

# MOODY'S

## INVESTORS SERVICE

### **New Issue: Moody's assigns Aaa to \$358M Water Infrastructure Finance Authority of Arizona's Water Quality Revenue Refunding Bonds, Series 2014A; outlook is stable**

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Global Credit Research - 21 Oct 2014

ARIZONA WATER INFRASTRUCTURE FINANCE AUTHORITY  
State Revolving Funds  
AZ

#### Moody's Rating

ISSUE	RATING
Water Quality Revenue Refunding Bonds, Series 2014A	Aaa
<b>Sale Amount</b>	\$357,030,000
<b>Expected Sale Date</b>	11/08/14
<b>Rating Description</b>	Revenue: Pool

**Moody's Outlook** STA

#### Opinion

NEW YORK, October 21, 2014 --Moody's Investors Service, ("Moody's") has assigned Aaa to approximately \$358 million of Water Infrastructure Finance Authority of Arizona's (WIFA) Water Quality Revenue Refunding Bonds, Series 2014A. Moody's is also affirming the Aaa ratings on WIFA's \$760 million outstanding water quality revenue debt. The outlook is stable.

#### RATING RATIONALE

The Aaa ratings are based on the significant over-collateralization of program assets which allow for high default tolerance levels of the combined wastewater and drinking water programs and sufficient revenues to pay timely debt service. Further supporting the rating is the program's strong governance and management of the pledged loan portfolio which exhibits sound credit quality.

#### STRENGTHS

\*Program structure provides significant over-collateralization of assets to debt: projected to be 1.89x after refunding

\*High default tolerance: a significant amount but unlikely 46% of the loans could default through final maturity of the bonds and the program would have sufficient financial resources to pay debt service

\*Strong management of a pledged loan portfolio with a weighted average credit quality in the A-range

#### CHALLENGES

\*Relatively smaller pledged loan pool of less than 90 unique borrowers with 41% of total loans outstanding to the top 5 borrowers; high default tolerance of the program mitigates this risk

#### DETAILED CREDIT DISCUSSION

**USE OF PROCEEDS:** The Series 2014A Bonds will be issued to (i) refund portions of WIFA's Outstanding Bonds And (ii) pay a portion of the costs of issuance.

**LEGAL SECURITY:** Loan repayments pledged under the Master Trust Indenture, dated as of September 1, 1999, money held in the reserve accounts, and interest earnings.

INTEREST RATE DERIVATIVES: None

#### PROGRAM STRUCTURE AND DEFAULT TOLERANCE

The bonds are secured and cross-collateralized by repayments of qualified, pledged loans made from bond proceeds, federal capitalization grants received by WIFA under the Clean Water and Drinking Water programs, and state matching funds. As of October 1, 2014, the assets securing the program include \$1.1 billion in qualifying loans, \$215 million of funds in the Financial Assistance Accounts and program accounts, and \$83 million in debt service reserve funds. Following the refunding and defeasance of certain bonds in connection with the issuance, the program is projected to exhibit 1.89x over-collateralization.

Cash flows demonstrate strong minimum debt service coverage of 1.29x assuming 0% reinvestment earnings on any funds not invested with guaranteed investment contract providers. The program can sustain a substantial but unlikely loan default rate of 46% and still meet bond debt service obligations through final maturity of the bonds. The default tolerance calculations includes only qualified and pledged loan repayments and the drawdown of approximately \$83 million in debt service reserve funds.

#### BORROWER LOAN PORTFOLIO

A key element of the rating assessment is the size and credit quality of the portfolio of loans held by WIFA. Loans to 87 unique borrowers totaling \$1.1 billion are pledged to the bonds. The largest participant is the City of Lake Havasu (23% of aggregate pledged loans). The top 5 borrowers comprise 41% of the aggregate pledged loans outstanding. Although somewhat concentrated, the credit quality of the loan pool in the A-range, and high default tolerance help mitigate this concern.

#### STRONG MANAGEMENT AND GOVERNANCE

WIFA is managed by a Board whose members originate from various state departments and municipalities. It completes an extensive technical, managerial and financial review of borrowers before originating loans and also completes an annual review of loans, during which it assesses loan performance in order to confirm proper loan categorization. Proactive monitoring of the loans provides additional strength to the credit.

#### Outlook

The stable outlook reflects Moody's expectation that the program will continue to have a portfolio of pledged loans that will exhibit similar credit quality and that currently strong coverage levels will be maintained.

#### What Could Change the Rating Up

Not applicable.

#### What Could Change the Rating Down

Deterioration in the credit quality of the loan pool or counterparties.

#### KEY STATISTICS:

Fund Structure: cash flow

Source of Bond Repayment: loan repayments and interest earnings on reserves

Minimum Debt Service Coverage: 1.29x

Default Tolerance: 46%

Number of Unique Borrowers: 87

Portfolio Credit Quality: A-range

Percentage of Top 5 Borrowers: 41%

Largest Borrower: City of Lake Havasu with 23% of loans outstanding

Outstanding Loans: \$1.054 billion

Rated Debt (After Refunding): \$716.2 million

#### METHODOLOGY

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in March 2013. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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