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

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Credit Profile		
US$138.64 mil proj rev bnds ser 2014 A due 05/01/2044		
Long Term Rating	AA/Stable	New
School Issuer Credit Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to the series 2014A 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. Standard & Poor's also affirmed its 'A+' issuer credit rating (ICR) on 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.

We base the 'AA' rating on the Commonwealth of Massachusetts' credit profile ('AA+' general obligation rating) and intercept structure that supports the MSCBA's 2014A and parity bonds.

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;
- The revenue-producing nature of the projects funded by the debt and good flexibility for setting rents and other rates;
- Sound coverage levels and maintenance of reserve funds supporting debt outstanding; and
- Solid demand and enrollment for state universities and high occupancy rates for MSCBA-supported residential halls.

Offsetting factors in Standard & Poor's opinion are an increased debt burden and continuing demand for additional residential and auxiliary facilities by the state university system.

MSCBA will use the series 2014A bond proceeds to finance capital projects at multiple campuses. Total debt outstanding after this issuance will be approximately $1.2 billion, with about $22 million of that amount guaranteed by Massachusetts. All 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, although this intercept has never been used. The flow of funds is closed and the remaining revenues after all bond funds are paid are retained in the revenue fund. In addition, each state university maintains a trust fund that is pledged in support of 25% of the average annual principal and interest due on bonds outstanding. The trust funds are pledged to secure only indebtedness incurred on behalf of the applicable state university. The debt service reserve fund is an aggregate reserve for all parity bonds outstanding. The current reserve totaled $88.2 million as of June 30, 2013, slightly below the maximum annual debt service amount (MADS).

Management projects post issuance, the series 2014A bonds and parity debt MADS will be $96.4 million occurring in 2028. Based on fiscal 2013 (year ended June 30) actual revenues and reserves of $158.5 million, pro forma debt service coverage (DSC) of MADS provided by revenues as well as unrestricted reserves is solid, in our opinion, at 1.6x, which management projects will grow to 2.1x for fiscal 2015. The reserves consist of the capital improvement reserve (which is held by MSCBA), multipurpose and supplemental reserve (held by MSCBA), and residence hall trust fund reserve (held by the universities). In addition to these sources, the revenue available under the indenture also includes additional pledged funds from each state university equal to 25% of their average annual debt service due to the authority. Including these pledges, DSC increases to 1.8x for 2013. The bonds are also secured by a debt service reserve fund. The revenues projected to be available for fiscal 2014 under the state intercept would provide more than 2x MADS coverage.

MSCBA finances, designs, constructs, and manages residential and student life facilities on the campuses of nine state universities. The residence hall design capacity grew to 15,716 in fall 2013, and actual occupancy was 101.7% of design capacity. Actual occupancy has been above 100% of design capacity since fall 2003. 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 is stable with no major changes and pricing remains competitive and below competitive market rents according to management, which assists supporting occupancy levels. Management updates its strategic plan every two years, and the emphasis has recently shifted from increasing capacity and eliminating housing facility deferred maintenance to identifying and supporting specific housing goals to support enrollment at each campus. MSCBA has largely eliminated deferred maintenance. The authority expects debt issuance to slow after 2014 as it expects to undertake fewer projects.

Outlook

The stable outlook on the intercept rating 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. If appropriations and coverage declined significantly, we could lower the rating. A higher rating is precluded by the current rating on Massachusetts.

The outlook on the ICR reflects Standard & Poor's expectation that demand will remain strong for MSCBA projects over the two-year outlook horizon, enabling sound DSC. A significant increase to additional debt or a revenue decline that materially decreases DSC could pressure the rating. Steady progress in funding capital requirements while maintaining strong demand, coupled with strengthened coverage levels could lead to a higher rating.

State Intercept Mechanism

The state aid intercept has been in place since 1998 but statutory changes have enhanced the timing, notification, and mechanics of the program, in our view. There is now a statutory requirement for MSCBA to report to the trustees and the state comptroller on the sufficiency of available funds pledged by the colleges to pay debt service. This reporting must be done in September and January, well in advance of the debt service payment dates scheduled for November and May. 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. 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 not later than the applicable date for debt service fund deposits required by the trust agreement.

Appropriations from the commonwealth are not transferred directly to the colleges. They are held by the comptroller and used to fund payroll and fringe benefits of college employees. In Standard & Poor's 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 allows all state appropriations to be available to cover a debt service insufficiency at any university. The aggregate state appropriations provide sound DSC. On average, the state colleges spend about half of their total state appropriations by the end of the first half of each fiscal year. There is no DSC requirement related to state appropriations but Standard & Poor's believes that state appropriations relative to debt outstanding should continue to provide ample coverage.

Enterprise Profile

Management

MSCBA was established by an act of the Massachusetts Legislature in 1963 to finance, design, construct, and maintain various revenue-generating residential and other student life facilities on the campuses of the nine Massachusetts state universities. The authority establishes user fees and rents, oversees annual budgets, and plans and executes major capital repairs and improvements at the state universities. The user fees and rents are subject to Massachusetts Board of Higher Education (BHE) approval, but in the event that the BHE does not approve the authority's proposed schedule of rents and fees, management indicates the authority may fix charges without BHE approval. MSCBA has strong oversight and control over rate-setting, demand, and construction.

The nine members of the state university system are Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State universities, the Massachusetts College of Liberal Arts, Massachusetts College of Art and Design, and Massachusetts Maritime Academy.

Enrollment and housing demand

The state university system fall 2013 full-time enrollment increased to 41,163, a 25% growth in the past 10 years. The total number of system beds increased by 5.7% from fall 2012 to fall 2013 to 15,716, and occupancy remains above 100% of system capacity. The authority reports it typically maintains rent at or below off-campus housing prices and expects operations will continue to be supported by average housing occupancy levels of more than 100%.

In addition, MSCBA operates a facilities management system that indicates that deferred maintenance declined to $10.6 million in 2012 from $61 million in 2000; management has indicated it plans to fund future maintenance and repairs from current revenue.

Financial Profile

Financial resources/pledged revenues

The authority agrees that charges for system and campus projects will cover all operating costs, debt service, debt service reserves, and other reserves. MSCBA must certify to the BHE that annual charges to system and campus projects will meet its obligations. In addition, there is a residence hall trust fund operating reserve that requires that all money collected by each state university for the authority's system or campus projects is held separately from all other funds held by the state universities. The funding goal for each trust fund is 5% of the previous year's total income after payment of all annual expenses of the projects, although MSCBA reports that the actual balance as of fiscal year-end 2013 was 22% of prior-year revenue. Each university's trust fund is retained by the university and pledged in support of debt service at 25% of the annual principal and interest due on bonds outstanding. The authority also maintains a multipurpose and supplemental reserve account, which can be used to pay debt service costs. MSCBA's contract also pledges the annual operating appropriation to each university in support of the bonds should the universities and their various funds not provide sufficient DSC. The universities have never used the pledged trust funds or pledged state operating appropriations for debt service.

Operating performance

The authority's revenues have expanded steadily in the past five years as room rents and project fees have increased to support debt service associated with significant capital facility construction. Although room rents have increased steadily in the past five years, the average on-campus room rent of about $5,900 per bed is below the average for most other public institutions in the other New England states and well below the rental rates at private institutions in Massachusetts. We would expect rents and fees to continue to increase as additional capital facilities are financed. MSCBA has no debt caps on its nonguaranteed debt. Expenditures for maintenance, repair, and renewal have represented about 10% of authority expenditures in the past five years.

Related Criteria And Research

Related Criteria

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

Ratings Detail (As Of December 4, 2013)		
Massachusetts St Coll Bldg Auth GO State Enhancement		
Long Term Rating	AA/Stable	Affirmed
School Issuer Credit Rating	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth State Enhancement		
School Issuer Credit Rating	A+/Stable	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts St Coll Bldg Auth, Massachusetts		
Massachusetts		
Massachusetts St Coll Bldg Auth (Massachusetts) GO		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.