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

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Credit Profile		
Massachusetts St Coll Bldg Auth State Enhancement		
Long Term Rating	AA/Negative	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth proj rev bnds ser 2017A due 05/01/2037		
Long Term Rating	AA/Negative	Rating Assigned
Underlying Rating for Credit Program	A+/Stable	Rating Assigned

Rationale

S&P Global Ratings has assigned its 'A+' underlying rating to the Massachusetts State College Building Authority's (MSCBA) series 2017A refunding revenue bonds. The outlook is stable. The 'AA' long-term rating and negative outlook on the bonds are based on the state aid intercept structure.

At the same time, S&P Global Ratings affirmed its 'A+' issuer credit rating (ICR) and stable outlook on the authority's parity debt outstanding.

The rating reflects our analysis of the authority's debt, based on the pledge of project revenues (rent, fees, and charges) from the state universities to the MSCBA.

We base the 'AA' long-term rating and negative outlook on the Commonwealth of Massachusetts' credit profile (general obligation rating: AA+/Negative) and intercept structure that supports the MSCBA's parity bonds.

For further information on the Commonwealth of Massachusetts, see the analysis published Nov. 22, 2016, on RatingsDirect.

The 'A+' ICR reflects what we view as:

- The MSCBA's strong oversight of projects at each state university;
- The projects' revenue-producing nature, funded by the debt and good flexibility for setting rents and other rates;
- Sound coverage and maintenance of reserve funds supporting debt; and
- Solid demand and enrollment for state universities and high occupancy rates for MSCBA-supported residential halls.

Offsetting factors, in our opinion, are the recent debt increases and potential for additional debt for residential and auxiliary facilities, although management expects debt issuance to slow.

The MSCBA will use bond proceeds for repair and renovation projects ($8 million); new capacity ($9 million) and student activity projects ($4 million). Total debt after this issuance will be approximately $1.26 billion. All debt the authority issues is fixed-rate.

The bonds are secured and payable in the first instance by project revenues (gross revenues from payments of fees,

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rents, rates, and other charges for the use and occupancy of any projects and for the services and facilities they provide). State universities pay 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 we expect the authority to eliminate the DSR. Per management, the current reserve totaled approximately $80 million as of Oct. 31, 2016 (including the series 2017 estimated deposit). This is below the maximum annual debt service (MADS) amount of $104 million. In addition, each state university maintains a trust fund that is pledged to support 25% of the average annual principal and interest due on bonds outstanding; the trust funds are pledged to secure only debt 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, although this has never happened.

This new issue and the previous 2014 through 2016 issuances include provisions for the DSR to be eliminated once more than half of the parity bondholders approve, which we expect will happen as additional parity debt is issued. All bondholders from the 2014 issuance forward consent to this. We understand that once a majority of bondholders approve, the MSCBA will use the released funds to either pay down debt or to help fund additional projects. Due to the stable timing and coverage provided by the pledged revenues, we do not consider the DSR's elimination to be a credit risk.

Management projects that after issuance, in 2028 the MADS for the 2017A bonds and parity debt will be $104 million. The projected revenues available for fiscal years 2015 and 2016 under the state intercept would provide more than 2x MADS coverage and we expect this to continue. Coverage of pro forma MADS from fiscal 2016 actual revenues and reserves -- which consist of the capital improvement, multipurpose, and supplemental reserves (which the MSCBA holds), and the residence hall trust fund reserve (held by the universities) -- is good, in our opinion, at 1.85x and DSC by net revenues, and reserves are sound at 1.40x. Management expects that it will increase to 1.47x in fiscal 2017 based on preliminary fiscal 2017 financial information. In addition, 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. DSC by net revenues, reserves, and these additional pledges increases to 1.62x for 2016, and is projected to increase to 1.69x for fiscal 2017. Assuming no additional debt, fiscal 2018 should yield further increases in coverage.

The 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 16,857 in fall 2015, and actual occupancy was 100.9% of design capacity. Actual occupancy has been strong and has been generally above 100% of design capacity since fall 2003, except for a slight dip to 99% in fall 2013 and 98% in fall 2014. For fall 2016, occupancy declined but remains a still strong 98%. 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 below competitive market rents according to management, and the MSCBA regularly conducts surveys of market rent rates near campuses. The authority 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 recently. Management updates its strategic plan every two years. The plan's 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. The MSCBA has largely eliminated deferred maintenance. Based on its capital plans, the authority expects debt issuance to slow as it expects to undertake fewer projects.

Outlook

The stable outlook on the ICR reflects S&P Global Ratings' expectation that demand will remain strong for MSCBA projects over the two-year outlook horizon, enabling sound DSC. The outlook on the long-term rating reflects that on the intercept structure and the commonwealth rating.

Downside scenario

A significant increase to additional debt or a revenue decline that materially decreases DSC could pressure the rating.

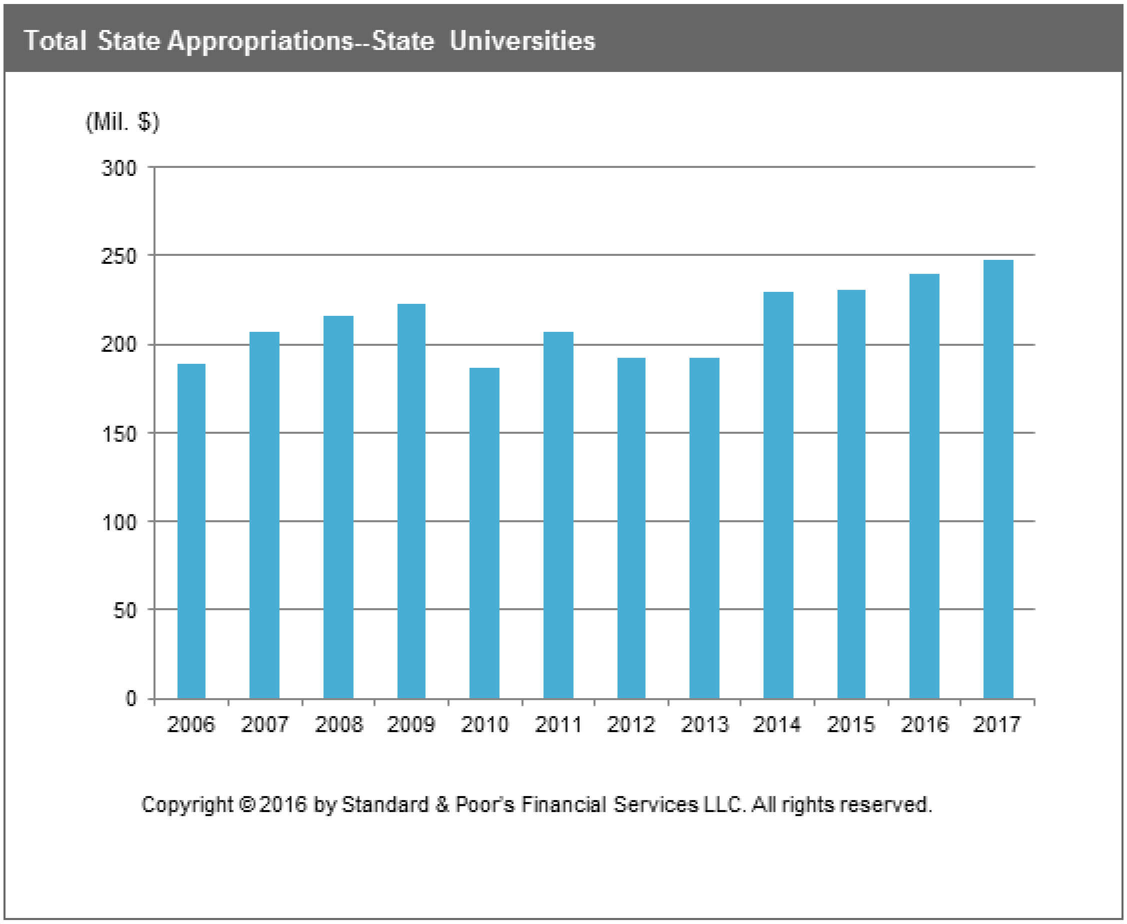
Upside scenario

Steady progress in funding capital requirements while maintaining strong demand, coupled with strengthened coverage levels could lead to a higher rating.

State Aid 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 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 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 no 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 our 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 total state appropriations (see chart) provide what we consider 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 S&P Global Ratings believes that state appropriations relative to debt outstanding should continue to provide sound coverage.



Enterprise Profile

Management

The 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 act, the authority's proposed schedule of rents and fees, the authority may fix charges without BHE approval. The 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's fall 2015, full-time enrollment increased to 41,182, a 1.0% average annual growth rate in the past five years and initial estimates indicate that for fall 2016 enrollment has declined 1%. The total number of system beds increased 0.50% in fall 2016 to 16,857, and occupancy remains above 100% of system capacity, which we view as a strength. While occupancy can decline, it has never been lower than 97.5% (see table 1), which is still strong. The authority reports it typically maintains rent at or below off-campus housing prices and expects average housing occupancy levels of more than 100% will continue to support operations. In addition, the MSCBA operates a facilities management system that indicates that deferred maintenance declined to $10.2 million in 2016 from $49.3 million in 2002 and management indicates it plans to fund maintenance and repairs from current revenue. The current capital improvement reserve funding levels ($23.1 million) exceeds projected requirements of $22.3 million. Maintenance of the existing facilities combined with limited additional capacity will ensure the high occupancy levels.

Table 1

Massachusetts State College Building Authority -- Occupancy As A Percentage Of Design Capacity				
(%)	**2012-2013**	**2013-2014**	**2014-2015**	**Fall 2015**
Bridgewater State	98.9	94.6	99.2	100.9
Fitchburg State	100.8	99.6	103.1	106.1
Framingham State	100.3	100.3	97.9	100.4
Massachusetts College of Art & Design	99.3	99.2	98.6	98.6
Massachusetts College of Liberal Arts	31.1	85.8	85.7	81.6
Massachusetts Maritime Academy	107.9	111.2	92.5	102.1
Salem State	106.7	105.9	106.8	103.7
Westfield State	101.1	98.1	98.3	105.5
Worcester State	101.9	101.1	86.6	97
State university average	101	99.1	97.5	100.9

Financial Profile

Financial resources and 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 the university holds. Those funds are in a closed residence hall trust fund that has a requirement to maintain at least 5% of the previous year's total expenses after payment of all of the projects' annual expenses, although the MSCBA reports that the actual balance in those funds as of fiscal year-end 2016 was 24% of previous-year expenses. 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. The 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. In 2014, the authority issued a series of private placement bonds for its community college program, but those are secured by a different revenue stream from these project revenue bonds. The authority is issuing additional debt for its community colleges.

Operating performance

Although room rents have increased steadily in the past five years to support debt service associated with its significant capital facility construction, the 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 the authority in maintaining the strong occupancy levels it has achieved in recent years, which should result in continued good DSC (see table 3). DSC at each campus is solid and overall DSC without the reliance on state appropriations remains strong. We would expect that this will continue because management provides a high level of oversight at each campus. We expect rents and fees to continue increasing as additional capital facilities are financed. The 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.

Table 2

Projected Revenues, Reserves, And Coverage, Fiscal 2017

(Mil. $)	Gross revenues	Building expense	Net revenues	Reserves*	Pledges*	Total	Average annual debt service§	Debt service coverage (x)
Bridgewater State	27.42	(8.91)	18.51	8.12	4.54	31.17	14.66	2.13
Fitchburg State	14.32	(3.68)	10.64	4.58	2.30	17.52	7.83	2.24
Framingham State	18.73	(5.81)	12.92	5.92	3.29	22.13	8.54	2.59
Massachusetts College of Art & Design	13.32	(4.61)	8.71	6.31	2.24	17.26	8.18	2.11
Massachusetts College of Liberal Arts	5.25	(2.50)	2.75	2.72	0.48	5.95	1.51	3.94
Massachusetts Maritime Academy	11.80	(3.15)	8.65	3.68	1.63	13.97	4.82	2.90
Salem State	24.12	(7.31)	16.81	5.33	3.69	25.83	11.47	2.25
Westfield State	20.45	(7.65)	12.80	10.98	2.65	26.43	8.13	3.25
Worcester State	13.39	(4.52)	8.87	5.35	2.11	16.33	7.62	2.14
Total	148.81	(48.14)	100.67	52.99	22.93	176.59	72.77	2.43

*Revenues and reserves projected for 2017. §Projected average annual debt service with 2017A financing. Source: Massachusetts State College Building Authority

Ratings Detail (As Of December 21, 2016)

Massachusetts St Coll Bldg Auth misc tax		
Long Term Rating	AA/Negative	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth misc tax		
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

Ratings Detail (As Of December 21, 2016) (cont.)

Many issues are enhanced by bond insurance.