S&P Global
Ratings

RatingsDirect®

Summary:
Massachusetts School Building Authority; Sales Tax

Primary Credit Analyst:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Secondary Contact:
Timothy W Little, Chicago + 1 (212) 438 7999; timothy.little@spglobal.com

Table Of Contents

Summary:

Massachusetts School Building Authority; Sales Tax

Credit Profile		
US$200.0 mil subordinated dedicated sales tax bnds ser 2018 B due 02/15/2048		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Massachusetts School Building Authority's (MSBA) $200 million subordinated dedicated sales tax bonds, 2018 series B.

S&P Global Ratings also affirmed its 'AA+' rating on the authority's $5.2 billion senior sales tax revenue bonds outstanding and its 'AA' rating on the authority's $688.4 million of subordinated bonds outstanding. The outlook on both the senior and subordinate bonds is stable.

The series 2018B and parity bonds are secured by a subordinate lien on the authority's dedicated sales tax revenue, after payment of senior bonds.

The ratings reflect our assessment of:

- A dedicated 1% sales tax that is levied statewide and is not subject to reduction or diversion pursuant to the statute and trust agreement;
- The pledge of sales tax revenue on a gross basis and not subject to annual legislative appropriation;
- The underlying strength and diversity of Massachusetts' (general obligation rating: AA/Stable) economy, with approximately 6.8 million residents that have well above-average income levels;
- Long-term trends of relatively stable and sustained growth. Revenues have experienced healthy growth following a dip during the 2008-2010 recession years. We expect growth to continue at a healthy pace based on strong economic fundamentals;
- Good debt service coverage (DSC); and
- Adequate bond provisions, including a 1.4x additional bonds test for the senior bonds and 1.3x for the subordinate bonds.

We understand that MSBA will use proceeds from the 2018B bonds as part of its long-term capital plan, which provides funds for construction grants to cities, towns, and regional school districts.

The senior and subordinate bonds are secured by a 1% statewide sales tax, excluding sales tax revenues on meals, and on sales occurring in certain portions of Boston, Cambridge, and the Springfield Convention Center area. The pledged 1.00% tax accounts for a portion of Massachusetts' overall 6.25% sales tax rate. Pledged sales tax is not subject to annual budget appropriation.

Although the pledged revenue stream has shown some volatility during recessions, we believe MSBA has managed its debt program so as to maintain strong coverage, and we expect it will manage its new debt issuance so as to preserve future strong coverage.

The sales tax has shown good long-term growth trends, with some dips in recession years. Pledged sales tax revenue fell by a cumulative 7.9% during the three 2008-2010 fiscal years, but has since grown each year, including 5.0% growth in the fiscal year ended June 30, 2015, 4.5% in fiscal 2016, and 2.3% in fiscal 2017. Fiscal 2018 year-to-date collections for the 10 months through the end of April 2018 were up 3.6% compared with the same period a year ago, consistent with a revised state consensus revenue forecast estimating 3.6% growth in fiscal 2018 and 1.5% in fiscal 2019.

Fiscal 2017 pledged revenue of $816.8 million covers estimated combined subordinate and senior-lien maximum annual debt service (MADS) in 2025 of $435.5 million after this issuance by 1.94x, which we consider strong. This calculation of MADS assumes annual debt service is reduced by the release of various series of senior bonds' debt service reserves when those series mature. Without release of reserves, MADS would be $606.3 million in fiscal 2031 and MADS coverage would decline to 1.40x; however, our analysis assumes that reserves will be available and released on time because of strong DSC.

Coverage of senior-lien MADS alone of $387.6 million, assuming use of bond reserves to make individual series' final maturities, is also strong, in our view, at 2.18x. Without availability of senior bond debt service reserve releases to reduce net debt service, senior MADS would be $572.7 million in 2031 and MADS coverage would be 1.48x.

MSBA next plans to sell debt in late fiscal 2019 or early fiscal 2020, in an amount not yet determined other than the authority intends to retain its informal 2x DSC target, assuming release of debt service reserves as available revenue.

The senior-lien additional parity bonds test requires at least 1.4x MADS coverage on the senior-lien bonds by historical revenues, and 1.3x MADS coverage on the subordinate bonds. The subordinate bonds do not have a debt service reserve, and senior bond series' debt service reserves have been established by the authority on a case-by-case basis. There is a pledge of federal interest subsidies received under the Build America Bond program and the Qualified School Construction Bond program for certain of the subordinate bonds outstanding. These subsidies have been reduced slightly in the past and could be reduced again; however, we have calculated DSC without regard to receipt of federal subsidies.

MSBA was created in 2004 to manage and plan reimbursements of Massachusetts' school construction and renovation grant program. Under the enabling legislation, the maximum amount of principal outstanding at any given time backed by this revenue pledge cannot exceed $10 billion, compared with current senior, subordinate, and commercial paper debt outstanding of $5.9 billion. The liability for the authority's remaining waiting list projects and previous grant projects that it inherited on its creation totaled $397 million as of June 1, 2018, while it had entered into new feasibility study agreements and project funding agreements for $5.0 billion of new project grants. Of the new project grant commitments, approximately $1.2 billion of funding commitments are still outstanding. There is a statutory cap on new grants per year, which limits growth to the lesser of the rate of dedicated sales tax growth, or 4.5%.

A proposed citizen's initiative to reduce the statewide sales tax rate to 5.00% from 6.25% had been gathering signatures earlier in the year. However, the backers of this initiative did not submit the required number of signatures by the deadline in order to place the initiative on the November 2018 ballot, following legislative action ameliorating some of the complaints of the initiative sponsors. Bond counsel had earlier said that if such an initiative were passed, it would have no effect on the amount of pledged revenue as a result of state bond covenants pledging to preserve at least a 1% sales tax rate, as specified in bond authorizing legislation.

For more information on the state and its economy, please refer to our most recent Massachusetts GO rationale, published April 9, 2018, on RatingsDirect.

Outlook

The stable outlook reflects our view of the magnitude and diversity of the statewide tax base supporting the bonds. We believe DSC will remain strong and near current coverage levels. Should coverage decline significantly due to deteriorating revenues or an acceleration of debt issuance, this could negatively pressure the rating. We will not likely raise the rating in the two-year outlook horizon based on the possibility of additional debt issuance.

Ratings Detail (As Of July 5, 2018)		
Massachusetts Sch Bldg Auth sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Sch Bldg Auth subord sales tax		
Long Term Rating	AA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.