

## CREDIT OPINION

10 January 2018

Rate this Research



### Contacts

Genevieve Nolan +1.212.553.3912  
VP-Senior Analyst  
genevieve.nolan@moody.com

Emily Raimes +1.212.553.7203  
VP-Sr Credit Officer/  
Manager  
emily.raimes@moody.com

### CLIENT SERVICES

Americas 1-212-553-1653  
Asia Pacific 852-3551-3077  
Japan 81-3-5408-4100  
EMEA 44-20-7772-5454

# Massachusetts School Building Authority, MA

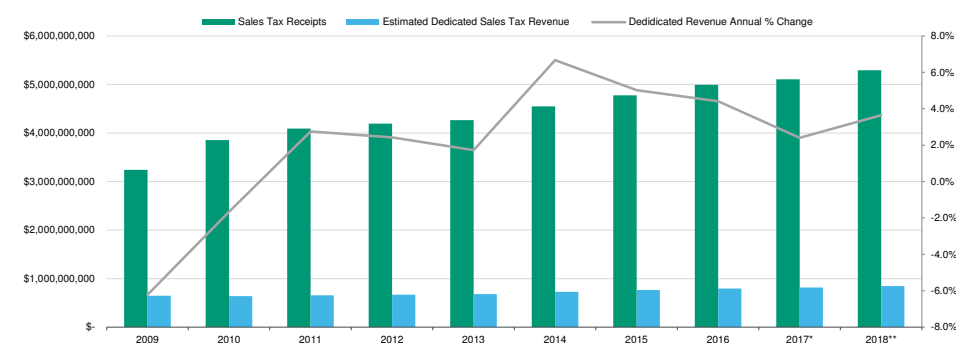
Update to credit analysis

## Summary

Massachusetts School Building Authority's (senior lien Aa2; subordinated lien Aa3; stable) credit benefits from a gross one percent sales tax revenue pledge collected statewide. The commonwealth's healthy economy has resulted in year-over-year pledged revenue growth, which will help support the authority's future issuance plans.

Exhibit 1

### Annual pledged revenue growth tied to statewide economy



\*Estimated data for 2017; \*\*Projected data for 2018

Source: Massachusetts School Building Authority; Moody's Investors Service

## Credit strengths

- » An economic base characterized by high wealth and high levels of educational attainment
- » Statutory pledge to not reduce the sales tax rate or divert pledged revenue
- » Sales tax allocation does not require appropriation, flows to trustee for benefit of bondholders before allocation to capital program or administrative costs of authority

## Credit challenges

- » Economically sensitive pledged revenue source
- » Planned additional leverage
- » Potential for legislation to increase current \$10 billion issuance cap

## Rating outlook

The stable outlook reflects our expectation that this revenue stream will continue to perform well over the long term, as indicated by its historical pattern of solid sales tax growth during periods of economic vitality. Given MSBA's multi-billion dollar borrowing plan, we expect the authority to leverage the program close to the additional bonds test.

## Factors that could lead to an upgrade

- » Upgrade of the commonwealth's general obligation rating
- » Increase in MADS coverage, including expected future issuances
- » Changes in legal covenants that strengthen bondholder protection

## Factors that could lead to a downgrade

- » Downgrade of commonwealth's general obligation rating
- » Economic or statutory changes to the commonwealth's sales tax base that negatively affect pledged revenues
- » Significant issuance of short term debt that is not included in leverage or debt service coverage calculations

## Key indicators

Exhibit 2

<b>Massachusetts School Building Authority Senior Dedicated Sales Tax Bonds</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Coverage of Maximum Annual Debt Service (x)	1.7x	1.9x	2.1x	2.3x	2.3x
Total Debt Outstanding (Mil.)	5,000	5,200	5,200	5,345	5,255
Pledged Revenue (Mil.)	670	682	728	764	798
Additional Bonds Test (x)	1.4x	1.4x	1.4x	1.4x	1.4x

\*Debt table reflects senior lien debt

Source: Massachusetts School Building Authority; Moody's Investors Service

## Profile

The Massachusetts School Building Authority (MSBA) is an independent authority that was created by the Massachusetts Legislature in July 2004 to replace the commonwealth's former school building assistance program. The purpose of the program is to sustainably finance grants to cities, towns, and regional school districts for school construction and renovation projects.

The Commonwealth of Massachusetts is the 15th largest state by population, boasting an estimated 6.8 million residents in 2016. Its gross domestic product, reaching \$505.8 billion, ranks 11th among the states. Per capita income was 131.4% of the national average in 2016, the 2nd highest.

## Detailed credit considerations

### Tax base and nature of the pledge

The MSBA bonds are secured by a gross pledge of one cent of dedicated statewide sales taxes. The dedicated sales tax allocation includes the general sales tax, excluding food but including motor vehicles. The tax does not apply to vendors in the vicinity of the [Boston](#) (Aaa stable) convention center and the [Springfield](#) (A2 stable) civic and convention center.

The state has taken steps to enhance the pledge, including an expansion in 2009 to include alcoholic beverages that was repealed by voters effective January 1, 2009 and a guaranteed sales tax allocation between fiscals 2005 and 2009. During this time the MSBA received amounts that were greater than the actual pledge level, thereby insulating it to some extent from the impact of the recession. Beginning in fiscal 2011, the MSBA received 100% of the dedicated amount with no floor or ceiling.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

A voter petition to reduce the state's total sales tax rate from 6.25% to 5.0% is currently pending certification by the state legislature. Any reduction, however, is not expected to negatively impact collections securing the authority's debt.

### Debt service coverage and revenue metrics

Using a 2% annual growth estimate for pledged sales tax revenues, MADS coverage is 2.4x across all pledged revenues. Fiscal 2017 revenues are projected to provide satisfactory debt service coverage of approximately 1.9 times maximum annual debt service across both senior and second lien bonds. This figure includes federal subsidies on prior bonds for the Build America Bonds (BABs) and Qualified School Construction Bonds (QSCBs), as well as expected debt service reserve fund releases and interest income.

Fiscal 2016 pledged sales tax revenues were \$798.6 million, representing 4.4% annual growth over fiscal 2015. Estimated fiscal 2017 revenues reached \$816.8 million, or a 2.4% year-over-year increase, with the authority projecting a 3.6% increase in fiscal 2018. Year-to-date total statewide sales tax collections were 3.1% over previous year's collections as of November 2017.

### LIQUIDITY

The pledged sales tax stream provides timely and ample liquidity for the payment of debt service.

### Debt and legal covenants

Given the magnitude of MSBA's capital program and borrowing plan, we expect debt issuance will likely be leveraged closely to the additional bonds tests. The MSBA will have slightly over \$6.0 billion amount outstanding, post sale, well below the statutory limit of \$10 billion. Of this total, approximately \$5.3 billion are secured by a senior lien, while \$688.4 million are secured by a subordinated lien. The authority also plans to continue cash funding of significant numbers of projects, as well as continuing its annual practice of defeasing debt as opportunities arise.

The additional bonds tests for both the senior and subordinated liens bonds are relatively weak at 1.4x and 1.3x, respectively. The tests are further diluted by permitting either a historical or a projected revenue test. The master trust provides for a debt service reserve for long-term bonds, but the required level, if any, is set by each supplemental trust agreement. The current issuance will not benefit from a reserve fund.

The strength of the one cent sales tax pledge is enhanced by additional covenants of the commonwealth. First, Massachusetts has agreed to not reduce the sales tax rate or divert the revenue stream, although the sales tax base could be altered by state statute or federal actions beyond the commonwealth's control. For example, legislation passed by the US Congress in 2004 exempted certain telecommunications services from the Massachusetts sales tax. The impact on the sales tax dedicated to MSBA was modest, at less than 1% of its allocation. Additionally, state law limits future grants to the lesser of sales tax growth or 4.5%.

### DEBT STRUCTURE

Post sale all of the authority's debt is long-term and fixed rate. The Authority issued two short-term debt sales in fiscal 2015 but both have been retired and the Authority does not expect to issue additional short-term debt over the near term. It may enter into a new commercial paper program, though a final decision has not been made.

### DEBT-RELATED DERIVATIVES

The authority does not have any derivative products outstanding.

### PENSIONS AND OPEB

Pensions and OPEB are not a major factor in Moody's special tax methodology.

### Governance

MSBA governance consists of the state treasurer, as chairperson the secretary of administration and finance, and the commissioner of elementary and secondary education (or their designees) and four other members appointed by the treasurer, each of whom serve two-year terms. The treasurer also appoints the MSBA's executive director. It is prohibited from filing for bankruptcy.

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454