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Massachusetts State College Building Authority; Miscellaneous Tax; School State Program

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Table Of Contents

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Credit Profile		
US$16.95 mil proj rev bnds ser 2015A due 05/01/2036		
Long Term Rating	AA/Negative	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and negative outlook to the Massachusetts State College Building Authority's (MSCBA) series 2015A project revenue bonds, reflecting the credit enhancement provided by a statutory state aid intercept. At the same time, Standard & Poor's affirmed its 'AA' long-term intercept program rating on $1.29 billion of the MSCBA's parity debt outstanding. The outlook is negative.

We base our 'AA' rating on the MSCBA on the Commonwealth of Massachusetts' credit profile ('AA+/Negative' general obligation rating) as well as the state aid intercept structure, which supports the MSCBA's 2015A bonds and parity bonds.

Key credit factors supporting the 'AA' rating based on the statutory aid intercept include:

- A clearly defined, in our view, 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;
- What we consider strong debt service coverage (DSC) 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.

We understand that the MSCBA will use the series 2015A bond proceeds to finance various residence hall, conference center, and student activity facilities on five state college campuses.

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 semi-annually, 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, which is an aggregate reserve for all parity bonds outstanding, and is likely to be eliminated following an expected change in the trust agreement on majority bondholder approval. The aggregate DSR fund is projected to total $87.7 million after this sale, slightly above average annual net debt service of $74.2 million, but below future maximum annual debt service (MADS) of $103.1 million. 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.

Although project revenues are pledged, we base our 'AA' rating on the strength of the state aid intercept structure. If project revenues are insufficient, state aid to the universities can be intercepted for debt service payments, although this intercept has never been used. Based on fiscal 2015 interceptable commonwealth appropriations to the state universities of $240.11 million, we calculate strong 2.31x pro forma coverage of MADS under the intercept program.

The supplemental trust agreement for this new issue continues recent voted 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 we expect to be accomplished over time as additional parity debt is issued and purchasing underwriters vote to approve the changes. Approximately 12% of bonds outstanding have been voted to approve the changes. We understand that once more than 50% of bondholders approve the elimination of the DSR (through the issuance of new debt, including refunding debt, or agreements with existing bondholders), the 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. The 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.

MSCBA finances, designs, constructs, and manages residential and student life facilities on the campuses of nine state universities. State university full-time equivalent enrollment stood at an estimated 41,812 students as of fall 2015. The residence hall design capacity has grown 67% since 2001 to 16,773 as of fall of 2015, and actual occupancy was 100.9% of design capacity. Occupancy has been above 100% of design capacity since fall 2003, except for a slight dip to 99.0% in 2014 and 97.5% in 2015. 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. The MSCBA projects also include new construction and renovation of campus centers, as well as 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. The MSCBA has largely eliminated deferred maintenance and expects to move to funding repair costs from current year revenue, limiting future capital financing to new construction projects. The MSCBA has no variable rate debt or derivatives exposure.

Outlook

The negative outlook reflects the current rating outlook on the state of Massachusetts GO bonds and the strength of the intercept structure as well as 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. This state aid intercept-based rating will generally change in tandem with the GO rating on Massachusetts. A higher rating is precluded by our current rating on Massachusetts.

Our negative outlook on the state of Massachusetts' GO bonds reflects a projected decline in financial reserves in fiscal 2016 from currently adequate levels, despite a prolonged period of economic expansion and generally positive revenue trends, and which follows previous drawdowns that occurred in 2013 and 2014. The commonwealth has also suspended scheduled transfers of excess capital gains tax revenue to the BSF. We had viewed this policy as a positive budget management tool that could mitigate potential future budget volatility. Reduction of reserves could contribute to a lower rating over the two-year outlook horizon if we feel that financial flexibility is impaired--especially in light of relatively high fixed costs related to debt and retirement funding. Should the commonwealth reverse the trend of reserve reductions, we could return the outlook to stable.

State Intercept Mechanism

The state aid intercept has been in place since 1998 but in our view statutory changes have enhanced the timing, notification, and mechanics of the program. There is now a statutory requirement for the 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 by Sept. 30 and Jan. 31, well in advance of the debt service payment dates scheduled for Nov. 1 and May 1. 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 allowed 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.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of November 30, 2015)		
Massachusetts St Coll Bldg Auth		
Long Term Rating	AA/Negative	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth State Enhancement		
Underlying Rating for Credit Program	A+/Stable	Affirmed
Unenhanced Rating	AA(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.