

RatingsDirect®

Summary:

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

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Summary:

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Credit Profile

US\$18.12 mil proj rev bnds ser 2020A due 05/01/2050

Long Term Rating

AA-/Stable

New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Massachusetts State College Building Authority's (MSCBA) \$18.12 million project revenue bonds, series 2020A. 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" (published Nov. 20, 2019), reflecting the commonwealth's commitment to pay debt service on behalf of eligible participants through a statutory aid intercept.

We view Massachusetts' involvement funding the state colleges and universities within the intercept program as strong, state general fund appropriations as a strong intended payment source of interceptable state college aid, and the administrative and political risks of the program as low. The enhanced intercept rating on the MSCBA bonds moves in tandem with the GO rating on the commonwealth.

The 2020A bonds are being issued to fund various capital improvements at the Massachusetts Maritime Academy, the Fitchburg State University, and the Massachusetts College of Liberal Arts.

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 nine state colleges and universities within the intercept program 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. The intercept program does not include the University of Massachusetts or the state's community colleges.

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 to pay debt service, state aid to all the colleges in the program on a combined basis can be intercepted to pay for the debt service shortfalls of any one college's pledged program revenues, although this intercept has never needed to be used historically. 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 that the interceptable commonwealth appropriations to state colleges and universities of \$260.1 million received in fiscal 2019 will cover future maximum annual debt service (MADS) of \$103.9 million, after the sale of the 2020A bonds, by 2.50x, which we consider strong. We also calculate that budgeted fiscal 2020 appropriations to the state colleges and universities of \$274.4 million will cover MADS by 2.64x.

Payment of debt service from interceptable appropriations is conditional on the legislature appropriating sufficient funds to state colleges and universities to intercept. We consider late state budget adoption risk mitigated given that debt service payments begin on Nov. 1, well beyond the July 1, start date of Massachusetts' fiscal year, and the commonwealth has a history of adopting temporary interim budgets in years when final budget adoption occurs after July 1.

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.

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. There is no longer a legal requirement to hold money in a debt service reserve, following a previous amendment to the trust agreement, although the MSCBA currently still has certain money remaining in a debt service reserve. The remaining money in the debt service reserve can only be used to pay debt service or to fund projects.

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.

(For more information on the creditworthiness of the commonwealth, please refer to the full analysis published Feb. 14, 2020, 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 the commonwealth's steady economic growth and proactive management will allow the commonwealth to continue to manage potential budgetary challenges, even if midyear budget shortfalls develop in future fiscal years. We believe the current increase in fiscal year-end 2019 reserves and that projected in fiscal 2020 are the result of small budgeted additions to reserves and extra funds from stronger-than-budgeted revenues. Our outlook also anticipates that the commonwealth will budget for close-to-breakeven operations during our two-year outlook horizon, and make midyear budget corrections should revenues weaken, as well as bank a portion of unexpected revenue windfalls in its budget stabilization fund (BSF). At this point in the economic cycle and at the current rating level, we expect Massachusetts to modestly improve its BSF and maintain good balances to prepare for a potential recession.

Upside scenario

Improvement in the rating or outlook could occur if the commonwealth strengthened its pension funding discipline based on a prudent actuarial footing, while retaining material budget reserves during periods of economic growth as a matter of budgetary policy.

Downside scenario

We could lower the rating if Massachusetts fails to maintain near-structural balance during periods of economic expansion. Such factors that could further pressure the rating include: Medicaid costs outpacing revenue growth, reduced revenues in recessions due to income tax cyclicity from above-average high technology sector employment, the effect of federal tax reform on state and local tax deduction caps in high-tax states, and increasing state fixed costs in excess of revenue growth that might lead to significant structural imbalance and rapidly diminishing reserves.

More specifically, these factors could stress the state's structural balance to the extent that Massachusetts fails to adhere to its plan to increase annual pension contributions by 9.63% 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 February 20, 2020)

Massachusetts St Coll Bldg Auth SCHSTPR

Long Term Rating

AA-/Stable

Affirmed

Underlying Rating for Credit Program

A+/Stable

Current

Ratings Detail (As Of February 20, 2020) (cont.)

Massachusetts St Coll Bldg Auth MISCTAX		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth MISCTAX		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth MISCTAX		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Current

Many issues are enhanced by bond insurance.

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