

# RatingsDirect®

---

## Summary:

# Kentucky Rural Water Finance Corp.; State Revolving Funds/Pools

### Primary Credit Analyst:

Scott D Garrigan, New York (1) 312-233-7014; [scott.garrigan@spglobal.com](mailto:scott.garrigan@spglobal.com)

### Secondary Contact:

Erin Boeke Burke, New York 212-438-1515; [Erin.Boeke-Burke@spglobal.com](mailto:Erin.Boeke-Burke@spglobal.com)

## Table Of Contents

---

Rationale

Outlook

## Summary:

# Kentucky Rural Water Finance Corp.; State Revolving Funds/Pools

### Credit Profile

US\$10.01 mil pub proj rfdg rev bnds ser 2018 A dtd 01/30/2018 due 02/01/2020

*Long Term Rating*

A+/Stable

New

Kentucky Rural Wtr Fin Corp (Flexible Term Prog) (MBIA) (National) (SEC MKT)

*Unenhanced Rating*

A+(SPUR)/Stable

Affirmed

## Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Kentucky Rural Water Finance Corp.'s series 2018A public project refunding revenue bonds (flexible term program). At the same time, we affirmed our 'A+' rating on the corporation's previously issued public project debt. The outlook is stable.

The ratings reflect our view of:

- The strong enterprise risk profile, given that the loan pool is managed by a nonprofit, nonstock public corporation, and the loan program has no geographic concentration; and
- The very strong financial risk profile, reflected by the corporation's loss coverage score (LCS), operating performance, and financial policies.

Loans to cities, counties, and water districts, as well as pledged reserves, reserve fund investment earnings, and miscellaneous administrative fund revenues, all serve as monetary sources for debt service payments. The program's investment earnings provide a portion of annual debt service payments. As reserve fund investments mature, liquidated investments are then also used to make debt service payments. Following the 2018A issuance, there will be about \$208 million in outstanding bonds, \$188 million in pledged loans, and 136 program participants.

We view the program's enterprise risk profile as strong. This is due to a combination of low industry risk profile for municipal pools, our view of the program's market position as adequate, and not applying a geographic concentration adjustment since the program funds loans throughout the state. The finance corporation is a public nonstock and nonprofit corporation governed by a board and formed under Kentucky Revised Statutes chapters 58 and 273. The Kentucky Rural Water Association (KRWA), founded in 1979, acts as the financing program sponsor. The KRWA is a statewide association, offering membership to water and wastewater utilities throughout Kentucky. It has more than 300 voting members.

We view the program's financial risk profile as very strong, reflecting a combination of the strong LCS with the corporation's generally strong historical operating performance and management policies.

Over-collateralization available to cure loan defaults includes annual revenues from pledged administrative fees,

excess cash held in miscellaneous funds, and \$19.4 million of investments in the debt service reserve (DSR). The program's cash flows are structured so that loan repayments match debt service on the portion of bonds used to make loans, while the DSR and its interest earnings are used for debt service on bonds used to fund the DSR.

Over-collateralization arising from the DSR, administrative fees, and trustee-held excess cash all provide sufficient revenue, in our view, to make full payments on all bonds, given the level of defaults consistent with an adequate LCS. We allow for 93% recovery of defaulted loan revenues. If a DSR draw occurs, participants must repay the draw amount within one year. As further protection, participants must agree to set rates sufficient to provide 1.2x maximum annual debt service (MADS) coverage on all system obligations.

Program reserves include municipal bonds rated at least 'AA-', guaranteed investment contracts with Trinity Plus Funding Co. and Wells Fargo Bank as counterparties, and nominally accrued cash balance amounts. Should the rating on an investment provider fall below 'A-', the investment contracts require either a posting of collateral, a guarantee with a provider rated 'AA-' or higher, or a reassignment of the investment contract. Additionally, \$600,000 in FDIC-insured certificates of deposit in the program's administrative fund are available for any program purpose, including to replenish draws on the reserve fund. However, the program purchased the investments via a loan from the KRWA, and since March 1, 2011, the KRWA has had the right to demand full loan repayment.

We view the program's financial policies and practices as ranging from strong to adequate. Management has the flexibility to enter into several loan agreements, including general obligations and revenue pledges, but that can involve any governmental agency. Program staff requires all participants to submit annual financial statements. Loan payments are made monthly, with funds on hand at least 30 days prior to semiannual debt service payment dates. Management prioritizes projects as loan demand develops, with a credit review process for each new loan. The board undertakes bimonthly investment portfolio reviews, with adjustments as needed, depending on either the program's investment strategy or the credit quality of investment counterparties.

Management indicates that since the program's 2001 inception, no loan defaults or delinquent payments have occurred, which we view as extremely low. In addition, the KRWA has been offering lending programs to its members since 1995, with total originations in excess of \$600 million. Management reports no payment defaults or loan delinquencies across all of its programs.

## Outlook

The stable outlook reflects our view that over-collateralization will remain commensurate with the rating and that other program features will not deviate from historical trends and practices.

### Downside scenario

If reserves become insufficient for the rating, or if any other program factors hurt enterprise or financial risk profiles, we could lower the ratings within the two-year outlook horizon.

### Upside scenario

Conversely, if our view of the financial or enterprise risk profiles changes, we could raise the ratings. Absent changes to current program operations or structure, the factor most likely to contribute to a higher rating, in our view, would be

increased over-collateralization stemming from nondebt-funded reserves or other available resources.

Ratings Detail (As Of January 12, 2018)		
Kentucky Rural Wtr Fin Corp pub proj (Flexible Term Prog)		
<i>Long Term Rating</i>	A+/Stable	Affirmed
<b>Kentucky Rural Wtr Fin Corp pub proj (Flexible Term Prog)</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.