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Massachusetts State College Building Authority; General Obligation; School State Program

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Credit Profile		
US$159.5 mil proj rev bnds ser 2012A due 05/01/2041		
Long Term Rating	AA/Stable	New
School Issuer Credit Rating	A+/Stable	New
US$75.0 mil proj rev bnds ser 2012B due 05/01/2041		
Long Term Rating	AA/Stable	New
School Issuer Credit Rating	A+/Stable	New
Massachusetts St Coll Bldg Auth State Enhancement		
Long Term Rating	AA/Stable	Upgraded
School Issuer Credit Rating	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth State Enhancement (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
School Issuer Credit Rating	A+/Stable	Affirmed
Massachusetts St Coll Bldg Auth, Massachusetts		
Massachusetts		
Massachusetts St Coll Bldg Auth (Massachusetts) GO		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on various Massachusetts State College Building Authority's (MSCBA) bonds to 'AA' from 'AA-'. The bonds are covered by the credit enhancement provided by the statutory state aid intercept. The outlook is stable.

We base the upgrade on the Commonwealth of Massachusetts' improved credit profile ('AA+' general obligation rating) and what we view as statutory changes that have strengthened the intercept structure.

At the same time, Standard & Poor's assigned its 'AA' long-term rating, and stable outlook, to MSCBA's $159.5 million series 2012A project revenue bonds, and $75 million series 2012B refunding revenue bonds. Standard & Poor's also affirmed its 'A+' issuer credit rating (ICR) on the authority's debt outstanding, based on the pledge of project revenues (rent, fees, charges) from the state universities to MSCBA. In addition, Standard & Poor's affirmed its 'AA+' rating on the bonds guaranteed by the commonwealth (see the recent report on Massachusetts published Sept. 20, 2011, on RatingsDirect on the Global Credit Portal).

Key credit factors supporting the 'AA' rating based on the statutory aid intercept include what we view as:

- 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 rating 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;
- Strong coverage levels and maintenance of reserve funds supporting debt outstanding;
- Solid demand and enrollment for state universities and high occupancy rates for MSCBA-supported residential halls; and
- Relatively stable support from Massachusetts for state universities.

An offsetting factor in Standard & Poor's opinion is an increased debt burden and continuing demand for additional residential and auxiliary facilities by the state university system.

MSCBA will use the series 2012A bond proceeds to finance various campus capital projects. We understand the series 2012B bonds will refund certain maturities outstanding for interest cost savings depending on market conditions at the time of pricing. Total debt outstanding before this issuance is $840.7 million; $34.2 million is 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 (all payments of fees, rents, rates, and other charges for the use and occupancy of any projects and for the services and facilities they provide). Further securing the bonds are an operating reserve fund, a capital improvement reserve fund, a multipurpose reserve fund, and a debt service reserve fund (see table). The intercept of state aid is available annually to fund debt service payments if project revenues are insufficient but this has never been used. The debt service reserve fund is an aggregate reserve for all parity bonds outstanding. The current reserve totaled $68.2 million as of June 30, 2011, which is significant relative to maximum annual debt service of $77.8 million. The flow of funds is closed and the remaining revenues after all bond funds are paid are retained in the revenue fund. 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.

MSCBA projects that available total fiscal 2012 revenues and pledged reserves held at the individual colleges, but not including the debt service reserve, would provide 2.6x annual debt service coverage (DSC). The projected fiscal 2013 revenues and pledged reserves provide 2.5x annual DSC, which includes the series 2012A bonds. Total state appropriations in fiscal 2012 are projected to be $191.6 million, providing 2.5x maximum annual DSC.

MSCBA finances, designs, constructs, and manages residential and student life facilities on the campuses of nine state universities. Total enrollment at the nine campuses in the fall of 2011 was 40,553, an increase of 13.5% from 2002. Approximately 14,344 students live in residential complexes owned by the authority. About one-third of the full-time undergraduate students live in the housing, which comprises 3.7 million square feet of space and 95 structures. In aggregate, occupancy rates exceed 100% for the nine campuses. 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. Campus projects also include new construction and improvement and the renovation of campus centers, dining, athletic, and parking facilities. Rents and charges 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 has identified about $200 million in capital projects that it might issue debt for in 2013 and 2014. The authority expects debt issuance to slow down after 2014 because the system will have achieved many of the current residential occupancy targets. In addition, management reports that it expects debt issuance for planned replacement and renewal to diminish and in future be funded out of operations.

Outlook

The stable outlook 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. Were appropriations to decline, leading to coverage deterioration, this could pressure the rating. A higher rating is precluded by the current rating on Massachusetts.

The outlook on the ICR reflects Standard & Poor's expectation that MSCBA will continue to monitor future projects and projects outstanding, rents will be sufficient to cover debt service, and demand will remain strong for MSCBA projects over the two-year outlook horizon. A sharp decline in revenue that diminishes flexibility and leads to deteriorating DSC could pressure the rating. Steady progress in funding capital requirements while maintaining strong demand and coverage levels could lead to a higher rating.

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 estimates its fall 2011 enrollment to be 40,553 or 2.3% above fall 2010 enrollment levels. Total enrollment has increased over time, which has contributed to steady demand for residential housing. Management expects the number of beds available will increase to 14,344 for fall 2011, compared with 10,065 in 2001, a 43% increase. 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%. We understand that fiscal 2012 rental revenues remain on target to achieve adequate coverage levels and management expects fall 2011-2012 housing occupancy levels to be at 104.3%, above the 100.6% recorded for the full 2010-2011 academic year.

In addition, MSCBA operates a facilities management system instituted five years ago that indicates that deferred maintenance has declined to $10.9 million in 2011 from $61 million in 2000; management has indicated it plans for maintenance and repairs from current revenue in the future.

Financial Profile

Financial resources/pledged revenues

The authority covenants that charges for system and campus projects will cover all operating costs, debt service, debt service reserves, and other reserves. MSCBA must certify to the BHE that annual charges to system and campus projects will meet its obligations. In addition, there is a residence hall trust fund operating reserve that requires that all money collected by each state university for the authority's system or campus projects are held separately from all other funds held by the state universities.

The funding goal for the trust fund is 5% of the previous year's total income after payment of all annual expenses of the projects: management reports that the actual balance as of fiscal year-end 2011 is 20%. The authority also has both a multipurpose and supplemental reserve account, which can be used to pay debt service costs. Each university's trust fund is retained by the university and pledged in support of debt service at 25% of the annual principal and interest due on bonds outstanding. 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 debt service coverage. The universities have never used the pledged trust funds or pledged state operating appropriations for debt service.

Massachusetts State College Building Authority

Projected revenues, reserves, and coverage of nonguaranteed bonds

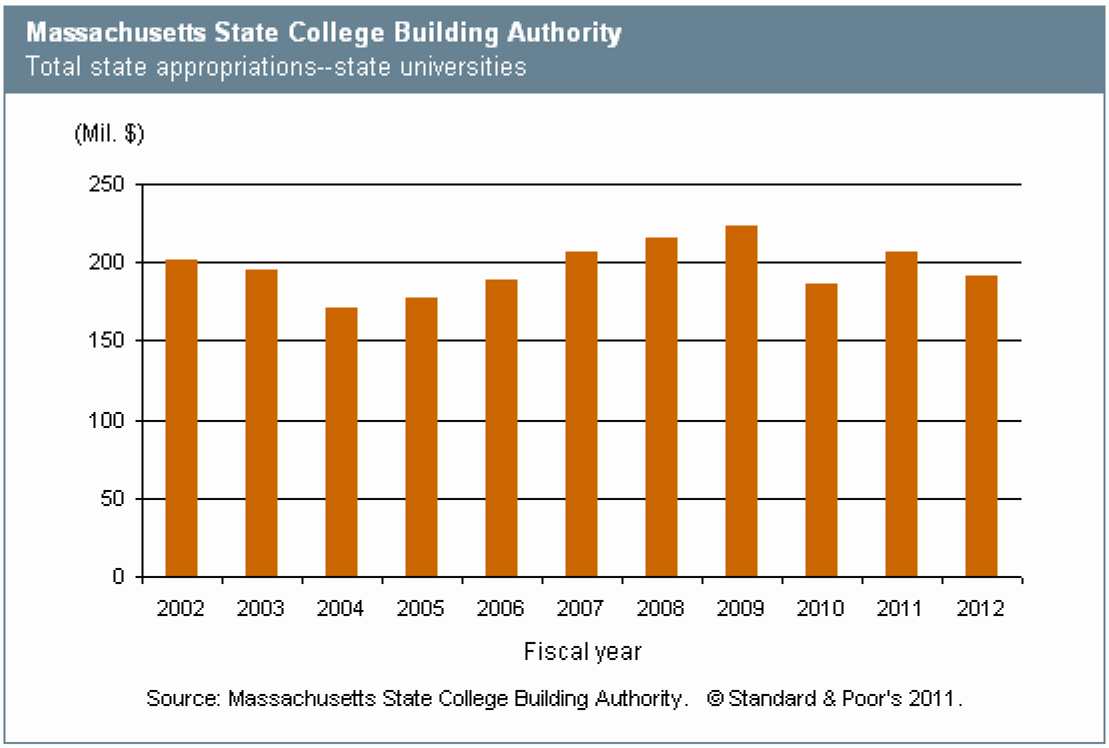
(Mil. $)	Revenue*	Reserves*	Total	Annual debt service*	Coverage (x)
Bridgewater State	26.7	14.2	40.9	19.7	2.1
Fitchburg State	11.8	7.4	19.2	7.5	2.5
Framingham State	16.7	7.7	24.4	9.9	2.5
Massachusetts College of Art and Design	11.6	6.1	17.7	8.9	2.0
Massachusetts College of Liberal Arts	5.6	4.5	10.1	2.1	4.8
Massachusetts Maritime Academy	6.9	4.1	11.0	3.4	3.2
Salem State	18.1	7.5	25.5	10.7	2.4
Westfield State	19.4	12.4	31.8	9.5	3.3
Worcester State	9.5	5.2	14.8	5.9	2.5
Total	126.3	69.0	195.2	77.6	2.5
Debt service reserve fund (DSRF)	N/A	N/A	68.2	N/A	N/A
Total including DSRF	N/A	N/A	263.4	77.6	3.4

*Revenues and reserves projected for 2013, debt service includes the series 2012A bonds. N/A--Not applicable. Source: Massachusetts State College Building Authority.

Operating performance

The authority's revenues have expanded steadily in the past five years as room rents and project fees have increased to support debt service associated with significant capital facility construction. Annual debt service in fiscal 2011 was $56.8 million, which compares to annual debt service of $31.3 million in fiscal 2007. Although room rents have increased steadily in the past five years, the average on campus room rent of $5,800 per bed is below public institutions in certain most other New England states and also well below the rental rates at private institutions in the commonwealth. We would expect rents and fees to continue to increase as additional capital facilities are financed. The authority's pro forma debt increases to about $995 million following this issuance. 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.

State appropriations to the nine universities for fiscal 2012 are expected to total $191.6 million, a decline of 7.5% from fiscal 2011 levels. These appropriations have fluctuated over time but, in our opinion, still represent a significant source of revenue for the nine universities averaging about one-third of total revenues (see chart).



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 Standard & Poor's 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 actually transferred to the colleges. They are held by the comptroller and used to fund payroll and fringe benefits of college employees. 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 all state appropriations to be available to cover a debt service insufficiency at any university. The aggregate state appropriations provide strong DSC, well in excess of 1x. On average, the state colleges have spent about half of their total state appropriations by the end of the first half of each fiscal year. There is not a DSC requirement related to state appropriations but Standard & Poor's believes that state appropriations relative to debt outstanding should continue to provide ample coverage.

Related Criteria And Research

- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Higher Education, June 19, 2007