

Rating Action: Moody's assigns enhanced Aa2 to Massachusetts State College Building Authority's (MA) Series 2020B; outlook stable

15 Apr 2020

New York, April 15, 2020 -- Moody's Investors Service has assigned an enhanced Aa2 rating to the Massachusetts State College Building Authority's (MSCBA) proposed approximately \$119 million Refunding Revenue Bonds, Series 2020B (Federally Taxable), which will be fixed rate, maturing in 2048. Depending on market conditions, MSCBA may upsize the new issue amount to incorporate additional refunding opportunities. We have affirmed the enhanced Aa2 ratings on approximately \$1.2 billion in outstanding parity rated debt. The outlook for the enhanced rating is stable, reflecting the programmatic rating outlook that currently mirrors the outlook of the Commonwealth of Massachusetts (Aa1 stable).

RATINGS RATIONALE

The assignment and affirmation of the Aa2 enhanced ratings with a stable outlook incorporate 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. This organizational structure provides evidence of how the state and MSCBA manage oversight of the debt related to the MSCBA universities. We regard this as a key strength related to governance considerations under our ESG framework.

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).

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and financial market declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The universities within MSCBA have ceased in-person course instruction for the remainder of the current academic session, transitioning to online delivery formats. MSCBA universities are currently planning for the summer session to be held online as well. With uncertainty remaining around the duration of the coronavirus outbreak, the MSCBA universities and the MSCBA are planning for multiple enrollment, housing and programming scenarios for fiscal 2021.

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 OF THE RATINGS

-Upgrade of the commonwealth or programmatic intercept rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

-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 \$23.4 million and residence hall trust funds totaled \$22.2 million. For fiscal 2020, these figures are projected at \$24.3 million and \$20.6 million, respectively.

In addition, there is a joint debt service reserve fund (DSRF) totaling \$83.7 million as of June 30, 2019, and projected at \$84.7 million as of June 30, 2020. Bondholder consent to remove the legal requirement to have a DSRF was achieved in November 2019. Existing debt service reserve funds will be used to pay debt service or to fund projects.

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, covering pro forma fiscal 2020 debt service by 2.7x.

USE OF PROCEEDS

Proceeds of the Series 2020B bonds will be used to refund all or portions of the Series 2014A bonds and 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 39,133 students were enrolled among the MSCBA institutions as of fall 2019.

METHODOLOGY

The principal methodology used in these ratings was State Aid Intercept Programs and Financings published in December 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1067422. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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