MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Massachusetts State College Building Authority

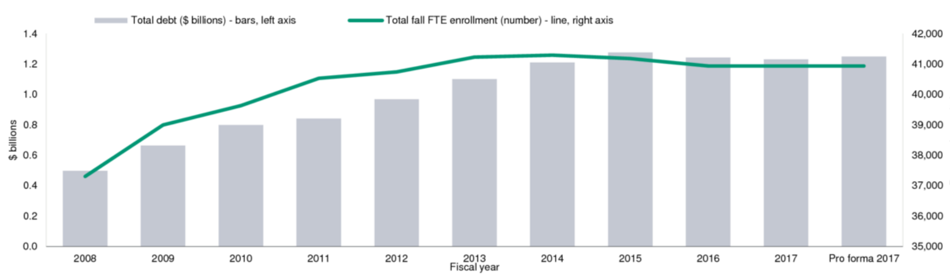
New Issue - Moody's assigns Aa2 to Massachusetts State College Building Authority series 2017B,C&D; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Massachusetts State College Building Authority's (MSCBA) planned $10.4 million in fixed rate Project Revenue Bonds, Series 2017B (maturing in 2038), $7.6 million in fixed rate Project Revenue Bonds, Series 2017C (Federally Taxable, maturing in 2038), and $63.2 million in fixed rate Refunding Revenue Bonds, Series 2017D (maturing in 2040). MSCBA has outstanding $1.3 billion of parity rated revenue bonds. The outlook is stable.

The Aa2 rating reflects MSCBA's role as a component unit of the Commonwealth of Massachusetts (Aa1 stable) to design and construct auxiliary facilities across the nine-member Massachusetts State University System, with aggregate full-time equivalent (FTE) enrollment of nearly 41,000. Strong oversight and solid operating performance of the projects is strengthened by the presence of an aggregate state appropriation intercept mechanism, a debt service reserve fund, and additional available reserves. Offsetting challenges include high leverage, with stagnating enrollment trends and student affordability concerns limiting growth in student charges.

Exhibit 1
Slower new debt issuance with lagging enrollment growth



FTE enrollment in for fall 2017 and pro forma 2017 uses fall 2016 as a proxy.
Source: Moody's Investors Service

Credit Strengths

» Projects across nine Massachusetts public universities, with total FTE of nearly 41,000 and high aggregate 98.4% occupancy in the student housing

» Project-generated revenue providing sufficient income to cover debt service without a need to use the intercept mechanism, debt service reserve fund or reserves to pay debt service to-date

» Strong management oversight of the development, construction and maintenance of the bond-financed auxiliary facilities

» Close ties with the state, as MSCBA is a component unit of the Commonwealth of Massachusetts

Credit Challenges

» High leverage reflecting significant past capital investments across the campuses ($1.3 billion of MSCBA debt)

» Flat to declining demographic projections for the number of high school graduates in Massachusetts, the universities' high reliance on in-state students, and a highly competitive higher education market in the Northeast

» Ongoing pricing sensitivity and focus on affordability limiting public universities from significantly growing student charges

Rating Outlook

The stable outlook is based on our expectation that pledged revenue will remain sufficient to pay debt service due to strong student demand for the bond-financed facilities and high aggregate occupancy levels. We also expect that the commonwealth appropriations to the nine state universities will remain at least sufficient to cover debt service in the event of a revenue shortfall.

Factors that Could Lead to an Upgrade

» Significant growth and diversification of pledged revenues, providing stronger debt service coverage

» Additional unrestricted liquidity under the control of MSCBA

Factors that Could Lead to a Downgrade

» Sustained decline in enrollment across the campuses or reduced occupancy in the facilities and weakening of debt service coverage

» Decline in credit quality of the Commonwealth

» Material reduction in state appropriations

Key Indicators

Exhibit 2

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY, MA	2013	2014	2015	2016	2017	Pro Forma 2017
Total Fall FTE Enrollment	41,227	41,293	41,182	40,938	n.a.	n.a.
Total Debt ($000)	1,100,826	1,209,858	1,276,788	1,242,771	1,230,613	1,248,613
Occupany Rates at MSCBA Facilities	101.0	99.1	97.5	97.9	95.8	97.2
State Appropriations, Aggregate ($000)	191,785	229,294	229,694	240,110	248,066	250,257

Pro forma 2017 reflects fiscal 2017 data with proposed new money issue of approximately $18 million; fall 2017 FTE data available in January 2018; aggregate occupancy rates for fall semesters; and combined state appropriations for the nine MSCBA institutions.
Source: Moody's Investors Service

Detailed Rating Considerations

Market Profile: Large aggregate student base

The credit strength of the state universities in the program and the essentiality of and strong demand for the auxiliary services to the campuses are key factors supporting the Aa2 rating. All nine campuses host revenue-producing projects financed under this program. These institutions comprise an important sector of the Massachusetts higher education system and enrolled in aggregate an estimated 41,000 full-time equivalent (FTE) students in fall 2017 (roughly 51,000 headcount).

Universities within the authority's oversight will remain challenged by the demographic forecasts for the number of future high school graduates in Massachusetts, as well as the very competitive higher education market. Aggregate undergraduate enrollment declined modestly across the nine universities in fall 2016 and is estimated to be similar for fall 2017, reflecting regional demographic trends.

The state universities, similar to most public universities across the US, will be challenged to adjust to longer-term slowed pace of revenue growth, including heightened public and political price sensitivity to increases in tuition, room, and board charges. Combined tuition and fee charges at the state universities have had steady increases, with the academic year 2017 combined student charges up 4% over the prior year.

Operating Performance: Pledged revenues adequately cover debt service

Net revenue generated by the projects is expected to continue to be sufficient to cover annual debt service. Favorably, to date, MSCBA has not relied on the debt service reserve fund, available reserves, or the intercept mechanism to pay debt service. Based on MSCBA's careful attention to ongoing renovations and maintenance of attractive, well-used facilities, we expect continued good net revenue generation and occupancy.

The authority's debt-financed student housing on these state university campuses provided capacity of 16,971 beds in fall 2017, housing roughly half of the aggregate undergraduate student population. Occupancy in the authority's residential facilities is high, with the aggregate occupancy at 97.2% for fall 2017. The authority budgets for an aggregate occupancy of 97.5%.

Wealth and Liquidity: Ample reserves from MSCBA and universities

Multiple reserve funds add credit stability for debt service and plant reinvestment support. Required reserves are held either directly by the authority ($23 million at fiscal end 2017 and projected $32.6 million for fiscal 2018) or by the individual institutions ($46.7 million in fiscal 2017 and $45.4 million for fiscal 2018). Another $87 million includes an aggregate debt service reserve fund, bringing total fiscal 2017 reserves to $157 million and projected fiscal 2018 reserves to $164 million, well above the maximum annual debt service total of $104.8 million.

LIQUIDITY

MSCBAs cash and investments are very liquid, including cash and fixed income securities (such as checking and deposit accounts, money market funds, US treasuries and agencies, commercial paper, and bonds).

Leverage: Comparatively high leverage; new financings are slowing

Debt issued by MSCBA on behalf of the nine public universities is high with $1.3 billion of pro-forma debt. Following a capital-intensive, multi-year period, capital spending across the system has slowed significantly, as demonstrated by the current issuance of a modest $18 million. Management reports that while there are currently no concrete plans to add new beds to the system, the Massachusetts Maritime Academy is considering an addition of 150-180 beds due to high utilization rates. The Aa2 rating heavily incorporates an expectation that the pace of new money borrowing will remain low in coming years.

The authority receives approval to support projects on Massachusetts community college campuses. The most recent issue was in fiscal 2017. These bonds, currently outstanding in the amount of $5.7 million are backed by auxiliary revenue, reserves, and an intercept of appropriations of only that one community college. The community college debt does not have any claim on the revenue or reserves of the nine state universities.

DEBT STRUCTURE

All of MSCBAs debt is fixed-rate which aids budgeting and provides for predictable annual debt service.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The authority does not have its own post-retirement health plan but makes contributions to the Commonwealth's cost-sharing multi-employer post-employment healthcare plan. In FY 2015, MSCBA and the state universities recognized net pension liabilities with the implementation of GASB 68. The MSCBA recognized a modest $3.6 million net pension liability on its balance sheet at fiscal end 2017.

Governance and Management: Strong stewardship by stable leadership and sound commonwealth oversight

MSCBA's strong management and oversight of capital project development, construction, and delivery are key credit strengths. The small, although stable, staff has a good track record of delivering projects on time and within budget. Over the past decade, MSCBA has been successful in reducing deferred maintenance needs, favorably positioning itself to meet annual investment through current year revenue. The careful planning process and investment in facilities has contributed to stronger student demand for MSCBA facilities as evidenced by high occupancy levels.

State oversight of the capital program is bolstered by the authority being required to receive project approvals from the Board of Higher Education and the Secretary of the Executive Office for Administration and Finance of the Commonwealth to issue debt for projects at the state universities. The Authority is governed by a nine-member Board that is appointed by the Governor, further strengthening government linkages.

Legal Security

Pledged revenues and required reserve funds, in addition to the state appropriation intercept program provide solid support for the bonds. MSCBA maintains a contract with the State Board of Higher Education which empowers the authority to commit the nine state universities to payment of debt service. The authority sets fees and rates for sufficient debt service coverage on each project.

Each university is further required to set aside 25% of its average annual aggregate debt service costs in a Pledged Trust Fund to cover any deficiencies of project revenue for debt service. The pledged trust funds and residence hall trust funds are held by each campus. As of June 30, 2017, aggregate pledged funds and residence hall trust funds totaled $23.4 million and $23.3 million, respectively.

Reserve strengthen will weaken when a joint debt service reserve fund (DSRF) requirement phases out over the next few years. However, favorably, the use of the roughly $86 million balance will be used for bond redemptions or direct capital investment.

The state appropriation intercept mechanism could be accessed for payment of debt service or replenishment of the joint debt service reserve fund. The authority is required to report on the sufficiency of available funds to pay debt service on its outstanding debt to the Board of Higher Education (BHE) and the state comptroller no later than September 30, in the case of debt service payments due November 1, and no later than January 31, in the case of debt service payments due May 1. Cross-collateralization of state intercept funds to cure any deficiency further strengthens the intercept provision. Should there be an insufficiency for debt service, the state comptroller transfers amounts from all state universities appropriation accounts (on a pro-rata basis, based on each university's amount of outstanding debt) to cure the shortfall within five days, but in any event no later than the applicable deposit date (October

10 for the November 1 debt service payment and the last business day of February for the May 1 debt service payment). Fiscal 2018 appropriations are budgeted at $250 million.

Use of Proceeds

Proceeds of the planned series 2017B, 2017C and 2017D bonds are expected to be used for residence hall projects at Bridgewater State and Fitchburg State; student activity-related projects at Mass College of Art and Design and Framingham State; to refund certain outstanding issues for interest rate savings; and to pay costs of issuance.

Obligor Profile

MSCBA is a component unit of the Commonwealth of Massachusetts and is empowered to design and construct auxiliary facility projects (such as housing, parking, and student activity centers) across the nine state public universities (Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State (rated A2) Universities, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design, and Massachusetts Maritime Academy) as well as the state community colleges.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. The additional methodologies used in this rating were U.S. Municipal Pool Program Debt published in March 2013 and State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 3

Massachusetts State College Bldg. Auth., MA

Issue	Rating
Project Revenue Bonds, Series 2017B	Aa2
Rating Type	Underlying LT
Sale Amount	$10,395,000
Expected Sale Date	12/11/2017
Rating Description	Revenue: Public University Broad Pledge
Project Revenue Bonds, Series 2017C (Federally Taxable)	Aa2
Rating Type	Underlying LT
Sale Amount	$7,570,000
Expected Sale Date	12/11/2017
Rating Description	Revenue: Public University Broad Pledge
Refunding Revenue Bonds, Series 2017D	Aa2
Rating Type	Underlying LT
Sale Amount	$63,175,000
Expected Sale Date	12/11/2017
Rating Description	Revenue: Public University Broad Pledge

Source: Moody's Investors Service

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