STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Massachusetts State College Building Authority; General Obligation; School State Program

Primary Credit Analyst:
Blake Cullimore, Boston (1) 617-530-8312; blake_cullimore@standardandpoors.com

Secondary Contact:
Henry W Henderson, Boston (1) 617-530-8314; henry_henderson@standardandpoors.com

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Summary:

Massachusetts State College Building Authority; General Obligation; School State Program

Credit Profile		
US$148.39 mil proj rev bnds ser 2012C due 11/30/2032		
Long Term Rating	AA/Stable	New
School Issuer Credit Rating	A+/Stable	New
Massachusetts St Coll Bldg Auth, Massachusetts		
Massachusetts		
Massachusetts St Coll Bldg Auth (Massachusetts) GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to the series 2012C Massachusetts State College Building Authority's (MSCBA) bonds. The bonds are covered by the credit enhancement provided by the statutory state aid intercept. The outlook is stable.

We base the 'AA' rating on the Commonwealth of Massachusetts' credit profile ('AA+' general obligation rating) and intercept structure that supports the 2012C and parity bonds of the MSCBA.

At the same time, Standard & Poor's also assigned its 'A+' issuer credit rating (ICR) to the authority's debt outstanding, based on the pledge of project revenues (rent, fees, charges) from the state universities to MSCBA. In addition, Standard & Poor's affirmed its 'AA+' rating on the bonds guaranteed by the commonwealth.

Key credit factors supporting the 'AA' rating based on the statutory aid intercept include what we view as:

- A clearly defined 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 state appropriations within five days; this transfer is not subject to allotment;
- Strong coverage of debt service by state appropriations with appropriations to all state universities now available to fund debt service following statutory changes in 2011; and
- A strong history of state support over time.

The 'A+' ICR rating reflects what we consider:

- MSCBA's strong oversight of projects at each state university and reserves at both the university and MSCBA levels;
- The revenue-producing nature of the projects funded by the debt and good flexibility for setting rents and other rates;
- Strong coverage levels and maintenance of reserve funds supporting debt outstanding;
- Solid demand and enrollment for state universities and high occupancy rates for MSCBA-supported residential halls;

and
- Relatively stable support from Massachusetts for state universities.

An offsetting factor, in Standard & Poor's opinion, is an increased debt burden and continuing demand for additional residential and auxiliary facilities by the state university system, with management indicating two universities are currently engaged in a viability study for new residence halls. Additionally, there has been some discussion by management and the state legislature as to whether the community colleges might issue debt through the MSCBA, we will address the ratings impact, if any, when that occurs.

MSCBA series 2012C, issued in the par amount of $148.4 million fixed-rate debt and 30-year maturity are on parity with the series 1999 through 2012B bonds and similar to parity debt are junior to the series 1994 (which will be retired in 2014). The bond proceeds will finance various campus capital projects, including both new residential capacity, renewal of existing residential facilities, and student activity projects. Total debt outstanding post issuance is $1.12 billion. All prior debt issued by the authority is fixed rate.

The bonds are secured and payable in the first instance by project revenues (all payments of fees, rents, rates, and other charges for the use and occupancy of any projects and for the services and facilities they provide). Further securing the bonds are an operating reserve fund, a capital improvement reserve fund, a multipurpose reserve fund, and a debt service reserve fund. The intercept of state aid is available annually to fund debt service payments if project revenues are insufficient but this has never been used.

Reserve funds are split between the MSCBA and participating universities. MSCBA restricted debt service reserves include reserves for the senior debt (which are fully funded) of $9.7 million and aggregate debt service reserves for the parity debt of $73.5 million as of fiscal 2012 and expected to climb to $77 million by 2014 with the issuance and funding of the 2012C bonds. For purposes of our analysis, we included the restricted debt service reserves as part of the analysis of debt on the balance sheet. The MSCBA holds unrestricted reserves for capital improvements, multipurpose, and supplemental funds as cash or cash equivalents on the balance sheet totaling $23.8 million in fiscal 2012. The universities each have Residence Hall trust funds for the authority separate from all other moneys held by the university, the goal is to fund the reserve after payment of debt service and operating costs in an amount at or greater than 5% of prior year's total income. Currently, the residence hall trust fund is overfunded , which we view positively, with aggregate balance of $18.7 million or 21.4% of $87.5 million for fiscal 2012 as reported by MSCBA. The trust funds are pledged to secure only indebtedness incurred on behalf of the applicable state university. Additionally, under contract with MSCBA the Massachusetts Board of Higher education pledges 25% of average annual debt service due to the authority as additional security from each universities nonappropriated funds and other revenues, which was $17.3 million in fiscal 2012.

The debt MSCBA issues is all revenue-producing debt, as such our analysis includes a review of the coverage of debt service provided by revenues, reserves, and the state intercept. Post issuance, the series 2012C bonds and parity debt maximum annual debt service is $85.3 million occurring in 2028. Based on 2012 actual revenues and reserves (Residence Hall trust fund reserve, pledged revenue, capital improvement reserve [MSCBA], and multipurpose and supplemental reserve [MSCBA]) of $162.4 million pro forma debt service coverage of maximum annual debt service (MADS) provided by revenues as well as unrestricted reserves is solid 1.9x growing to 2.4x by 2014; when including the fiscal 2012 restricted debt service reserves (of $73.5 million on MSCBA balance sheet) coverage of MADS is very solid 2.8x, growing to 3.3x by 2014; and when including the fiscal 2012 state intercept coverage (of $191.8 million (projected 2013) of MADS is a very strong 5x, growing to 5.6x by 2014.

MSCBA finances, designs, constructs, and manages residential and student life facilities on the campuses of nine state universities. Total enrollment at the nine campuses in the fall of 2012 was 42,127, an increase of 21% from 2002. Approximately 14,863 students live in residential complexes owned by the authority. In aggregate, occupancy rates exceed 100% for the nine campuses. Rents and charges for each system project are legally available to defray costs related to all system projects, and the system project buildings have pooled capital improvement reserves. Campus projects also include new construction and improvement and the renovation of campus centers, dining, athletic, and parking facilities. Rents and charges for both types of projects are legally available to defray costs related to all of the authority's projects. Each campus project has a separate, dedicated capital improvement reserve. Management at MSCBA remains stable with no major changes and pricing remains competitive and below competitive market rents according to management, which assists supporting occupancy levels. Management is completing a strategic planning process with the emphasis shifting over the next year from growing capacity and eliminating deferred maintenance in its housing facilities to identifying and supporting specific housing goals to support enrollment at each campus. MSCBA has largely eliminated deferred maintenance and is close to achieving its current systemwide housing goals.

The authority expects debt issuance to slow down after 2014 because the system will have achieved many of the current residential occupancy targets. In addition, management reports that it expects debt issuance for planned replacement and renewal to diminish and in future be funded out of operations.

Outlook

The stable outlook reflects our view of the strength of the intercept structure and our expectation of more-than-sufficient state appropriations to cover debt service requirements over the two-year outlook horizon. Were appropriations to decline, leading to coverage deterioration, it could pressure the rating. A higher rating is precluded due to the current rating on Massachusetts.

The outlook on the ICR reflects Standard & Poor's expectation that MSCBA will continue to monitor future and outstanding projects, rents will be sufficient to cover debt service, and demand will remain strong for MSCBA projects over the two-year outlook horizon. A sharp decline in revenue that diminishes flexibility and leads to deteriorating debt service coverage could pressure the rating.

Related Criteria And Research

- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of November 28, 2012)		
Massachusetts St Coll Bldg Auth GO State Enhancement		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of November 28, 2012) (cont.)		
School Issuer Credit Rating	A+/Stable	Affirmed

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.