

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's assigns enhanced Aa2 to Massachusetts State College Building Authority's (MA) Series 2019C and outstanding bonds; outlook stable**

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23 Oct 2019

New York, October 23, 2019 -- Moody's Investors Service has assigned an enhanced Aa2 rating to the Massachusetts State College Building Authority's (MSCBA) proposed approximately \$230 million Refunding Revenue Bonds Series 2019C (Federally Taxable), which will be fixed rate and maturing in 2043. At the same time we have assigned enhanced Aa2 ratings to the MSCBA's outstanding revenue bonds based on the Massachusetts State College Building Authority State University Intercept Program and withdrawn the Aa2 underlying ratings. This action affects \$1.2 billion in outstanding parity rated debt. The outlook for the enhanced rating is stable, reflecting the programmatic rating outlook which currently mirrors the outlook of the Commonwealth of Massachusetts (Aa1 stable). Moody's assigned the initial programmatic rating on October 18, 2019.

#### RATINGS RATIONALE

The Aa2 enhanced rating and stable outlook incorporates the program-level Aa2 rating and stable outlook of the Massachusetts State College Building Authority State University Intercept Program, which is notched off of the Commonwealth of Massachusetts' general obligation rating, as well as financing-level attributes related to sufficiency of the financing structure. The Aa2 rating for the financing-level rating is the same as the Aa2 programmatic rating due to the debt service coverage of interceptable revenues in excess of 100%, sufficient timing of state aid payments relative to debt service payments, and more than adequate notice for notice of shortfalls to the Board of Higher Education (BHE) and the state comptroller, to ensure timely state comptroller debt service transfers to the trustee.

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).

#### RATING OUTLOOK

The stable outlook on the enhanced rating reflects the outlook for the programmatic level rating which currently mirrors the outlook for the Commonwealth of Massachusetts

#### FACTORS THAT COULD LEAD TO AN UPGRADE

-Upgrade of the commonwealth or programmatic intercept rating

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

-Downgrade of the commonwealth or programmatic intercept rating

-Reduction in debt service coverage by interceptable funds

-Observation that the program does not function as contemplated

#### LEGAL SECURITY

Bonds are secured by a pledge of non-appropriated revenues and required reserve funds, in addition to the state appropriation intercept program. MSCBA maintains a contract with the Board of Higher Education (BHE), 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 additional residence hall trust funds are held by each campus. As of June 30, 2019, aggregate pledged funds

totaled \$23.5 million and as of June 30, 2018, residence hall trust funds totaled \$23.1 million.

In addition, there is a joint debt service reserve fund (DSRF) totaling \$83.7 million as of June 30, 2019. Reserves will weaken when a joint debt service reserve fund (DSRF) legal requirement phases out, which is estimated to occur by 2027.

The state appropriation intercept mechanism can 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 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 2019 actual appropriations totaled \$260.1 million and fiscal 2020 appropriations are budgeted at \$274.4 million, and cover fiscal 2020 debt service by 2.7x.

#### USE OF PROCEEDS

Proceeds of the Series 2019C bonds are expected to be used to refund all or portions of the Series 2012A and 2012B bonds, based on current market conditions, and to pay costs of issuance.

#### 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 (A2 stable) Universities, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design, and Massachusetts Maritime Academy). An aggregate full-time equivalent (FTE) enrollment of 41,000 students were enrolled among the MSCBA institutions as of fall 2018.

#### METHODOLOGY

The principal methodology used in these ratings was State Aid Intercept Programs and Financings published in December 2017. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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