S&P Global
Ratings

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Summary:

Massachusetts State College Building Authority; Miscellaneous Tax; School State Program

Primary Credit Analyst:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Secondary Contact:
Timothy W Little, New York (212) 438-7999; timothy.little@spglobal.com

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Credit Profile		
US$62.42 mil rfdg rev bnds ser 2017D due 05/01/2040		
Long Term Rating	AA-/Stable	New
US$10.245 mil project rev bnds ser 2017B due 05/01/2038		
Long Term Rating	AA-/Stable	New
US$7.585 mil project rev bnds (Federally Taxable) ser 2017C due 05/01/2038		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to the Massachusetts State College Building Authority's (MSCBA) series 2017B project revenue bonds, series 2017C (federally taxable) project revenue bonds, and series 2017D refunding revenue bonds, reflecting the credit enhancement provided by a statutory state aid intercept. At the same time, S&P Global Ratings affirmed its 'AA-' long-term intercept program rating on the MSCBA's $1.23 billion parity debt outstanding. The outlook is stable.

We base our 'AA-' rating on the MSCBA on the Commonwealth of Massachusetts' credit profile (general obligation rating: AA/Stable) as well as the state aid intercept structure, which supports the MSCBA's 2017B, 2017C, and 2017D bonds and outstanding parity bonds.

Key credit factors supporting the 'AA-' rating based on the statutory aid intercept include:

- A clearly defined, in our view, 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;
- What we consider strong debt service coverage (DSC) by state appropriations, with appropriations to all state universities available to fund debt service following statutory changes in 2011; and
- A strong history of state support over time.

We understand that the MSCBA will use the series 2017B and 2017C bonds to finance various capital projects on state college campuses, while series 2017D bond proceeds will advance-refund certain bonds.

The bonds are secured and payable in the first instance by project revenues (gross revenues from payments of fees, rents, rates, and other charges for the use and occupancy of any projects and for the services and facilities they provide). The payments from the state universities are paid to the trustee semiannually, about a month after final room payments are due and at least a month before debt service on authority bonds is due. Further securing the bonds are multiple reserve funds, including a debt service reserve (DSR) fund, which is an aggregate reserve for all parity bonds outstanding, and is likely to be eliminated following an expected change in the trust agreement on majority bondholder approval. Before this refunding, the aggregate DSR fund was estimated at $79.94 million, slightly above-average annual net debt service of $63.25 million, but below future maximum annual debt service (MADS) of $104.8 million. In addition, each state university maintains a trust fund that is pledged in support of 25% of the average annual principal and interest due on bonds outstanding; the trust funds are pledged to secure only indebtedness incurred on behalf of the applicable state university. The flow of funds is closed and the remaining revenues after all bond funds are paid are retained in the revenue fund.

Although project revenues are pledged, we base our 'AA-' rating on the strength of the state aid intercept structure. If project revenues are insufficient, state aid to the universities can be intercepted for debt service payments, although this intercept has never been used. Based on fiscal 2017 interceptable commonwealth appropriations to the state universities of $248.07 million, we calculate 2.37x pro forma coverage of MADS under the intercept program, which we consider strong.

The supplemental trust agreement for this new issue continues recent voted changes to bond provisions outstanding, although we do not consider them to materially weaken the credit quality of the proposed debt or parity debt outstanding. The first change is that the DSR fund will be eliminated for the new and parity debt outstanding once more than half of parity bondholders approve, which we expect to be accomplished over time as additional parity debt is issued and purchasing underwriters vote to approve the changes. We understand that once more than 50% of bondholders approve the elimination of the DSR (through the issuance of new debt, including refunding debt, or agreements with existing bondholders), the MSCBA plans to pay down debt with existing reserves at that time. Due to the stable timing and coverage provided by the pledged revenues, and the proposed pay down of debt, we do not consider the DSR elimination to be a significant deterioration of credit quality. The second change is an amendment to the permitted investments that will allow funds to be invested in the Massachusetts Municipal Depository Trust (MMDT), which is an investment pool for Massachusetts state and local governments. The MMDT offers two investment choices: a cash portfolio and a short-term bond portfolio. We do not believe this investment change is material to the MSBA rating.

Outlook

The stable outlook on the MSCBA reflects that on the Commonwealth of Massachusetts GO bond rating.

The stable outlook on Massachusetts reflects our view that its strong economic growth and proactive management will allow the commonwealth to continue to manage its budgetary pressures, even amid midyear budget shortfalls, albeit with some continued use of one-time measures to balance the budget. At the current rating level, we expect the commonwealth to maintain relatively stable, although somewhat limited, reserves. We further expect it to take measures to manage the impacts of potentially increased Medicaid costs should healthcare reform legislation negatively affect revenues.

Upside scenario

Should the commonwealth demonstrate a renewed commitment to building its reserves during periods of economic growth, absent rising long-term liability funding pressures, we could raise the rating.

Downside scenario

The rating could see further downward pressure if the commonwealth fails to maintain near-structural balance during periods of economic expansion. Among the factors that could further pressure the rating are increased Medicaid costs, reduced revenues due to income tax cyclicality, and growing fixed costs in excess of revenue growth leading to significant structural imbalance and greatly diminished reserves. Structural balance could also be pressured to the extent that Massachusetts fails to adhere to its current plan to increase annual pension contributions by 8.9% per year in order to amortize unfunded pension liabilities.

Ratings Detail (As Of December 8, 2017)		
Massachusetts St Coll Bldg Auth State Enhancement		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth MISCTAX		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth MISCTAX		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth MISCTAX		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth State Enhancement		
Underlying Rating for Credit Program	A+/Stable	Affirmed
Unenhanced Rating	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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.