Research Update:

Massachusetts Water Resources Authority Series 2026C-D General Revenue And Refunding Bonds Assigned 'AA+' Rating

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Primary Contact

Alan B Shabatay
New York
1-212-438-9025
alan.shabatay
@spglobal.com

Secondary Contact

Katelyn A Kerley
Little Rock
+ 1 (303) 721 4683
katelyn.Kerley
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the Massachusetts Water Resources Authority's (MWRA) series 2026C general revenue bonds and 2026D general revenue refunding bonds.
- We also affirmed our ratings on numerous series of general revenue and refunding bonds issued by the authority: our 'AA+' long-term rating and underlying rating (SPUR) on various series of senior-lien debt, our 'AA' long-term rating and SPUR on various series of subordinate-lien debt, our 'AA+/A-1' dual rating on subordinate-lien debt jointly secured by MWRA and a letter of credit provider, our 'AA/A-1+' dual rating on subordinate-lien debt where the short-term ratings are based on the short-term rating on the counterparty providing liquidity support, and our 'AA/A-1' dual rating on subordinate-lien debt where the short-term rating is based on the counterparty providing liquidity support. The ‘A-1+’ and ‘A-1’ short-term ratings are based on the providers of standby bond purchase agreements.
- The outlook on the bond ratings is stable, where applicable, except for when joint criteria has been applied to the long-term rating on the issue, in which case the outlook is not meaningful.

Rationale

Security

A senior lien on net revenue secures the senior-lien bonds and a subordinate lien on net revenue secures the subordinate-lien bonds. The authority pledges all revenue--defined as all income, revenue, receipts, and other funds derived by the authority from its ownership and operation of the systems, combined with any rights to receive the same in the future, other than certain grant receipts and other funds--as security for the bonds. Other provisions include a debt service reserve requirement for senior bonds of 50% of maximum annual debt service and a covenant to set rates such that net revenue is at least 1.2x senior-lien debt service and 1.1x subordinate-lien debt service.

The long-term ratings on MWRA's credit fundamentals reflect a system-oriented wholesale analysis that primarily reflects the large and diverse service base of 64 local bodies providing water and sewer services in and around the Boston metropolitan statistical area.

Our system analysis is supported by MWRA's rate structure that provides for additional collection mechanisms through both a state aid intercept and, ultimately, an ability to reallocate uncollected assessments through a joint and several ability to increase assessments on the other local bodies. If MWRA needed to use these mechanisms, we believe their robust liquidity could serve as a bridge to cover debt service payments pending receipt of revenue from these mechanisms.

We believe that MWRA's rate structure is a significant mitigant to financial volatility because the authority's rates and charges are adopted annually and due from each local body in 10 equal monthly installments (excluding January and July). Assessments are essentially based on proportional flow or use and can be changed as needed through board approval. If a local body fails to make these assessment payments when due, then MWRA's enabling act requires the authority to notify the state treasurer within 30 days, in which case the state treasurer pays to MWRA any amounts due from state aid otherwise payable to the local body. In addition, in an extreme case of a shortfall lasting 18 months, then MWRA's general bond resolution also allows it to assess other local bodies to make up the shortfall.

Credit highlights

The rating further reflects our view of MWRA's generally consistent financial performance in terms of unrestricted liquidity and debt service coverage (DSC), sophisticated and well-embedded operating and financial policies, counterparty diversification within the variable-rate portfolio, and a manageable capital improvement program given the system's size. MWRA's strong revenue recovery mechanism described above and the overall strong credit quality of MWRA's local bodies offset low DSC, in our view. MWRA's maximum capital improvement program spending for its 2024-2028 plan is $2 billion, with expectations that capital needs beyond 2028 will total $4.8 billion, not adjusted for inflation.

The rating further reflects our view of MWRA's:

- Immense economies of scales given that it is a regional, wholesale water and sewer services provider for about 45% of Massachusetts' population (about 3 million), including Boston and its metropolitan statistical area. The authority has statutory authority to serve 64 communities and currently serves 62. The Boston Water and Sewer Commission makes up about 30% of the authority's overall rates and charges revenue, which, in our view, lends stability to the rating given our 'AAA/Stable' rating on the commission's bonds.
- Stable and manageable rate increases. Combined water and sewer rates have risen each year generally by 3% to 4%. Projections indicate that future increases will remain consistent with historical trends.
- Strong revenue recovery mechanism (as described above) and the overall strong credit quality of MWRA's local bodies, which offsets lower DSC. At fiscal year-end (June 30) 2025, net revenue provided all-in DSC (including senior-lien, subordinate-lien, and other fixed-charge obligations and capital leases and obligations paid to the Massachusetts Clean Water Trust) of 1.2x, which we consider good. We calculate DSC as 1.3x in fiscal years 2024 and 2023. Net revenue has been calculated to include rates, charges, and interest earnings, but excludes transfers related to the rate stabilization fund. In addition, net revenue has been increased by

noncash other postemployment benefit expenses, but we treat subordinated commonwealth payments as a transfer out that lowers our calculated coverage metric.

- Unrestricted cash and investments of $93.6 million at fiscal year-end 2025. With the addition of restricted funds that are legally available for any use, including the rate stabilization fund, operating reserve, revenue reserve, insurance reserve, and renewal and replacement reserve, liquidity totals $206.3 million, or 197 days' cash. In fiscal 2024, liquidity totaled about $222.2 million, or 239 days' cash. In fiscal 2023, liquidity totaled about $192.3 million, or 240 days' cash.
- Large debt service component of its budget, accounting for over 50% of audited operating and debt service expenses. While this figure is elevated, in our opinion, wholesale systems tend to have relatively high debt compared with retail systems and thus such a figure presents less of a credit risk. For the variable-rate portion of its portfolio, MWRA budgets for a 4.25% average interest cost, which is above the actual rate of about 2.80%, per management.

Environmental, social, and governance

We believe MWRA faces elevated physical risk primarily given the need to comply with environmental regulations while maintaining a large regional infrastructure that is subject to extreme weather events and climate vulnerabilities. That said, the authority has extensive emergency planning and resiliency built into its infrastructure. For example:

- Formal watershed protection plans for its watershed areas.
- Capital projects for various deep rock supply tunnels and pump stations where diversion is possible without service interruption.
- Significant progress with its combined sewer overflow (CSO) control plan. On Feb. 25, 2026, the board of directors voted to authorize a draft CSO control plan that included zero-CSO discharges in a 2050 typical rainfall year, with an estimated cost of $1.3 billion and with MWRA's estimated share at $763.7 million, not adjusted for inflation.
- Covered distribution reservoirs.
- Programs in place for detecting and repairing leaks, encouraging conservation and reduced water use, preserving and developing local supply sources, and implementing a drought response plan.

Monitoring of per- and polyfluoroalkyl substances (PFAS) is performed in both the treated water and wastewater effluent. Management also works with local bodies to review local data about PFAS levels. The authority's regional nature is a benefit, and MWRA has a mechanism for connecting new bodies to its system if communities believe that serving their own water and sewer customers would be beneficial.

We believe that the most significant social and governance risks relate to management's generation of overall positive variances on the expense budget and, in turn, demonstration of lower-than-projected revenue requirements. Our understanding is that management will continue its outreach efforts with the local bodies that the authority serves so that, as additional rate increases are approved, the advisory board's advocacy for the authority's programs from the perspective of ratepayers remains aligned with management's overall goals.

Strong employee engagement, through defined and strategic staff training and recruitment efforts, supports governance and operations. For several years, MWRA management has also focused on providing well-funded pension and medical benefits to its staff, and we consider this supportive of staff retention.

Outlook

The stable outlook, where applicable, reflects S&P Global Ratings' view of the authority's robust financial position, as well as management's demonstrated willingness to increase rates. We expect the authority will maintain financial metrics consistent with historical trends and continue to benefit from the diversity of the underlying economic base.

Downside scenario

If MWRA fails to maintain financial stability supported by consistent rate increases or if the local units begin to experience difficulty paying their annual assessments, we could lower our rating. However, given management's demonstrated willingness to implement rate increases and the broad and diverse economic base, we do not believe that creditworthiness will be pressured in these ways in the next several years as long as management is able to manage operating and fixed costs in a manner consistent with historical trends. If inflationary pressures were to become pronounced and lead to a heightened inability to raise rates as a result of regional affordability concerns, we could lower the rating.

Upside scenario

We could raise the rating if MWRA consistently returned significantly stronger unrestricted liquidity and annual all-in coverage metrics, while continuing to address asset adequacy and regulatory requirements.

Credit Opinion

Variable-rate debt represents 7.2% of the authority's portfolio outstanding ($287.1 million), all of which is unhedged. Management reports that it manages and reviews its liquidity and credit agreements. Given MWRA's large variable-rate portfolio, any failed remarketings on any variable-rate bonds could also lead to fiscal stress, in our view. However, we understand that most of the additional interest costs in the case of a failed remarketing would occur only after 90 days; we believe this provides the authority sufficient time to examine financial options.

Although we do not consider the presence of the bank-placed debt as introducing additional contingent liquidity risk, our view on several provisions of these agreements is as follows:

- Management has experience renewing and extending liquidity and credit agreements, and expiring credit, liquidity, or direct purchase agreements in any given calendar year would represent no more than 48% of the value outstanding of MWRA's total variable-rate portfolio in any given year. (The calendar year in which this occurs is 2028.) We expect the authority will continue managing the expiration of its various liquidity, credit, and direct purchase agreements to avoid liquidity calls resulting from agreement expiration.
- MWRA also has a $100 million revolving credit agreement with Bank of America N.A. that management reports that it uses to support its construction program. We mention this agreement separately from the authority's other direct purchase agreements because of the presence of several events of default provisions that we view as permissive. These include various material adverse clauses, no cure periods for covenant defaults, and cross-default provisions. An additional event of default would be a negative rating action to 'A-' or lower.

If any of these events are triggered and MWRA does not maintain market access to make full and timely payment on any accelerated amounts due under this agreement, the rating could come under significant pressure. These provisions have no effect on the rating given our view that these nonpayment events of default are as likely as a two-notch negative rating action, which would still not result in a rating below the rating trigger on this agreement.

Ratings List	
New Issue Ratings	
US$219875000 Massachusetts Water Resources Authority, Massachusetts, General Revenue Bonds, 2026 Series C (Green Bonds), dated: Date of Delivery, due: August 1, 2056	
Long Term Rating	AA+/Stable
US$370160000 Massachusetts Water Resources Authority, Massachusetts, General Revenue Refunding Bonds, 2026 Series D Series (Green Bonds), dated: Date of Delivery, due: August 1, 2043	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Water & Sewer	
Massachusetts Wtr Resources Auth, MA Water and Sewer System	AA+/Stable
Massachusetts Wtr Resources Auth, MA Water and Sewer System 2nd Lien	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.