New Issue: **MOODY'S ASSIGNS Aa2 RATING TO MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY'S $154 MILLION OF SERIES 2012A REVENUE BONDS AND UP TO $75 MILLION OF SERIES 2012B REFUNDING BONDS; OUTLOOK IS STABLE**

Global Credit Research - 28 Nov 2011

RATINGS AFFIRMED ON OUTSTANDING DEBT; TOTAL OF $995 MILLION PRO-FORMA RATED DEBT INCLUDING THE CURRENT OFFERING

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY, MA
Public Colleges & Universities
MA

Moody's Rating

ISSUE		RATING
Series 2012 A Project Revenue Bonds		Aa2
Sale Amount	$154,085,000	
Expected Sale Date	12/13/11	
Rating Description	Revenue: Public University Broad Pledge	
Series 2012 B Refunding Revenue Bonds		Aa2
Sale Amount	$75,000,000	
Expected Sale Date	12/13/11	
Rating Description	Revenue: Public University Broad Pledge	

Moody's Outlook STA

Opinion

NEW YORK, November 28, 2011 --Moody's Investors Service has assigned Aa2 ratings to the Massachusetts State College Building Authority's (the Authority's or MSCBA's) $154 million of Series 2012A Project Revenue Bonds and up to $75 million of Series 2012B Refunding Revenue Bonds. The refunding amount will vary depending on projected savings at the time of the bond issuance. Concurrently, we have affirmed the Authority's outstanding ratings, which are detailed at the end of the report. The outlook is stable.

SUMMARY RATING RATIONALE: The Aa2 rating reflects MSCBA's role as a component unit of the Commonwealth of Massachusetts to design and construct auxiliary facility projects across the Massachusetts State University System. The rating reflects strong oversight of these auxiliary projects, healthy operating performance of the projects and multi-year enrollment growth across the campuses, presence of a state appropriation intercept, and a fully funded debt service reserve fund and other available reserves.

STRENGTHS

*Structural provisions of the Authority's financing and construction program and diverse revenue streams

*Continued enrollment growth across the state universities and high occupancy levels in the bond-financed facilities

*Fully fixed rate debt structure with no use of derivatives providing for predictable debt service

*Strong management and oversight of the projects and borrowing plans

*Ability of State Comptroller to intercept remaining current-year state appropriations to the universities and direct to the bond trustee for payment of debt service

CHALLENGES

*Pressure on state operating support

*Demographic projections for a decline in the number of high school graduates in Massachusetts

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The Series 2012A bonds will fund a variety of capital projects including residential facilities at Westfield State and Bridgewater State, a new fitness facility at Salem State, and a variety other capital improvements as well as pay for costs of the bond issuance. The Series 2012B bonds will refund a portion of outstanding debt.

LEGAL SECURITY: The bonds are payable from revenues of auxiliary projects on the campuses of the various State universities (9 campuses) in the commonwealth, paid by the universities to the Authority per the Contract for Financial Assistance, Management and Services. The bonds are also secured by Pledged Trust Funds of the state universities, a joint Debt Service Reserve Fund, and ultimately a state appropriations intercept provision to pay debt service or replenish any deficiency in the Debt Service Reserve Fund. Together, the Pledged Trust Funds and the state appropriations comprise "Pledged Funds". Interest subsidy payments expected to be received by the Authority for the Series 2009C and 2010B Build America Bonds are not pledged to bondholders.

The debt service reserve fund requirement is equal to at least: 1) 10% of original net bond proceeds, 2) 125% of average annual debt service (reported by management as $63.1 million) or 3) pro-forma maximum annual debt service ($77.8 million including the Series 2012). Following this bond issuance, we expect MSCBA will have combined debt service reserve funds equal to $68 million (appearing as restricted cash and investments on MSCBA's audited balance sheet).

The presence of a state appropriations intercept program benefits the Authority's revenue bond debt. Under the program, the State Comptroller must transfer unexpended amounts from a State University's appropriation account for the current year to cure any insufficiency of available funds to make debt service payments. Per changes to the Contract for Financial Assistance, Management and Services, if the Pledged Trust Funds and remaining state appropriations of a state university are insufficient to cover that state university's payments under the Contract, then the Board of Higher Education shall pay to the bond trustee state appropriations of the other state universities, ratably according to the percentage of outstanding bonds, to cure the insufficiency.

State oversight of the program is bolstered by the Authority being required to receive approval of the Board of Higher Education, the Secretary of the Executive Office for Administration and Finance of the Commonwealth, and the Commissioner of the Department of Higher Education to issue debt for projects at the state universities.

INTEREST RATE DERIVATIVES: None, all fixed-rate debt structure

MARKET POSITION/COMPETITIVE STRATEGY: ENROLLMENT GROWTH AND HIGH OCCUPANCY LEVELS IN BOND-FINANCED FACILITIES; LONGER-TERM CHALLENGES INCLUDE PRESSURE ON STATE APPROPRIATIONS AND TUITION INCREASES

In Moody's opinion, the credit strength of the state universities in the program and the essentiality of auxiliary services to the campuses are the key factors underpinning the underlying rating on MSCBA's bonds. All nine campuses host revenue-producing projects financed under this program. The state universities (formerly State Colleges) include: Bridgewater, Fitchburg, Framingham, Massachusetts College of Art and Design, Massachusetts College of Liberal Arts, Massachusetts Maritime Academy, Salem, Westfield, and Worcester (campus debt rated A2 with a stable outlook). These institutions comprise an important sector of the Massachusetts higher education system and enrolled a combined 40,552 full-time equivalent (FTE) students in fall 2011 (approximately 52,000 headcount), a 2% increase over fall 2010. Occupancy in the Authority's residential facilities is high averaging 104% across the campuses in fall 2011 (14,344 beds in residence halls across the system).

Longer-term the universities will be challenged to adjust to pressure on state appropriations. In FY 2011, the system received approximately $207 million of state appropriations (including federal stimulus funding), compared to $185.8 million in FY 2010. With the end of federal stimulus funding (ARRA), state appropriations in FY 2012 have declined to approximately $191.6 million. In order to compensate for declining state funding, the universities must focus on ongoing expense containment and growth of private revenue sources, including tuition and fees. Average combined tuition and fee charges at the state universities (average weighted by number of students at each campus) have increased rapidly over the past four years, with the fall 2011 charges up6.7% over fall 2010 and up 27.9% over fall 2007. Heightened student price sensitivity impacts the universities' and the Authority's rate setting flexibility.

LEGAL PROVISIONS AND PLEDGED REVENUES PROVIDE SUBSTANTIAL CREDIT STRENGTH

Moody's believes that the legal provisions under the Trust Agreement (Agreement) provide solid support for the bonds. MSCBA maintains a Contract for Financial Assistance, Management and Services (Contract) with the State Board of Higher Education, which is empowered by statute to commit the nine state universities to payment of debt service. The Authority is required to set the fees and rates for the projects at levels sufficient to pay the debt service associated with each project as well as operating expenses. All of the Authority's debt is fixed rate and no derivatives are utilized, which make debt service charges predictable and not subject to fluctuations due to market conditions. Each university is also required to set aside 25% of the average annual aggregate debt service costs in a Pledged Trust Fund to cover any deficiencies of project revenues for debt service. These Pledged Trust Funds include student fees revenues and other money that each University controls. These pledged funds and the residence hall operating reserves, are held at the university campuses and not recognized on the Authority's balance sheet. Management reports that these pledges and reserves, plus capital improvement and supplemental reserves held by the Authority (but excluding debt service reserve funds) total approximately $52.1 million as of June 30, 2011. Additionally, a joint Debt Service Reserve Fund (DSRF) of the entire indenture secures the bonds. In the event this money is utilized to pay debt service, after 90 days the Authority will have 12 months to replenish the fund in equal installments.

STATE APPROPRIATIONS INTERCEPT PROGRAM ENHANCES CREDIT QUALITY

Under the intercept provisions, the Authority is required to report on the sufficiency of available funds to pay debt service on its outstanding debt to the Board of Higher Education (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. If each report is not received by the Comptroller by the specified date, the Comptroller must prevent expenditure from the appropriation account of any state university until the Comptroller has determined whether there is an insufficiency of available funds to pay debt service. If the Authority's report indicates an insufficiency or, in the absence of such report, if the Comptroller determines that an insufficiency exists, the Comptroller must transfer amounts from the specific state university's appropriation account to cure such insufficiency 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). In addition, the trustee is required to give notice directly to the BHE and the Comptroller within 10 days of the debt service deposit date if there is any insufficiency of funds to pay debt service, and the Comptroller must intercept state appropriations as necessary to ensure debt service is paid on a timely basis. Per proposed changes to the Contract for Financial Assistance, Management and Services, if the Pledged Trust Funds and remaining state appropriations of a state university are insufficient to cover that state university's payments under the Contract, then the Board of Higher Education shall pay to the bond trustee state appropriations of the other state universities, ratably according to the percentage of outstanding bonds, to cure the insufficiency.

Outlook

The stable outlook for the Authority's Aa2 rating is based on the strength of the pledged revenues derived from a strong market position with growing enrollment and high occupancy levels, legal provisions including intercept provision, and reserve fund as well as strong management oversight.

WHAT COULD MAKE THE RATING GO UP

Significant growth and diversification of pledged revenues, additional reserves under the control of the Authority and improved credit quality of the commonwealth.

WHAT COULD MAKE THE RATING GO DOWN

Inability to meet debt service requirements from auxiliary revenues at the campuses; decline in the credit quality of the commonwealth; an increase in debt absent growth of reserves and revenues to cover increased debt service responsibilities.

KEY INDICATORS

Commonwealth G.O. rating: Aa1 with a stable outlook

Fall 2011 full-time equivalent (FTE) students: 40,552 FTE

Operating Revenue of MSCBA in FY 2011: $54 million (including Build America Bond subsidy)

Pro-forma Direct Debt: $995 million

MSCBA FY 2011 debt service payment (excluding capitalized interest): $51.7million (interest, net of capitalized interest plus principal)

RATED DEBT

Project Revenue Bonds, Series 2003A and 2003B: Aa2; insured by Syncora Guarantee

Project Revenue Bonds, Series 2004A: Aa2; insured by National Public Finance Guarantee Corp.

Project Revenue Bonds, Series 2005A: Aa2; insured by FGIC

Project Revenue Bonds, Series 2006A: Aa2; insured by Ambac

Project Revenue Bonds, Series 2008A: Aa2; insured by Assured Guaranty Municipal Corp.

Project Revenue Bonds, Series 2009A, 2009B, 2009C, 2010A and B, 2011A, 2012A: Aa2

Commonwealth-Guaranteed Bonds, Series 1994: Aa1

Refunding Revenue Bonds, Series 2004B: Aa1; insured by National Public Finance Guarantee Corp.

CONTACTS

Authority: Edward Adelman, Executive Director, Massachusetts State College Building Authority, 617-933-8337

Underwriters: Paul Haley, Barclays Capital, 617-330-5845 and James Oppedisano, JPMorgan, 617-310-0570

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Kimberly Tuby
Lead Analyst
Public Finance Group
Moody's Investors Service

Nicholas Samuels
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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