S&P Global Ratings

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Summary:

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

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Table Of Contents

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Credit Profile		
US$398.52 mil rfdg rev bnds (federally taxable) ser 2020A due 05/01/2049		
Long Term Rating	AA-/Stable	New
Massachusetts St Coll Bldg Auth SCHSTPR		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating program to the Massachusetts State College Building Authority's (MSCBA) $398.52 million refunding revenue bonds, series 2020A (federal 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.

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.

The 2020A refunding bonds are being issued to refinance existing debt for overall present value savings, but also to reduce debt service in fiscal years 2021 and 2022, at the cost of increasing debt service in later years, in order to provide budget relief for the state colleges participating in the state university intercept program. Debt service overall for the nine state colleges and universities in the program will be reduce from $100.7 million in fiscal 2021 to $47.9 million in fiscal 2021, and from $101.1 million in fiscal 2022 to $72.8 million. Out-year debt service, beginning in fiscal 2029, will increase in various years by $1.5 million to $8.0 million annually. However, after this refunding, which provides overall present value savings of about 8% of par amount of debt being refinanced, maximum annual debt service (MADS), occurring in 2023, will decline by about $3.8 million.

Credit overview

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 base the 'AA-' long-term rating on the strength of the state aid intercept structure, and the strong coverage of debt service by current budgeted interceptable state aid that should allow sufficient debt service coverage even in the event of large cuts in future years' state aid to higher education. We believe that Massachusetts, which is nearing the end of its June 30, 2020, fiscal year, has sufficient cash resources to give it time to pay currently budgeted fiscal 2020 appropriations and enact a full-year fiscal 2021 budget this summer (see Massachusetts GO analysis published June 4, 2020, on RatingsDirect). In recent years, the commonwealth has enacted its budget a month or two after the July 1, start of its fiscal year, but enacts a temporary budget in the interim. This year, the state house of representatives' Ways and Means committee altered its rules to report out a draft budget on July 1, to give it extra time to assess the state revenue situation before adopting a final budget.

We believe it is possible there could be substantial cuts in appropriations to higher education in fiscal 2021 due to declines in state tax revenue because of COVID-19-related economic restrictions, but the strong coverage of MSCBA MADS by current state university appropriations provides enough excess to ensure state aid coverage will cover debt service even in the event of severe cuts in this aid.

The state aid intercept only applies if the colleges don't forward sufficient payment for debt service. If college 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 historically this intercept has never needed to be used. The state treasurer is notified two months before each Nov. 1, semiannual interest payment, and three months before each May 1, semiannual principal and interest payment, in the event an individual state college is not able to pay debt service on its portion of the debt. This allows a minimum of five months of future state appropriations within the remaining fiscal year (February through June) that can be available to make the May 1, principal and interest payment. Based on recent figures, and even with a significant potential decline in future state appropriations, we consider there to be sufficient 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 new slightly reduced future MADS of $100.2 million, after the refunding, by 2.60x, 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 2.74x. Using a pro rata five-month revenue calculation on full-year appropriations, assuming five-twelfths of annual combined state college appropriations, we calculate maximum semiannual debt service in 2028 is covered under our stress test by 1.31x by fiscal 2019 state appropriations. However, due to this refunding, annual debt service drops significantly in fiscal 2021 to $47.9 million, and to $72.8 million in fiscal 2022. This would provide much higher semiannual debt service coverage on the principal payment date in these two years at a time when state aid might potentially be reduced due to the current pandemic related recession. Five-twelfths of fiscal 2019 state aid covers fiscal 2021 semiannual debt service a very strong 3.74x, and also covers fiscal 2022 semiannual debt service a very strong 2.07x.

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.

Environmental, social, and governance factors

The environmental, social, and governance factors for MSCBA reflect those of Massachusetts.

Stable Outlook

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

Credit Opinion

State aid intercept

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.

We view Massachusetts' involvement in 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.

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.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors

Ratings Detail (As Of June 8, 2020)		
Massachusetts St Coll Bldg Auth MISCTAX		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current
Massachusetts St Coll Bldg Auth MISCTAX		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current
Massachusetts St Coll Bldg Auth MISCTAX		
Long Term Rating	AA-/Stable	Affirmed
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Massachusetts St Coll Bldg Auth SCHSTPR		
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Massachusetts St Coll Bldg Auth SCHSTPR		
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Underlying Rating for Credit Program	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current
Massachusetts St Coll Bldg Auth SCHSTPR		
Long Term Rating	AA-/Stable	Affirmed

Ratings Detail (As Of June 8, 2020) (cont.)		
Massachusetts St Coll Bldg Auth SCHSTPR		
Long Term Rating	AA-/Stable	Affirmed
Massachusetts St Coll Bldg Auth SCHSTPR (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Current

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.