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Massachusetts State College Building Authority; School State Program

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Massachusetts State College Building Authority; School State Program

Credit Profile		
US$66.0 mil Project Rev Bnds (Green Bonds) ser 2014B due 05/01/2034		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
US$37.2 mil Project Rev Bnds ser 2014C due 05/01/2034		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
US$36.57 mil Rfdg Rev Bnds ser 2014D due 05/01/2041		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to the Massachusetts State College Building Authority's (MSCBA) series 2014B, C, and D project revenue bonds, reflecting the credit enhancement provided by a statutory state aid intercept. Standard & Poor's also assigned its 'A+' issuer credit rating (ICR) to the authority's debt, based on the pledge of project revenues (rent, fees, charges) from the state universities to MSCBA. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and 'A+' ICR on the authority's parity debt outstanding. The outlook on all of these ratings is stable.

We base the 'AA' rating on the Commonwealth of Massachusetts' credit profile ('AA+' general obligation rating) and intercept structure that supports the MSCBA's 2014B, C, and D bonds and parity bonds. Key credit factors supporting the 'AA' rating based on the statutory aid intercept include, in our view:

- 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 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 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 the recent debt increases and potential for additional debt for residential and auxiliary facilities, although management expects debt issuance to slow in future years.

MSCBA will use the series 2014B and C bond proceeds to finance a new residence hall and new parking garage, along with renovations of other residence halls and student activity and academic buildings. The series 2014D proceeds will be used to refund debt outstanding. The series 2014B bonds are designated as green bonds. Total debt outstanding after this issuance will be approximately $1.32 billion, with about $15 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 (gross revenues from payments of fees, rents, rates, and other charges for the use and occupancy of any projects and for the services and facilities they provide). The payments from the state universities are paid to the trustee semiannually, about a month after final room payments are due and at least a month before debt service on authority bonds is due. Further securing the bonds are multiple reserve funds, including a debt service reserve (DSR) fund, although the DSR is expected to be eliminated in the future. The DSR fund is an aggregate reserve for all parity bonds outstanding, although this reserve is expected to be eliminated in the future due to a change in the trust agreement. The current reserve totaled $96.8 million as of Sept. 30, 2014, slightly below the maximum annual debt service (MADS) amount. 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 flow of funds is closed and the remaining revenues after all bond funds are paid are retained in the revenue fund. If project revenues are insufficient, state aid to the universities can be intercepted for debt service payments, though this intercept has never been used.

The supplemental trust agreement for this new issue includes two changes to bond provisions outstanding, although we do not consider them to materially weaken the credit quality of the proposed debt or parity debt outstanding. The first change is that the DSR fund will be eliminated for the new and outstanding parity debt once more than half of parity bondholders approve, which is expected to be accomplished over time as additional parity debt is issued. We understand that once a majority of bondholders approve the elimination of the DSR (through the issuance of new debt or agreements with existing bondholders), MSCBA will pay down debt with existing reserves at that time. Due to the stable timing and coverage provided by the pledged revenues, and the proposed paydown of debt, we do not consider the DSR elimination to be a significant deterioration of credit quality. The second change is an amendment to the permitted investments that will allow funds to be invested in the Massachusetts Municipal Depository Trust (MMDT), which is an investment pool for Massachusetts state and local governments. MMDT offers two investment choices: a cash portfolio and a short-term bond portfolio. We do not believe this investment change is material to the MSBA rating.

Management projects post issuance, the MADS for the series 2014B, C, and D bonds and parity debt will be $103.2 million occurring in 2028. The revenues projected to be available for fiscal 2014 under the state intercept would provide more than 2x MADS coverage. Coverage of pro forma MADS provided by fiscal 2014 actual revenues and reserves -- which consist of the capital improvement reserve and the multipurpose and supplemental reserve (which are held by MSCBA), and the residence hall trust fund reserve (held by the universities) -- is good, in our opinion, at

1.7x and DSC by net revenues and reserves is sound at 1.3x. Management projects that coverage will grow by the end of fiscal 2016. In addition to these sources, the revenue available under the indenture includes pledged funds from each state university equal to 25% of its average annual debt service due to the authority. Debt service coverage by net revenues, reserves, and these additional pledges increases to 1.4x for 2014, and is projected to increase to 1.8x for fiscal 2016.

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 16,472 in fall 2014, and actual occupancy was 100.5% of design capacity. Actual occupancy has been above 100% of design capacity since fall 2003, except for a slight dip to 99% in fall 2013. 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. Rents at authority facilities remain competitive and below competitive market rents according to management, and the authority regularly conducts surveys of market rent rates near campuses. MSCBA projects also include new construction and renovation of campus centers, dining, athletic, and parking facilities, with the costs of these projects added to the student fees at the relevant schools. Rents and fees 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.

MSCBA management is stable, with no major changes and management updates its strategic plan every two years. The emphasis of the plan 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. Based on its capital plans, 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 universities. They are held by the comptroller and used to fund payroll and fringe benefits of college employees, which we believe would make the intercept easier to accomplish. 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 state appropriations to all universities in the system 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 sound 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 41,227, a 2.3% compound annual growth rate in the past 10 years. The total number of system beds increased by 6.5% from fall 2013 to fall 2014 to 16,742, and occupancy remains above 100% of system capacity, which we view as a strength. 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 $9.0 million in 2012 from $49.3 million in 2002 and management indicates it plans to fund future maintenance and repairs from current revenue.

Financial Profile

Financial resources/pledged revenues

The authority agrees that it will set rates and charges for system and campus projects at a level sufficient to cover all operating costs, debt service, DSRs, and other reserves, and must certify to the BHE that annual charges to system and campus projects will meet its obligations. Each of the state universities is required to hold all money it collects for the authority's system or campus projects separately from all other funds held by the university. Those funds are held in a closed residence hall trust fund that has a requirement to maintain at least 5% of the previous year's total income after payment of all of the projects' annual expenses, although MSCBA reports that the actual balance in those funds as of fiscal year-end 2014 was 23% of prior-year revenue. Each university's trust fund is pledged in support of debt service at 25% of the average annual principal and interest due on bonds outstanding allocable to each university's projects. The authority also maintains a multipurpose and supplemental reserve account that 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. The authority issued a series of private placement bonds in early 2014 for its community college program, but those community college bonds are secured by a different revenue stream from these project revenue bonds.

Operating performance

Although room rents have increased steadily in the past five years, to support debt service associated with its significant capital facility construction, MSCBA conducts a biennial market survey to ensure that its rates are no higher than those for off-campus housing near each university. We believe that this process should aid MSCBA in maintaining the strong occupancy levels it has achieved in recent years, and this in turn should result in continued good DSC. 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: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of November 25, 2014)		
Massachusetts St Coll Bldg Auth		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth proj rev bnds ser 2014 A due 05/01/2044		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Ratings Detail (As Of November 25, 2014) (cont.)		
Massachusetts St Coll Bldg Auth Project Rev Bnds ser 2014C due 05/01/2034		
Long Term Rating	NR	
Underlying Rating for Credit Program	NR	
Massachusetts St Coll Bldg Auth Project Rev Bnds (Green Bonds) ser 2014B due 05/01/2034		
Long Term Rating	NR	
Underlying Rating for Credit Program	NR	
Massachusetts St Coll Bldg Auth State Enhancement		
Underlying Rating for Credit Program	A+/Stable	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.