

**Rating Action: Moody's assigns Aa3 to Massachusetts School Building Authority's Sub Lien bonds 2018 Ser. B; outlook stable**

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28 Jun 2018

New York, June 28, 2018 -- Moody's Investors Service has assigned a Aa3 rating to the Massachusetts School Building Authority's \$200 million Subordinated Dedicated Sales Tax Bonds, 2018 Series B. The outlook is stable.

**RATINGS RATIONALE**

The Aa3 rating reflects the subordinated pledge on a statewide one cent sales tax allocation. It also reflects Massachusetts' (Aa1 stable) continued, albeit somewhat moderated, annual sales tax revenue growth, as well as satisfactory debt service coverage. Future issuances are planned and the bonds benefit from legal protections at the state level to not reduce the sales tax rate or divert the revenue stream.

**RATING OUTLOOK**

The stable outlook reflects our expectation that the pledged revenue stream will continue to provide satisfactory coverage across both liens given the state's ongoing economic growth, despite planned additional leverage.

**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 protections

**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

**LEGAL SECURITY**

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.

A question may be put on ballot this fall to reduce the state's sales tax rate to 5.0% from 6.25%. If approved, the measure would take effect 30 days after election day. While statewide sales tax revenues would fall, the 1% dedicated sales tax levy for the authority would remain intact per state statute and constitutional language preventing impairment of contracts. The state would likely look for cost saving measures for its general operations, however, and may shift expenses related to school construction to the authority. This may reduce the authority's ability to fund pay-as-you-go capital expenditures, or defease existing debt with cash on hand. These expenses, however, would fall after debt service in priority of payment.

**USE OF PROCEEDS**

Proceeds from the current issuance will fund school construction projects across the state.

**PROFILE**

The MSBA 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 6.9 million residents in 2017. 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.

#### METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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