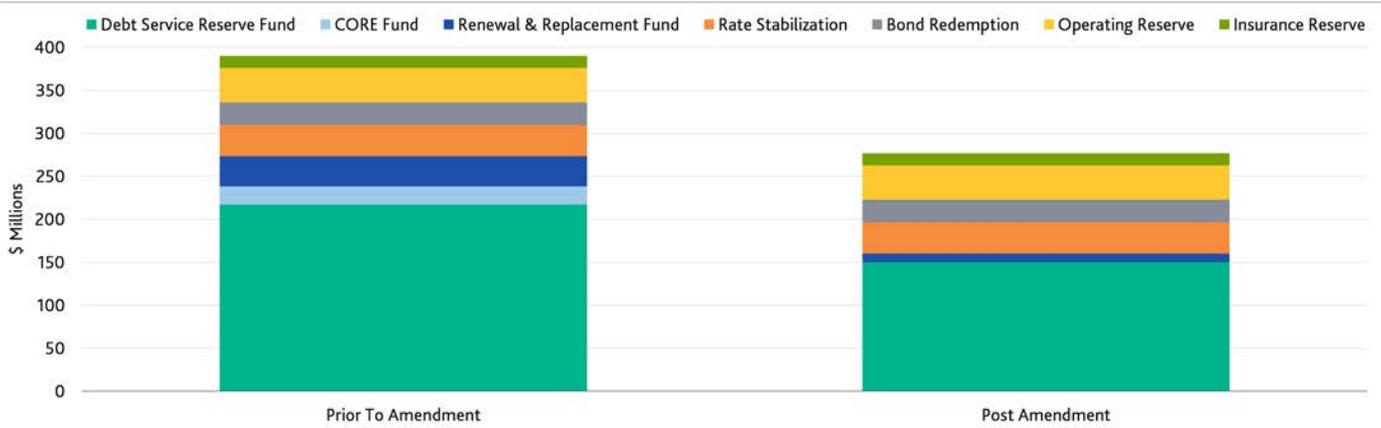
The authority allocated the newly available funds upon the reserve release for financially sound uses. The \$46.3 million released in April came from the Community Obligation and Revenue Enhancement (CORE) and Renewal and Replacement reserves. The authority will allot \$10 million of those funds towards the advance funding of its Other Post-Employment Benefits (OPEB) liability and \$36.3 million to the early defeasance of outstanding debt. In addition to these released reserves, the authority will release \$67 million in Debt Service Reserve Fund (DSRF) monies on June 30, 2015, which will also be used for debt defeasance. Although the amendment revisions will lower available reserves, we view the planned use of the funds to be prudent.

The reduced reserve levels do not detract from the authority's strong overall credit quality. Since its inception, the MWRA has demonstrated excellent financial management which has resulted in consistently stable debt service reserve coverage. Additionally, the authority has maintained a 100% collection rate from its members, due in part to the statutorily authorized and tested ability to intercept member municipalities' state aid in the event of non-payment. We anticipate that management will continue to demonstrate conservative management of its finances, debt, and long-term liabilities.

The original General Resolution, approved in 1990, included several reserve requirements to provide additional security for the authority's first debt issuances as a stand-alone borrower. Notably, these reserves included the DSRF funded at 100% of average annual debt service, the CORE reserve funded at 10% of Senior Lien Annual Debt Service, and the Renewal and Replacement reserve currently funded at \$35 million.

As authorized by the 2007 amendments to this resolution, the authority released the full balance of the CORE reserve (\$21.3 million) as well as \$25 million in Renewal and Replacement Reserves on April 23, 2015. The authority will also release \$67 million from its DSRF on June 30, 2015, in accordance with a revised reserve requirement of 50% of maximum annual debt service, a reduction from the original requirement of 100% of average annual debt service. A comparison of the authority's reserves can be seen in Exhibit 1 below.

Exhibit 1
Impact of resolution amendments on MWRA's reserves



Source: Massachusetts Water Resources Authority

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