

New Issue: Moody's assigns Aa2 to \$19.2M Massachusetts State College Building Authority's Series 2015A; outlook stable

Global Credit Research - 30 Nov 2015

\$1.3B rated debt

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

Moody's Rating

ISSUE	RATING
Project Revenue Bonds, Series 2015A	Aa2
Sale Amount \$19,200,000	
Expected Sale Date 12/08/15	
Rating Description Revenue: Public University Broad Pledge	

Moody's Outlook STA

NEW YORK, November 30, 2015 --Moody's Investors Service assigns a Aa2 rating to Massachusetts State College Building Authority's (MSCBA) approximately \$19.2 million of fixed-rate, tax exempt Project Revenue Bonds Series 2015A. The bonds are expected to have a 20 year maturity (FY 2036). Moody's has also affirmed the Aa2 rating on MSCBA's outstanding rated debt. The rating outlook is stable.

SUMMARY RATING RATIONALE

The Aa2 rating reflects MSCBA's strong oversight of auxiliary projects, project revenue adequately covering debt service, the strength of an aggregate state appropriation intercept, and unrestricted reserves held at both the individual campuses and the authority which are available to cover debt service should there be a revenue shortfall. The rating incorporates MSCBA's role as a component unit of the Commonwealth of Massachusetts (Aa1 GO rating) to design and construct auxiliary facility projects (such as housing, parking, and student activity centers) across the nine-member Massachusetts State University System.

OUTLOOK

The stable outlook is based on our expectation that pledged revenue will remain sufficient to pay debt service due to strong student demand for the bond-financed facilities and high aggregate occupancy levels as well as our expectation that the commonwealth appropriations to the nine state universities will remain at least sufficient to cover debt service in the event of a revenue shortfall.

WHAT COULD MAKE THE RATING GO UP

- Significant growth and diversification of pledged revenues, providing stronger debt service coverage
- Additional unrestricted liquidity under the control of MSCBA

WHAT COULD MAKE THE RATING GO DOWN

- Sustained decline in occupancy in the facilities and weakening of debt service coverage
- Decline in credit quality of the Commonwealth
- A material reduction in interceptable state appropriations

-A significant increase in leverage

STRENGTHS

- Large and diversified student body enrolled in nine public universities located across Massachusetts and high aggregate occupancy in the student housing
- Project-generated revenue providing sufficient income to cover debt service without a need to use the intercept mechanism, debt service reserve fund or reserves to pay debt service to-date
- Pre-default intercept mechanism and sufficiency of remaining state appropriations to cover debt service
- Strong management team overseeing development, construction and maintenance of the bond-financed auxiliary facilities
- Close ties with the state, as MSCBA is a component unit of the Commonwealth of Massachusetts

CHALLENGES

- High leverage reflecting significant past capital investments across the campuses (\$1.3 billion of MSCBA debt)
- Flat demographic projections for the number of high school graduates in Massachusetts and a highly competitive higher education market in the Northeast
- Ongoing pricing sensitivity and focus on affordability limiting public universities from significantly growing student charges

RECENT DEVELOPMENTS

Recent developments are captured below in Detailed Rating Rationale.

DETAILED RATING RATIONALE

MARKET PROFILE: LARGE AGGREGATE STUDENT BODY AND HIGH OCCUPANCY IN BOND-FINANCED FACILITIES

The credit strength of the state universities in the program and the essentiality of and strong demand for the auxiliary services to the campuses are key factors supporting the Aa2 rating. All nine campuses host revenue-producing projects financed under this program. These institutions comprise an important sector of the Massachusetts higher education system and enrolled in aggregate over 41,000 full-time equivalent (FTE) students in fall 2014 (over 51,000 headcount).

Preliminary undergraduate enrollment data suggest a modest decrease in aggregate undergraduate FTE enrollment across the nine universities in fall 2015, following multiple years of increases. Demographic forecasts for the number of future high school graduates in Massachusetts are challenging and the Northeast remains a highly competitive higher education market, both creating future challenges. A sustained decline in housing occupancy across the system or an inability to generate sufficient net revenues to cover debt service could negatively pressure the Aa2 rating.

The state universities, similar to most public universities across the US, will be challenged to adjust to longer-term slowed pace of revenue growth, including heightened public and political price sensitivity to increases in tuition, room, and board charges. Average combined tuition and fee charges at the state universities (average weighted by number of students at each campus) have steadily increased, with the academic year 2015 combined charges (tuition plus fees) up 5% over the prior year.

OPERATING PERFORMANCE: PLEDGED REVENUES ADEQUATELY COVER DEBT SERVICE BASED ON GOOD OCCUPANCY

Net revenue generated by the projects continues to be sufficient to cover annual debt service, and to-date MSCBA has not relied on the debt service reserve fund, available reserves, or the intercept mechanism to pay debt service. Based on MSCBA's careful attention to ongoing renovations and maintenance of attractive, well-used facilities, we expect continued good net revenue generation and occupancy.

The authority's debt-financed student housing on these state university campuses provides close to 17,000 beds

in fall 2015 and house close to half of the undergraduate student population. Occupancy in the authority's residential facilities is high with residential facility occupancy over 90% at most campuses in fall 2015. Massachusetts College of Liberal Arts (81.6% occupancy) and Worcester State (97%) have the lowest occupancy rates in the system for fall 2015.

WEALTH AND LIQUIDITY: MSCBA'S RESERVES SUPPLEMENT INDIVIDUAL UNIVERSITIES'

MSCBA has grown its unrestricted cash and investments, and the authority had approximately \$27 million of unrestricted reserves on its balance sheet at FYE 2015 in addition to the required reserves held at the individual universities.

Liquidity

MSCBA's cash and investments are very liquid, including cash and fixed income securities (such as checking and deposit accounts, money market funds, US treasuries and agencies, commercial paper, and bonds). Under the Supplemental Trust Agreement for the Series 2014B, C, and D bonds, the authority expanded the Trust Agreement's definition of "Investment Obligation" to include certain comingled cash and fixed income funds.

LEVERAGE: COMPARATIVELY HIGH LEVERAGE; NEW FINANCING EXPECTED TO MODERATE

Debt issued by MSCBA on behalf of the nine public universities is high with \$1.3 billion of pro-forma debt, nearly double the amount outstanding at FYE 2009. Following a capital-intensive, multi-year period, capital spending across the system has slowed significantly. Management does not currently report any concrete plans to add new beds to the system. The affirmation of the Aa2 rating heavily incorporates an expectation that the pace of new money borrowing will remain low in coming years.

The authority has received approval to support projects on Massachusetts community college campuses and during FY 2014 MSCBA issued a \$3 million bond which is backed by auxiliary revenue, reserves, and an intercept of appropriations of only that one community college. This bond does not have any claim on the revenue or reserves of the 9 state universities.

Debt Structure

All of MSCBA's debt is fixed-rate which aids budgeting and provides for predictable annual debt service.

Debt-Related Derivatives

MSCBA does not have any debt-related derivatives.

Pensions and OPEB

In FY 2015, MSCBA and the state universities recognized net pension liabilities with the implementation of GASB 68. MSCBA recognized a \$1.9 million net pension liability on its balance sheet for FY 2015. The authority does not have its own post-retirement health plan but makes contributions to the Commonwealth's cost-sharing multi-employer postemployment healthcare plan.

MANAGEMENT AND GOVERNANCE: MSCBA PROVIDES STRONG OVERSIGHT

MSCBA's strong management and oversight of capital project development, construction, and delivery are key credit strengths. The small, although stable, staff has a good track record of delivering projects on time and within budget. Over the past decade, MSCBA has tackled deferred maintenance and reduced estimated deferred maintenance significantly, 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. MSCBA is in the process of completing an updated strategic plan. The Authority is governed by a nine-member Board that is appointed by the Governor, further strengthening government linkages.

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.

KEY STATISTICS

-Fall 2014 full-time equivalent (FTE) enrollment at the 9 state universities: 41,293 FTE

-Fall 2014 Aggregate freshmen selectivity across the system: 70.6%

-Fall 2014 Aggregate freshmen matriculation across the system: 30.7%

-Pro-Forma direct debt at MSCBA: \$1.3 billion

-FY 2015 Unrestricted cash and investments at MSCBA (excluding debt service reserve funds and unspent bond proceeds): \$26.8 million

OBLIGOR PROFILE

MSCBA is a component unit of the Commonwealth of Massachusetts and is empowered to design and construct auxiliary facility projects (such as housing, parking, and student activity centers) across the nine state public universities (Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester State (rated A2) Universities, Massachusetts College of Liberal Arts, Massachusetts College of Art and Design, and Massachusetts Maritime Academy) as well as the state community colleges.

LEGAL SECURITY

The legal provisions under the Trust Agreement (Agreement) provide solid support for the bonds, with the authority pledging as security for the bonds pledged revenues and reserves. 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).

In addition to pledged revenue, each university is required to set aside 25% of its average annual aggregate debt service costs in a Pledged Trust Fund to cover any deficiencies of project revenue for debt service. These Pledged Trust Funds include student fees revenue 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. These pledged funds and reserves are internally designated for use for the projects and would be required to be used to pay debt service if project revenue is insufficient.

Currently, a joint Debt Service Reserve Fund (DSRF) for all bonds issued under the indenture secures the Project Revenue Bonds. However, starting with the issuance of the Series 2014B, C, and D bonds, the authority eliminated the debt service reserve fund requirement, per language in the Supplemental Trust Agreement for those bonds as well as the Series 2015A. This amendment of the Trust Agreement requires consent of the bondholders of at least a majority of principal amount of bonds outstanding. If the reserve fund requirement is eliminated in the future, management could use the reserve funds to pay down outstanding debt.

The presence of a state appropriations intercept program also benefits the authority's rated revenue bonds. The bonds are secured by the ability of the State Comptroller to intercept remaining current-year state appropriations to the universities for payment of debt service or replenishment of the joint debt service reserve fund. This pre-default intercept is limited to remaining appropriation funds and is therefore only meaningful if there are sufficient funds on account when and if needed to pay debt service.

The advance timing and notification of the intercept mechanism further strengthen it. 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.

The cross-collateralization of state intercept funds to cure any deficiency further strengthens the intercept provision. 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).

MSCBA management reports 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).

MSCBA reports that as of January 31, 2015 approximately \$95.2 million of aggregate appropriations were unspent as of January 31, 2015, in excess of the \$54.7 million debt service payment to be made on May 1, 2015 (funds, if needed, would be intercepted no later than last business day in February).

USE OF PROCEEDS

The Series 2015A bonds will be used for various facility renovations at Fitchburg, Framingham, and Westfield and for three property acquisitions at Framingham. Bond proceeds will also fund any debt service reserve requirement and pay the costs of issuance.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Higher Education published in November 2015. The additional methodologies used in this rating were the U.S. Municipal Pool Program Debt published in March 2013 and State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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