

# RatingsDirect®

---

**Summary:**

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

**Primary Credit Analyst:**

Peter V Murphy, New York + 1 (212) 438 2065; peter.murphy@spglobal.com

**Secondary Contact:**

John Kennedy, CFA, Chicago +1 (312) 233 7088; john.kennedy@spglobal.com

### Table Of Contents

---

Credit Highlights

Outlook

Credit Opinion

Credit Snapshot

## Summary:

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

### Credit Profile

US\$1.975 mil public proj rev bnds ser 2024E due 08/01/2039

<i>Long Term Rating</i>	AA-/Stable	New
-------------------------	------------	-----

Rural Water Fincg Agy

<i>Long Term Rating</i>	AA-/Stable	Affirmed
-------------------------	------------	----------

### Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the Rural Water Financing Agency (RWFA), Ky.'s \$1.975 million series 2024E 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. The 2024E bond issuance will benefit the City of Stanford. Debt service payments are secured by aggregate borrower pool repayments and a debt service reserve fund, the latter including maturing investments and associated earnings.

Currently, there are approximately \$228 million in bonds outstanding, \$202 million in pledged loans, and 96 program participants under the agency's flexible term program.

The 2024E bond issuance is the fifth 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. Series 2024E bond proceeds will be used to finance the assistance agreements with the City of Stanford in support of water and sewer capital projects.

### Credit overview

We assessed RWFA's enterprise risk profile as very strong, based on the agency's strong market position, and because 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 KRWFC'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.

The rating reflects our view of the program's:

- Program administration, in which a governmental entity works with its governing body to address Kentucky public agency policy initiatives to provide cost-effective financing for local entities;
- Overcollateralization, which is capable of withstanding S&P Global Ratings' loss coverage scenario, based on the credit quality of the asset pool and consolidated cash flows, run at our 'A' category stress level;
- Strong operating performance, with no borrower defaults or delinquencies; and
- Generally strong financial management policies and conditions.

## 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 profile, 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, and the program maintains its enterprise risk factors, we could raise the rating.

## 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, that is governed by a nine-member board. The agency's board members are the same as the members of KRWFC's board, with one exception. 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. RWFA provides financing to entities inside, and increasingly outside, the Commonwealth of Kentucky. We believe these factors suggest a moderate level of state support with some possibility of fluctuations in program demand.

**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 \$25.9 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 (GICs), forward delivery agreements (FDAs), 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, 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 of 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.

## Credit Snapshot

- Program description: RWFA is an interlocal public agency established under Kentucky law, designed to allow participants of the agency to join together for the purposes of financing water and wastewater projects on a pooled basis. Kentucky law allows for agency participants to come from all 50 states, as long as they are legally permitted. The agency was created by Kentucky public agencies with the assistance of the Kentucky Rural Water Assn. The KRWA is a related entity providing technical assistance, but does not actually make the loans or engage in financing. KRWA is a statewide association that offers membership to all water and wastewater utilities in Kentucky.
- Flow of funds: 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.

## Ratings Detail (As Of September 16, 2024)

Rural Water Financing Agency pub proj rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rural Water Fincg Agy (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

Copyright © 2024 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

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.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.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.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

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