MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to Massachusetts State College Building Authority's $148.4 million Series 2012C Project Revenue Bonds and affirms ratings on outstanding debt; outlook is stable

Global Credit Research - 27 Nov 2012

Authority will have approximately $1.1 billion of rated debt, including the current offering

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

Moody's Rating

ISSUE		RATING
Series 2012C Project Revenue Bonds		Aa2
Sale Amount	$148,390,000	
Expected Sale Date	12/06/12	
Rating Description	Revenue: Public University Broad Pledge	

Moody's Outlook STA

Opinion

NEW YORK, November 27, 2012 --Moody's Investors Service has assigned a Aa2 rating to the Massachusetts State College Building Authority's (the authority's or MSCBA's) $148.4 million of Series 2012C Project Revenue Bonds. We have also affirmed ratings on the authority's outstanding bonds. 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 (such as housing, parking, and student activity centers) 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 an aggregate state appropriation intercept, and a fully funded debt service reserve fund and other available reserves.

STRENGTHS

*Continued enrollment growth across the state universities (42,127 total full-time equivalent enrollment in fall 2012, based on preliminary calculations for fall 2012 enrollment) and high occupancy levels in the bond-financed facilities

*Strong management and oversight of the projects and borrowing plans, with a good track record of project completion on time and within budget and ongoing reinvestment in projects with resulting low deferred maintenance backlog

*Ability of State Comptroller to intercept remaining current-year state appropriations to the universities and direct appropriations to the bond trustee for payment of debt service or replenishment of joint debt service reserve fund, with revisions during 2011 to the intercept language within the statute allowing for intercept of appropriations of one university to support debt service deficiency at any campus

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

CHALLENGES

*Significant capital investment on the campuses in recent years and resulting rapid increase in debt (MSCBA will have $1.1 billion of pro-forma debt, nearly double the amount of debt in FY 2008) with additional borrowing anticipated in the next two years

*Pressure on state operating support requiring the state universities to focus on revenue diversification, growth of private revenue streams, expense containment, and operating efficiency

*Public and political resistance to growth of student charges and increased price sensitivity of families limiting public universities' capacity to grow student charges longer-term (average combined tuition and fee charges at the 9 Massachusetts state universities have increased rapidly over the past four years, with the academic year 2012-2013 combined charges (tuition plus fees) up 29% over academic year 2008-2009)

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

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The Series 2012C bonds will fund a variety of capital projects including residential facilities at Massachusetts Maritime Academy (242 beds) and a joint residence hall/dining facility at Worcester State University (400 beds), several student activity projects as well as a variety of other capital improvements. Bond proceeds will also provide capitalized interest ($5 million; 18 months of capitalized interest on new capacity projects), a deposit to the debt service reserve fund ($3.5 million), and pay for costs of the bond issuance.

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 an aggregate 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, or 3) pro-forma maximum annual debt service ($85.3 million including the Series 2012C bonds as well as Commonwealth-Guaranteed bonds, Series 1994A and 2004B). Following this bond issuance, we expect MSCBA will have combined debt service reserve funds equal to $86.8 million (including debt service reserve funds for Commonwealth guaranteed bonds as well as non-guaranteed bonds; debt service reserve fund appears 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 as well as the statute governing the intercept, 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 at each university, 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 over 42,000 full-time equivalent (FTE) students in fall 2012 (estimated fall 2012 enrollment). MSCBA management reports that unduplicated headcount enrollment has increased across the system by 11%

between fall 2007 and fall 2011.

Currently the authority's debt-financed student housing on these campuses provides 14,863 beds for students which house a combined 42% of the undergraduate student population. Occupancy in the authority's residential facilities is high, with all campuses except Massachusetts College of Liberal Arts (94%) having over 100% occupancy as a percentage of residential facility design capacity in FY 2012. The authority has received approval to support projects on Massachusetts community college campuses, but does not currently have any imminent plans for debt issuance for community college projects.

Longer-term the universities, similar to most public universities across the US, will be challenged to adjust to pressure on state appropriations. Based on data provided by MSCBA, the Commonwealth's budgeted appropriations to the state universities was $191 million in FY 2012, which represented a 7.5% decline in state funding between FY 2011 and FY 2012. State operating support to the state universities in FY 2013 is expected to be essentially flat compared to FY 2012. 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 academic year 2012-2013 combined charges (tuition plus fees) up 29% over academic year 2008-2009. Heightened public and political pricing sensitivity and resistance to increases in student charges will limit the universities' capacity for growing these private revenue streams and will place increased pressure on expense containment and operating efficiency.

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 (a rate covenant). All of the authority's debt is fixed rate and no derivatives are utilized, which makes 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 pledged funds and reserves, plus capital improvement and supplemental reserves held by the authority (but excluding debt service reserve funds) totaled approximately $60 million as of June 30, 2012. (The projected balance as of 6/30/2014 is $79 million.)

Additionally, a joint Debt Service Reserve Fund (DSRF) for all bonds issued under the indenture secures the bonds. In the event this money is utilized to pay debt service, the authority must replenish the fund in 12 equal monthly installments commencing 90 days from withdrawal.

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 all state universities appropriation accounts (on a pro-rata basis, based on each university's amount of outstanding debt) 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 changes made to the Contract for Financial Assistance, Management and Services as well as the Act during the past year, 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. This cross-collateralization of state intercept funds to cure any deficiency further strengthens the intercept provision. However, this pre-default intercept is limited to remaining appropriation funds and is not an unlimited advance intercept paid for by the commonwealth. MSCBA management reports that the intercept has never been utilized and based on the trend of historical expenditures of the universities, approximately half of state university appropriations typically remain at the end of the second quarter of the fiscal year (December).

STRONG MANAGEMENT AND OVERSIGHT OF CAPITAL PROJECTS; FOCUS ON REDUCTION OF DEFERRED MAINTENANCE BACKLOG

MSCBA's strong management and oversight of capital project development, construction, and delivery are key credit strengths. The small, although stable, staff (approximately 15 staff members) has a good track record of delivering projects on time and within budget. MSCBA has outlined a detailed process for the full spectrum of delivering a new project, from the early stages of assessing market and financial feasibility all the way through design, construction, and delivery. Over the past decade, MSCBA has tackled deferred maintenance and reduced estimated deferred maintenance needs from $69 million to an estimated $10.9 million, a credit positive. This careful planning process and significant reduction in deferred maintenance have contributed to strong student demand for MSCBA facilities, as evidenced by high occupancy levels.

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 aggregate intercept provision, and reserve fund as well as strong management oversight of project construction and management.

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 (FY 2012 financial data)

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

-Fall 2012 full-time equivalent (FTE) students: 42,127 FTE (preliminary estimate, final fall 2012 FTE enrollment available later in the year)

-Operating Revenue of MSCBA in FY 2012: $58.4 million (including Build America Bond subsidy)

-Annual Debt Service Coverage in FY 2012: 1.03 times

-Pro-forma Direct Debt: $1.1 billion

-MSCBA FY 2012 debt service payment (excluding capitalized interest): $57.2 million (interest, net of capitalized interest, plus principal)

-Pro-Forma Maximum Annual Debt Service (including Series 2012C bonds): $85.3 million

-Unrestricted Net Assets of MSCBA: negative $19.6 million

-Unrestricted Monthly Liquidity of MSCBA (including reserves held on MSCBA's balance sheet): $29.7 million, excludes debt service reserve funds and unspent bond proceeds

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 (taxable Build America Bonds), 2010A, 2010B (taxable Build America Bonds), 2011A, 2012A, 2012B, 2012C: Aa2

Commonwealth-Guaranteed Bonds, Series 1994: Aa1

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

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PRINCIPAL RATING METHODOLOGY

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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