S&P Global Ratings

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Summary:

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

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Credit Profile		
US$1.69 mil pub proj rev bnds (Flexible Term Prog) ser 2022C due 08/01/2037		
Long Term Rating	A+/Stable	New
Kentucky Rural Wtr Fin Corp (Flexible Term Prog)		
Long Term Rating	A+/Stable	Affirmed
Kentucky Rural Wtr Fin Corp (Flexible Term Prog) (MBIA) (National)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

- S&P Global Ratings assigned its 'A+' long-term rating to Kentucky Rural Water Finance Corp.'s (KRWFC) anticipated $1.7 million series 2022C public projects revenue bonds (flexible term program).
- S&P Global Ratings also affirmed its 'A+' rating on the corporation's previously issued public project debt.
- The outlook is stable.

Security

This issuance will benefit the Caveland Environmental Authority and the City of Vine Grove. Debt service payments are secured by aggregate borrower pool repayments and a reserve fund, the latter including maturing investments and associated earnings. Following this issuance, there will be approximately $227 million in bonds outstanding, $192 million in pledged loans, and 98 program participants.

Credit overview

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

Outlook

The stable outlook reflects our view that overcollateralization 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 negatively affect the enterprise or 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 stress period.

Upside scenario

Conversely, if our view of the financial or enterprise risk profiles becomes more positive, we could raise the rating. Absent changes to program operations or structure, increased overcollateralization stemming from non-debt-funded reserves or other available resources could lead to an upgrade.

Credit Opinion

Enterprise risk

We view the program's enterprise risk profile as 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 adequate. KRWFC is a public nonstock and nonprofit corporation governed by a 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

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. Overcollateralization includes annual revenue from pledged administrative fees, excess cash held in miscellaneous funds, and approximately $23 million in debt service reserve (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, 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 revenue over a five-year period. 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 with Mass Mutual and Wells Fargo Bank as counterparties, and 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. In addition, $600,000 in Federal Deposit Insurance Corp.-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 through a loan from KRWA, and KRWA has 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 require 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 reports no loan defaults or delinquent payments since the program's 2001 inception.