S&P Global
Ratings

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Summary:

Rural Water Financing Agency, Kentucky; State Revolving Funds/Pools

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Table Of Contents

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Credit Profile		
US$2.965 mil pub proj rev bnds ser 2024 B due 02/01/2054		
Long Term Rating	AA-/Stable	New
Rural Water Financing Agency pub proj rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Rural Water Fincg Agy		
Long Term Rating	AA-/Stable	Affirmed
Rural Water Fincg Agy (MBIA) (National)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to Rural Water Financing Agency's (RWFA) $2.97 million series 2024B public projects revenue bonds (flexible term program).
- At the same time, we affirmed our 'AA-' rating on RWFA's bonds outstanding, which were initially issued by Kentucky Rural Water Finance Corp. (KRWFC) and were assigned in 2023 to the RWFA by the KRWFC.
- The outlook is stable.

Security

The bonds are secured by loan repayments from program borrowers made to the program trustee. Assistance agreements with the municipal borrowers are assigned to the trustee and govern the borrower repayments. In addition, a debt service reserve (DSR) provides further bondholder security.

Debt service payments are secured by aggregate borrower pool repayments and a DSR fund, the latter including maturing investments and associated earnings. Currently, there are approximately $207 million in bonds outstanding, $182 million in pledged loans, and 95 program participants under the agency's flexible term program.

The 2024B bond issuance is the second transaction RWFA has undertaken since it assumed responsibility for the repayment of the previous KRWFC bonds, pursuant to an assignment and assumption agreement effective in 2023. The agreement between KRWFC and RWFA effectively transfers all assets, liabilities, funds, agreements, and obligations of the flexible term program to RWFA, including all the bond obligations and related cash, and funds related to these.

Credit overview

We assessed RWFA's enterprise risk profile as very strong, based on the agency's strong market position, and that the loan program has no geographic concentration. RWFA was formed under specific Kentucky statutes, which we view as a governmental entity. Under our criteria, we incorporate into our market position the view that one purpose of the agency--formed by an interlocal agreement--is to create program(s) for its members and the power to establish programs. This is a key factor in our view of the program's overall market position. We believe RWFA's financial risk profile is very strong, reflected by the loss coverage score (LCS), operating performance, and financial policies. With the transfer and assignment of KRWC's rights, title, and interest in the flexible term program to RWFA, the agency has indicated that all board-approved policies and practices of the flexible term program will remain in place under RWFA. In addition, all existing borrower and program accounts, including the DSR and the administrative fee fund, have been transferred to RWFA. This action did not require any new or amended agreements between the borrowers and the agency. In addition, Kentucky law allows for participants in RWFA's program to come from all 50 states. RWFA management is exploring transactions outside of Kentucky that would expand and diversify the program over time.

Outlook

The stable outlook reflects our view that overcollateralization will remain commensurate with the rating and that other program features, especially the financial performance of the loan portfolio, will not deviate from historical trends and practices.

Downside scenario

If reserves become insufficient for the rating, or if any other program factors negatively affect the financial risk profiles, we could lower the rating. We are also focused on loan delinquencies as a potential downside risk, particularly if reserves are not large enough to absorb losses during a period of stress.

Upside scenario

Conversely, if our view of the financial profile and LCS improves, without deterioration of any other significant credit factor, we could raise the rating if the program maintained its enterprise risk factors.

Credit Opinion

Enterprise risk--Very strong

We view the program's enterprise risk profile as very strong. This is due to a combination of a low industry risk profile for municipal pools and our view of the program's market position as strong. RWFA is an interlocal agency established under Kentucky law and is governed by a nine-member board. The agency's board members are the same as the members of KRWFC's board. The Kentucky Rural Water Assn. (KRWA) acts as the financing program sponsor. KRWA is a statewide association, offering membership to water and wastewater utilities throughout Kentucky, with more than 300 voting members.

Financial risk--Very strong

We view the program's financial risk profile as very strong, reflecting a combination of the strong LCS and the corporation's generally strong historical operating performance and management policies. Overcollateralization includes annual revenue from pledged administrative fees, excess cash held in miscellaneous funds, and approximately $24.3 million in DSR investments. 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. Overcollateralization arising from the DSR, principal and interest, 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 the pool rating. Our LCS applies credit default stress to loan repayments and measures the required draws on DSR principal and other reserves. Accordingly, the scenario envisions that the pool's reserve interest earnings could be reduced in line with the modeled reduction in available DSR principal balances. For the RWFA pool, if a DSR draw occurs, participants must repay it within one year. As further protection, participants must agree to set rates sufficient to provide 1.2x maximum annual debt service coverage on all system obligations.

Program reserves include municipal bonds rated at least 'AA-', guaranteed investment contracts (GIC), delivery agreements (FDA), and accrued cash balance amounts. Termination, collateral, and substitution requirements are in effect for both GIC and FDA investment providers.

We view the program's financial policies and practices as ranging from adequate to strong. 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 require all participants to submit annual financial statements. Loan payments in the majority of cases are made monthly, with funds on hand at least 30 days before 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 reports no loan defaults or delinquent payments since the program's 2001 inception.

Related Research

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