S&P Global Ratings

RatingsDirect®

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, Chicago + 1 (312) 233-7052; timothy.little@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$52.44 mil rfdg rev bnds ser 2019B due 05/01/2041		
Long Term Rating	AA-/Stable	New
US$15.06 mil proj rev bnds ser 2019A due 05/01/2039		
Long Term Rating	AA-/Stable	New
Massachusetts St Coll Bldg Auth State Enhancement		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating on the Massachusetts State College Building Authority's (MSCBA) $15.6 million project revenue bonds, series 2019A, and $52.44 million refunding revenue bonds, series 2019B (federally taxable). S&P Global Ratings also affirmed its 'AA-' rating on $1.2 billion of MSCBA debt outstanding secured by a state aid intercept. The outlook on all ratings is stable.

We rate the bonds issued by the MSCBA one notch below our general obligation (GO; AA/Stable) rating on the Commonwealth of Massachusetts based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" and "State Credit Enhancement Programs" (published Jan. 22, 2018, and Nov. 13, 2008, respectively), reflecting the commonwealth's commitment to pay debt service on behalf of eligible participants through a statutory aid intercept. Payment of debt service from interceptable appropriations is not subject to allotment risk, however, because support of debt service for these obligations is conditional upon the legislature appropriating sufficient funds to state colleges and universities to intercept. The bond agreements do not specify whether there would be any additional general fund support from the state beyond the initial state appropriation to the colleges and universities. In addition, although we consider late budget adoption risk mitigated, given that debt service payments do not fall early in the state's fiscal year, there are some risks related to the efficacy of the program in the event of a prolonged late budget scenario. Nevertheless, we consider the commonwealth involvement, the intended payment source, and political and administrative support to be strong. The enhanced rating on the MSCBA bonds moves in tandem with the GO rating of the commonwealth.

Additional factors supporting the rating 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 legally available appropriations within five days; this transfer is not subject to allotment; and

- A strong history of state support over time.

MSCBA bonds are secured and payable in the first instance from project revenues (gross revenues from payments of fees, rents, rates, and other charges for the use and occupancy of any financed projects, such as dormitories, 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 one month before debt service on authority bonds is due.

Although project revenues are pledged, we base the 'AA-' long-term 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 needed to be used historically. Notably, full support for debt service under the intercept program is conditional on there being sufficient interceptable appropriations made to state colleges and universities. Based on recent figures, however, we consider there to be ample funds under the intercept program to cover any deficiencies. We calculate interceptable commonwealth appropriations to state colleges and universities of $250.3 million in fiscal 2018 will cover future maximum annual debt service (MADS) after the sale of the 2019A and B bonds by 2.36x, which we consider strong. We also calculate budgeted fiscal 2019 appropriations to the state colleges and universities of $260.1 million will cover MADS by 2.46x.

The state aid intercept has been in place since 1998, but in our view statutory changes have enhanced the timing, notification, and mechanics of the program. There is now a statutory requirement for the MSCBA to report to the trustees and the state comptroller on the sufficiency of available funds pledged by the state colleges to pay debt service. This reporting must be done by Sept. 30, and Jan. 31, well in advance of the debt service payment dates scheduled for Nov. 1, and May 1. If the report is not received, the comptroller is directed to prevent any amounts from being expended from the appropriation account of any state college until the comptroller has determined if there is an insufficiency.

Any identified insufficiency would require the comptroller to transfer funds from the appropriation account to cover debt service requirements. The statute was also amended to specify that any required transfers be disbursed, without further allotment, to the trustee under the trust agreement securing the bonds. The statute specifies that such amounts are to be transferred no later than the applicable date for debt service fund deposits required by the trust agreement.

Notably, appropriations from the commonwealth are not transferred directly to the universities. They are held by the comptroller and used to fund college employees' payroll and fringe benefits, which we believe makes the intercept easier to accomplish. In our opinion, there has been a high level of state support for the colleges over time despite some decline through the recent recession.

A statutory change in 2011 allowed state appropriations available to all universities in the system to be available to cover a debt service insufficiency at any one state college. The aggregate state appropriations provide ample coverage for all MSCBA debt. On average, the state colleges spend about half of their total state appropriations by the end of the first half of each fiscal year.

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 debt service reserve (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 bondholders for each new series of bonds are deemed to have voted to approve the changes under their respective supplemental trust agreements. We understand that once more than 50% of bondholders approve the elimination of the DSR (through the issuance of new debt for either capital or refunding purposes, or through 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 MSCBA rating.

(For more information on the creditworthiness of the commonwealth, please refer to the full analysis published Dec. 20, 2018, on RatingsDirect.)

Outlook

The stable outlook on the program rating reflects the outlook on the commonwealth GO rating. The rating on the program moves in tandem with the commonwealth GO rating.

The stable outlook on Massachusetts reflects our view that strong economic growth and proactive management will allow the commonwealth to continue to manage its budgetary pressures, even if potential midyear budget shortfalls develop in future fiscal years. At this point in the economic cycle and at the current rating level, we expect the commonwealth to modestly improve its budget stabilization fund (BSF) and maintain good balances to prepare for the next recession. Massachusetts budgeted for essentially breakeven financial operations in fiscal 2019, and we believe the current increase in projected fiscal year-end 2019 reserves is the result of unexpectedly strong revenues above budget. We expect the commonwealth to similarly aim for breakeven operations during our two-year outlook horizon, making midyear budget corrections should revenues turn downward, and to bank a portion of unexpected revenue windfalls in its BSF.

Upside scenario

Should the commonwealth make progress on its pension funding and set aside budget reserves during periods of economic growth as a matter of budgeted policy, and not cap or spend down reserves following unbudgeted revenue growth, as has happened in previous years, we could raise the rating or revise the outlook.

Downside scenario

The rating could see downward pressure if Massachusetts fails to maintain near-structural balance during periods of economic expansion. Among the factors that could further pressure the rating are Medicaid costs outpacing revenue growth, reduced revenues in recessions due to income tax cyclicality because of the above-average presence of high-tech sector employment, the economic impact of federal tax reform on high tax states, and growing state fixed costs in excess of revenue growth that might lead to significant structural imbalance and greatly diminished reserves. Structural balance could specifically be pressured to the extent that Massachusetts fails to adhere to its current plan to increase annual pension contributions by 8.9% per year to amortize unfunded pension liabilities or if this proves insufficient to keep Governmental Accounting Standards Board pension-funded ratios from materially declining.

Ratings Detail (As Of January 7, 2019)		
Massachusetts St Coll Bldg Auth project rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth project rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth rfdg rev bnds		
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.