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Massachusetts State College Building Authority Bonds Rating Raised To 'AA' From 'AA-' On Credit Profile Of State

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NEW YORK (Standard & Poor's) Nov. 30, 2011--Standard & Poor's Ratings Services raised its rating on various Massachusetts State College Building Authority's (MSCBA) bonds to 'AA' from 'AA-'. The bonds are covered by the credit enhancement provided by the statutory state aid intercept. The outlook is stable.

"We base the upgrade on the Commonwealth of Massachusetts' improved credit profile and what we view as statutory changes that have strengthened the intercept structure," said Standard & Poor's credit analyst Robin Prunty.

At the same time, Standard & Poor's assigned its 'AA' long-term rating, and stable outlook, to MSCBA's \$159.5 million series 2012A project revenue bonds, and \$75 million series 2012B refunding revenue bonds. Standard & Poor's also affirmed its 'A+' issuer credit rating (ICR) on the authority's debt outstanding, based on the pledge of project revenues (rent, fees, charges) from the state universities to MSCBA. In addition, Standard & Poor's affirmed its 'AA+' rating on the bonds guaranteed by the commonwealth (see the recent report on Massachusetts published Sept. 20, 2011, on RatingsDirect on the Global Credit Portal).

Key credit factors supporting the 'AA' rating based on the statutory aid intercept include what we view as:

- A clearly defined notification requirement to the commonwealth regarding sufficiency of funds to cover debt service well in advance of debt service payment dates;

- A requirement of the state comptroller to transfer funds to cover any identified insufficiency from state appropriations within five days; this transfer is not subject to allotment;
- Strong coverage of debt service by state appropriations with appropriations to all state universities now available to fund debt service following statutory changes in 2011; and
- A strong history of state support over time.

The 'A+' ICR rating reflects what we consider:

- MSCBA's strong oversight of projects at each state university;
- The revenue-producing nature of the projects funded by the debt and good flexibility for setting rents and other rates;
- Strong coverage levels and maintenance of reserve funds supporting debt outstanding;
- Solid demand and enrollment for state universities and high occupancy rates for MSCBA-supported residential halls; and
- Relatively stable support from Massachusetts for state universities.

An offsetting factor in Standard & Poor's opinion is an increased debt burden and continuing demand for additional residential and auxiliary facilities by the state university system.

MSCBA will use the series 2012A bond proceeds to finance various campus capital projects. We understand the series 2012B bonds will refund certain maturities outstanding for interest cost savings depending on market conditions at the time of pricing. Total debt outstanding before this issuance is \$840.7 million; \$34.2 million is guaranteed by Massachusetts. All debt issued by the authority is fixed rate.

The bonds are secured and payable in the first instance by project revenues (all payments of fees, rents, rates, and other charges for the use and occupancy of any projects and for the services and facilities they provide). Further securing the bonds are an operating reserve fund, a capital improvement reserve fund, a multipurpose reserve fund, and a debt service reserve fund. The intercept of state aid is available annually to fund debt service payments if project revenues are insufficient but this has never been used.

The stable outlook reflects our view of the strength of the intercept structure and our expectation of more-than-sufficient state appropriations to cover debt service requirements over the two-year outlook horizon. Were appropriations to decline, leading to coverage deterioration, the rating could be pressured. A higher rating is precluded due to the current rating on Massachusetts.

The outlook on the ICR reflects Standard & Poor's expectation that MSCBA will continue to monitor future and outstanding projects, rents will be sufficient to cover debt service, and demand will remain strong for MSCBA projects over the two-year outlook horizon. A sharp decline in revenue that diminishes flexibility and leads to deteriorating debt service coverage could pressure

the rating. Steady progress in funding capital requirements while maintaining strong demand and coverage levels could lead to a higher rating.

RELATED CRITERIA AND RESEARCH

- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Higher Education, June 19, 2007

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