

Standard & Poor's Ratings Services has assigned its 'AAA' rating to the Illinois Finance Authority's (IFA) series 2016 state of Illinois clean water initiative revolving fund revenue bonds. We have also affirmed the 'AAA' rating on the authority's existing series 2013 revolving fund revenue bonds. The outlook is stable.

The rating reflects our assessment of the following credit characteristics:

- An extremely strong enterprise risk profile, given that the program has ongoing support from multiple levels of government, and a governmental entity manages the program; and
- An extremely strong financial risk profile, reflecting the loss coverage score, operating performance, and financial policies.

Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

IFA is issuing the revolving fund bonds pursuant to a master trust agreement related to the state's clean and drinking water state revolving fund programs (SRFs). Security for the series bonds is a pledge of revenues collected pursuant to the master trust, which includes pledged loan repayments and investment income earned from the various pledged funds and accounts. The bonds are comprised of four portions, as allowed for under the master trust agreement: a state match clean water SRF portion, a state match drinking water SRF portion, a leveraged clean water SRF portion, and a leveraged drinking water SRF portion. The clean water and drinking water funds are fully cross-collateralized through the use of a pledged equity fund in which all excess revenues are deposited. The only qualification for cross-collateralization is that only interest earnings from loan repayments can be used to repay state match portions of the bonds. There currently is no reserve fund pledged to the bonds.

We view the enterprise risk profile of the program as extremely strong. This is due to a combination of the low industry risk profile for municipal pools and the program's market position, which we consider extremely strong. IFA is a body politic (civil division) and corporate (legal entity) of the state of Illinois. The legislature created the clean and drinking water programs by statute for administering the SRF programs. The SRF programs receive federal equity support through capitalization grants and IFA is using bond proceeds to fund its state match.

We view the financial risk profile of the program as extremely strong, reflecting the combination of the loss coverage score, historical operating performance, and management policies. Excess loan repayments and interest earnings above annual debt service results in overcollateralization. When looking at the clean and drinking water program cash flows separately, coverage of debt service from loan repayments at each semiannual bond payment date is structured to be at least 1.1x (drinking water) and 1.9x (clean water) on the state match portion of the bonds and no less than 1.3x (drinking water) and 3.2x (clean water) on the leveraged portion of the bonds. When combining the cash flows for both programs, loan repayments cover state match and leveraged semiannual debt service by at least 1.3x and 2.8x, respectively. These cash flow characteristics

lead to an extremely strong loss coverage score under our default tolerance tests, which includes the effects of the largest obligor test, which the program passes.

Averaging all of the financial policies and practices, we view the corpus of these as generally good. Management performs credit reviews for all new loans but does not require borrowers to submit annual financial statements. However, selective review on certain borrowers is done annually. Loan repayments are made throughout the year, while debt service is due semiannually; this minimizes the possibility of cash-flow deficiencies that could occur just prior to debt service payment dates. The Illinois Environmental Protection Agency (IEPA) develops the intended use plan and project priority list, and updates both annually. Management invests its cash in compliance with the master trust agreement, and receives monthly investment reports.

Management has indicated that there have been no delinquent or defaulting pledged loans throughout the history of the SRF program. After the 2016 bonds are issued, there will be \$2.2 billion of pledged loans and \$587 million of bonds outstanding. The aggregate clean and drinking water portfolio has about 400 borrowers, with the outstanding total loan balance for the top five borrowers representing 38% of all pledged loans; the largest participant is Metropolitan Water Reclamation District of Greater Chicago (\$563 million of loans).

Based on these enterprise and financial risk profiles, we rate the bonds 'AAA'.

Outlook

The stable outlook is based on our expectation that the enterprise and financial risk profiles will remain the same over the two-year outlook horizon.

Downside scenario

If the authority leverages the program further and does not provide sufficient overcollateralization that we view as consistent with an extremely strong loss coverage score, it could pressure the rating. However, given the significant levels of overcollateralization, we do not believe the rating would be pressured in the near term.