

Rating Action: Moody's assigns enhanced Aa2 to Massachusetts State College Building Authority's (MA) Series 2021A&B; outlook stable

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New York, July 01, 2021 -- Moody's Investors Service has assigned enhanced Aa2 ratings to the Massachusetts State College Building Authority's (MSCBA) proposed Project Revenue Bonds that include the approximately \$16.6 million Series 2021A (Green Bonds) and \$2.3 million Series 2021B. The bonds will be fixed rate, maturing in 2051 and 2041, respectively. MSCBA recorded approximately \$1.2 billion of debt outstanding in fiscal 2020. 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 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. Moody's regards this as a key strength related to governance considerations under our ESG framework.

Should there be an insufficiency for debt service, the state comptroller would transfer 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 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.

Due to financial impacts arising from the coronavirus pandemic that originated in March 2020, MSCBA

reduced the operating and reserve assessments to the universities for budgetary relief to align expenses with potentially lower auxiliary revenue for fiscal years 2020 and 2021. As of June 30, 2020, aggregate pledged funds totaled \$24.3 million and residence hall trust funds totaled \$8.0 million. For fiscal 2021, these figures are projected at \$22.6 million and \$5.8 million, respectively.

In addition to the reserve funds, there is a joint debt service reserve fund (DSRF). Bondholder consent to remove the legal requirement to have a DSRF was achieved in November 2019, with MSCBA's plan to use existing debt service reserve funds to pay debt service or to fund projects. During fiscal 2021, MSCBA used a portion of these funds to pay approximately \$16.2 million of debt service. The DSRF was outstanding at \$90.4 million for June 30, 2020 and is projected to be \$74.7 million at June 30, 2021.

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 would transfer 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 2020 actual appropriations totaled \$274 million and fiscal 2021 appropriations were \$286 million. Fiscal 2022 appropriations are budgeted at \$292 million and would cover pro forma fiscal 2022 debt service, inclusive of the planned Series 2021A and 2021B bonds of \$73 million, by 4.0x.

USE OF PROCEEDS

Proceeds of the planned Series 2021A and 2021B bonds will be used to construct new cadet housing and renovate certain housing at the Massachusetts Maritime Academy, fund athletic and student center improvements at the Mass College of Liberal Arts, 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 36,510 students were enrolled among the MSCBA institutions as of fall 2020.

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.

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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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Mary Cooney
Lead Analyst
Higher Education
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Susan Fitzgerald
Additional Contact
Higher Education
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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