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New Issue

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Contacts

Mary Kay Cooney 212-553-7815
AVP-Analyst
marykay.cooney@moodys.com

Susan I Fitzgerald 212-553-6832
Associate Managing Director
susan.fitzgerald@moodys.com

Kimberly Tuby 212-553-6899
VP-Sr Credit Officer/ Manager
kimberly.tuby@moodys.com

Massachusetts State College Building Authority

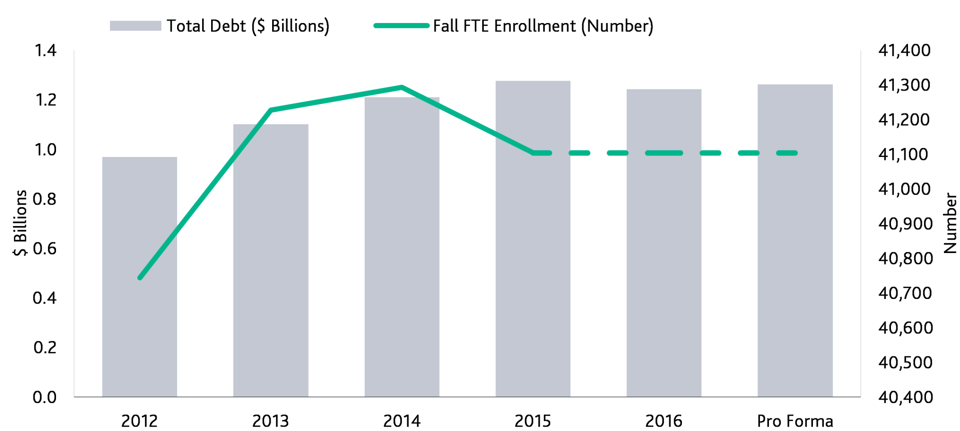
New Issue - Moody's Assigns Aa2 to Massachusetts State College Building Authority Series 2017A; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Massachusetts State College Building Authority's (MSCBA) planned $19.7 million in fixed rate Project Revenue Bonds, Series 2017A (maturing 2037). We have also affirmed the Aa2 ratings on authority's parity outstanding $1.3 billion of rated revenue bonds. The outlook is stable.

The Aa2 rating reflects MSCBA's role as a component unit of the Commonwealth of Massachusetts (Aa1 stable) to design and construct auxiliary facilities across the nine-member Massachusetts State University System, with aggregate enrollment over 51,000. Strong oversight and solid operating performance of the projects is strengthened by the presence of an aggregate state appropriation intercept mechanism, a debt service reserve fund, and additional available reserves. Offsetting challenges include high leverage, with stagnating enrollment trends and student affordability concerns limiting net tuition revenue growth.

Exhibit 1
Projections for Aggregate Flat Enrollment Growth Reflected in Slowing Debt Issuance



Pro forma reflects fiscal 2016 debt with planned Series 2017A bonds of $19 million; Dashed Full-Time Equivalent (FTE) line reflects flat enrollment projection (actual data not available until January 2017)
Source: Moody's Investors Service

Credit Strengths

- Projects across nine Massachusetts public universities, with total headcount over 51,000 and high aggregate 98.4% 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 oversight of the 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

Credit Challenges

- High leverage reflecting significant past capital investments across the campuses ($1.3 billion of MSCBA debt)
- Flat to declining demographic projections for the number of high school graduates in Massachusetts, the universities' high reliance on in-state students, 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

Rating 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. We also expect 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.

Factors that Could Lead to an Upgrade

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

Factors that Could Lead to a Downgrade

- Sustained decline in enrollment across the campuses or reduced occupancy in the facilities and weakening of debt service coverage
- Decline in credit quality of the Commonwealth
- Material reduction in interceptable state appropriations

Key Indicators

Exhibit 2

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY, MA

	2012	2013	2014	2015	2016	Pro Forma
Total FTE Enrollment	40,744	41,227	41,293	41,104	41,104	41,104
Total Debt ($000)	968,418	1,100,826	1,209,858	1,276,788	1,242,771	1,262,481
Occupancy Rates at MSCBA Facilities (%)	101.4	101.0	99.1	97.5	100.9	98.4
State Appropriations, Aggregate ($000)	191,585	191,785	229,924	229,694	240,110	278,066

Pro forma reflects fiscal 2016 debt including planned Series 2017A; Enrollment for fall semester; Fall 2016 FTE available in January 2017, using fall 2016 as a proxy; Occupancy rates for fall semester.; State appropriations for the combined nine MSCBA institutions.
Source: Moody's Investors Service

Recent Developments

Incorporated in Detailed Rating Considerations

Detailed Rating Considerations

Market Profile: Large Aggregate Student Population and High Occupancy in Bond-Financed Facilities; Flat to Declining Regional Enrollment Forecasts

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 2016 (over 51,000 headcount).

Aggregate undergraduate enrollment declined modestly across the nine universities in fall 2016 (approximately -1%), reflecting regional demographic trends. Universities within the authority's oversight will remain challenged by the demographic forecasts for the number of future high school graduates in Massachusetts, as well as the very competitive higher education market. 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 2016 combined charges (tuition plus fees) up 5.1% over the prior year.

Operating Performance: Pledged Revenues Adequately Cover Debt Service Due to Good Occupancy at Most Campuses

Net revenue generated by the projects is expected to continue to be sufficient to cover annual debt service. Favorably, 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 provided capacity of 16,857 beds in fall 2016, housing roughly half of the aggregate undergraduate student population. Occupancy in the authority's residential facilities is high, with the aggregate occupancy at 98.4% for fall 2016. Two universities did not report full or nearly full occupancy rates: Framingham State reported 96% due to a new project, but is expected to rise going forward. Massachusetts College of Liberal Arts continues to report the lowest housing occupancy within the system, with 80% occupancy due to competitive demand issues. MCLA is currently engaged in a strategic plan for operational improvements.

Wealth and Liquidity: MSCBAs Reserves Supplement Those of the Individual Universities

MSCBA has grown its unrestricted cash and investments, and the authority held approximately $25 million of unrestricted reserves at fiscal year end 2016, in addition to the required reserves held at the individual universities. Management reports that on an aggregate basis, the nine universities and the authority hold $158.4 million in required reserves for these auxiliary projects, well above the aggregate maximum annual debt service of $104 million.

LIQUIDITY

MSCBAs 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 Agreements 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. Following a capital-intensive, multi-year period, capital spending across the system has slowed significantly, as demonstrated by the current issuance of a modest $19 million. Management reports that while there are currently no concrete plans to add new beds to the system, the Massachusetts Maritime Academy is considering an addition of 150-180 beds due to high utilization rates. 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, though the only outstanding debt was issued during FY 2014. Those bonds, currently outstanding in the amount of $2.8 million are backed by auxiliary revenue, reserves, and an intercept of appropriations of only that one community college. The community college debt does not have any claim on the revenue or reserves of the nine state universities.

DEBT STRUCTURE

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

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The authority does not have its own post-retirement health plan but makes contributions to the Commonwealth's cost-sharing multi-employer post-employment healthcare plan. In FY 2015, MSCBA and the state universities recognized net pension liabilities with the implementation of GASB 68. The MSCBA recognized a modest $3.3 million net pension liability on its balance sheet at FYE 2016.

Governance and Management: Strong Stewardship by Stable Leadership Bolstered by Sound Commonwealth 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 been successful in reducing deferred maintenance needs, favorably positioning itself to meet annual investment through current year revenue. The careful planning process and investment in facilities has contributed to stronger student demand for MSCBA facilities as evidenced by high occupancy levels.

State oversight of the capital program is bolstered by the authority being required to receive approvals from the Board of Higher Education and the Secretary of the Executive Office for Administration and Finance of the Commonwealth to issue debt for projects at the state universities. The Authority is governed by a nine-member Board that is appointed by the Governor, further strengthening government linkages.

Legal Security

Pledged revenues and reserves, per the legal provisions under the Trust Agreement (Agreement), provide solid support for the bonds. 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. As of June 30, 2016, revenues in the Pledged Trust Fund totaled $22.7 million.

Currently, a joint Debt Service Reserve Fund (DSRF) for all bonds issued under the indenture secures the 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 2016A and planned Series 2017A. 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. With the issuance of the Series 2017A bonds, approximately 25% of required bondholders have consented to the elimination of the DSRF. As of June 30, 2016, the debt service reserve fund totaled $88 million.

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.

Advance timing and notification of the intercept mechanism provide additional strength. 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.

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). Fiscal 2017 appropriations are budgeted at $248 million.

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). For example, MSCBA reported that approximately $120 million of aggregate appropriations were unspent as of December 9, 2016, in excess of the $65 million debt service payment to be made on May 1, 2017 (funds, if needed, would have been intercepted no later than last business day in February).

Use of Proceeds

Proceeds of the planned Series 2017A bonds are expected to be used for residential and athletic facility improvements at three institutions, and to pay costs of issuance.

At Fitchburg State University (FSU), nearly $9 million will be used for the purchase of the developer-built and owned 145-bed SImonds Hall, which is currently in foreclosure proceedings. The building had been utilized by two-thirds FSU students. A portion of the $9 million cost will include renovation to common spaces. Simonds Hall will be used only for FSU students. Addtional FSU projects include $3 million of renovations at townhouses, and $4 million for the modification of one of two skating rinks to an athletic center.

Bridgewater State University and the Massachusetts College of Liberal Arts are slated for residence halls renovations and repairs ($3 million and $2 million, respectively).

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.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. The additional methodologies used in this rating were 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 Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 3

Massachusetts State College Bldg. Auth., MA

Issue	Rating
Project Revenue Bonds Series 2017A	Aa2
Rating Type	Underlying LT
Sale Amount	$19,710,000
Expected Sale Date	01/10/2017
Rating Description	Revenue: Public University Broad Pledge

Source: Moody's Investors Service

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