

Research Update:

University of Massachusetts System Refunding Revenue Bonds Assigned 'AA-' Rating; Outlook Is Stable

June 6, 2025

Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to [University of Massachusetts Building Authority](#)'s (UMBA) \$340 million senior series 2025-1 bonds issued for [University of Massachusetts System](#) (UMass).
- S&P Global Ratings affirmed its outstanding 'AA-' long-term rating and underlying rating (SPUR) on UMass bonds issued by the UMBA and other issuers.
- S&P Global Ratings also affirmed its 'A-1' rating on the commercial paper (CP) program (series 2013A and 2013B).
- The outlook, where applicable, is stable.

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Rationale

Security

The bonds are secured by all available funds of the system, payable to the authority under the contract for management and services. We consider this equivalent to a general obligation pledge of the university system. As of June 30, 2024, the system had approximately \$3.6 billion in debt outstanding (including notes, leases, and CP). While all the system's debt is on parity, we rate only a portion. With the proposed transaction, its pro forma long-term debt is expected to be \$3.7 billion, which reflects the proposed refunding and the potential for \$179 million of additional debt during the two-year outlook period.

The system is engaged in a CP program, which is authorized for \$200 million. As of June 30, 2024, the program had an approximately \$58 million outstanding balance. The series 2013-A and series 2013-B CP programs are rated 'A-1' based on support by TD Bank's standby liquidity facilities. Each standby liquidity facility expires on Aug. 3, 2025, unless it is extended, replaced, or terminated beforehand according to its terms. The series 2013-A and 2013-B liquidity facilities will cover up to \$200 million of principal and up to 270 days' interest accruals at a

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maximum 12% rate. UMass also maintains about \$797 million in 30-day liquidity. In addition, the system maintains a \$150 million line of credit for additional liquidity flexibility.

The series 2025-1 bonds are being issued to refund the outstanding series 2010-2 bonds to avoid a potential risk with the federal Build America Bonds subsidy.

Credit highlights

We assessed the system's enterprise risk profile as extremely strong, characterized by its role as the leading provider of public higher education in Massachusetts, solid demand with growth in applications during the last few years, and sound management and governance oversight with comprehensive long-term strategic plans. We assessed the system's financial risk profile as strong, with historically positive operating margins, solid support from the state, offset by the system's elevated debt load and significant capital plan, which pressure already-low financial resources for the rating. We believe these credit factors, combined, lead to an anchor of 'aa-' and final rating of 'AA-'.

The ratings reflect our view of the system's:

- Historically healthy support by the Commonwealth of Massachusetts with geographically and academically diverse campuses located throughout the commonwealth;
- Positive operating performance in recent years with a surplus expected for fiscal 2025;
- Overall enrollment and demand trends that are consistent with the rating; and
- Comprehensive program offerings, including a law school and medical school, the system's healthy level of research, and expansive online education presence.

Partly offsetting the strengths, in our view, are the system's:

- Elevated debt levels, which we expect will continue to pressure the balance sheet;
- Some weakening in enrollment and demand measures such as undergraduate full-time equivalent (FTE) and matriculation;
- Substantial remaining capital needs with additional debt plans through the next five fiscal years; and
- Low relative financial resource levels compared with median levels, and limited fundraising, though recent efforts have been successful.

In our view, there are heightened sector risks, including those related to federal funding. UMass is a R1 research institution and total grants and contract revenue totaled around \$823 million in fiscal 2024 (based on audited financials), about 17% of the university's adjusted operating revenue base. About three quarters of those grants and contracts are at the UMass Amherst and UMass Chan campuses. The indirect cost recovery rates at those two campuses are currently 61.0% and 67.5%, respectively. To date, the number of terminated grants has been limited and represent a very small portion of the broader research portfolio. Given evolving federal policies, management continues to assess the potential effects of funding disruptions or reductions to federal funding. We believe that the university maintains sufficient liquidity and is assessing financial mitigations to provide it with flexibility to navigate reductions.

The University of Massachusetts, established in 1863, is a coeducational, state-supported institution with campuses in Amherst, Boston, Dartmouth, Lowell, and Worcester. The campuses are geographically dispersed throughout the commonwealth, with complementary missions. The Amherst campus is the system's flagship and the largest based on headcount.

UMass Amherst acquired the campus of Mount Ida College in 2018, following the college's closure, with the intention to capitalize on the campus' location to expand university-industry partnership and increase internship and career opportunities for its students in the greater Boston area. The UMass Chan Medical School (Worcester) campus is a graduate and professional campus housing the T.H. Chan School of Medicine, Morningside Graduate School of Biomedical Sciences, and the Tan Chingfen Graduate School of Nursing. The Dartmouth campus also houses the UMass School of Law. The Boston campus has traditionally been commuter only, but in recent years has shifted toward residential. UMass Global was established in a September 2021 partnership with Brandman University, a California-based nonprofit online provider that was a component of Chapman University to to expand its online education services for adult students, with no initial investments from the system.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance. We view the university's ESG factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects the expected full accrual surpluses, maintenance of its role as the leading provider of higher education in Massachusetts, and relatively consistent balance sheet with some potential addition of debt.

Downside scenario

We could consider a negative rating action if the system's enrollment and demand measures weaken materially or if the additional debt strains the balance sheet such that its financial metrics fall below their historical levels.

Upside scenario

We consider a higher rating unlikely during our two-year outlook horizon given the low level of financial resources for the rating category. In the long term, a higher rating would be predicated on resource ratios significantly improving, especially relative to debt, consistent healthy surplus levels, and maintenance of the enterprise profile.

Credit Opinion

Enterprise Risk Profile--Extremely Strong

Market position and demand

In our view, the system has moderate geographic diversity and is mostly regional. About three-quarters of all students hail from within the commonwealth. The system's FTE was essentially flat for the last two years--with small 0.6% and 0.4% increases in fall 2024 and fall 2023, respectively. Our expectation is for FTE to remain relatively stable in fall 2025. Given the region's declining demographics, management is exploring different trends in the area to determine strategies to maintain the university's position. Given its size and variety of geographic locations throughout the commonwealth, we believe the university has some insulation from prolonged

declines. For fall 2024, Lowell enrollment was below budget while the other campuses were better than expectations. Overall undergraduate FTE and law school FTE decreased in fall 2024.

First-year applications grew in the past four years. Selectivity has fluctuated modestly in the last few years but remains consistent with the rating category. The matriculation rate has weakened and we believe it reflects New England's highly competitive public and private higher education market. UMass has a healthy transfer population and is also now sharing Amherst applications with the Dartmouth and Lowell campuses, which should yield some additional students. Demand for fall 2025 seems healthy with an increase in first-time and transfer applications and deposits. The system's mission remains access and affordability, and management expects to maintain moderate tuition increases for the near future.

About 6% of undergraduate FTE enrollment and 26% of graduate and continuing education FTE enrollment in fiscal 2025 were international students. The international enrollment has increased during the last five years, mostly in the graduate programs. If there were changes in federal policy or other restrictions to international enrollment, the university's demand and revenue may be pressured and management is monitoring developments.

The system has a large and growing online program, which we believe adds overall revenue and program diversity. UMass announced the creation of UMass Global, a nonprofit that specializes in online education for military, veteran, and adult students. It first appeared in the consolidated fiscal 2022 results, and overall, we expect it to be neutral in the near term from a credit perspective but will likely strengthen the system's online offerings.

Management

Since our last review, the leadership team has remained relatively stable. The administration structure has a centralized office headed by a president, and each campus has a chancellor. A board of trustees governs the system under the coordinating effort and authority of the commonwealth. The board has 22 members, including three nonvoting members and 17 members appointed by the governor. Management reports that board membership has been stable during the past year.

The system remains engaged in a number of strategic initiatives, including a focus on operational efficiencies and lowering the cost of education delivery. The system has focused heavily on maintaining sufficient liquidity in cash and investments, and has controlled expenses and generated revenue to allow for operating surpluses for the past several years. The system is also enhancing its capital investment approval process, and is tracking and reporting on key performance metrics. In our opinion, the system's historical operating performance, good enrollment, and demand metrics as well as its professional management team are credit strengths, but the system's balance sheet is relatively weak for the rating category and its high debt load remain offsetting rating factors.

The UMBA is the statutory entity through which the University of Massachusetts system finances its debt issuance and provides project management oversight until facilities are available for occupancy. The authority is an independent entity and has an 11-member board appointed by the governor.

Fundraising

The system is building its fundraising capacity across the five campuses and intends to enhance its advancement effort. There are ongoing campaigns at the Worcester and Amherst campuses with goals of \$500 million and \$600 million, respectively.

Financial Risk Profile--Strong

Financial performance

The system has a long history of operating surpluses, though results were compressed and closer to breakeven in fiscals 2020 and 2021. Our revenue adjustment includes audited operating revenue, state support, federal support, and gifts and endowment income, but excludes investment income. Our adjusted expenses include audited operating expenses and interest expense. The system's fiscal 2024 operating results were in line with projections, with each campus demonstrating improved operations. Enrollment improved at most campuses and occupancy at Amherst increased as well. In addition, commonwealth support of aid through the MassGrant+ program and state appropriations were favorable. The recent improvement also reflects management's concerted efforts to contain expense growth, with each campus expecting positive operating margins and a surplus in its fiscal 2025 projection. In the next few years, management is targeting surpluses and is focused on revenue and expense items to maintain operating performance despite industry pressures.

The system participates in Massachusetts' fringe benefits programs, including health insurance, other postemployment benefits, and pension. Included in the system's financial statements and state-funded appropriation is an allocation to cover fringe benefit costs, which we view as a positive credit factor. Appropriations have increased in recent years and a modest increase is expected for fiscal 2026. We view the history of strong funding from the commonwealth as positive from a credit standpoint and believe its substantial support will continue.

Financial resources

In our view, the system's cash and investments relative to operating expenses are relatively light for the rating category though improved from historical levels after the fiscal 2021 market gains and asset growth. Cash and investments relative to debt is somewhat improved from historical levels despite the additional debt. We expect the system's financial resource ratios to remain steady or slightly weaker in the near term, with the expectation of continued, though modest, operating surpluses and plans for limited additional debt--about \$179 million remaining in likely debt issuances to support the capital plan.

The endowment, held by the foundation, had a market value of \$1.53 billion as of June 30, 2024. Management reports little change to asset allocation or liquidity in the near term. The spending policy for the foundation endowment fund is 4% of the endowment's average market value for the prior 12 quarters, with an actual spend rate typically below this level. Draws have been consistent with management's policy, and we do not anticipate any extraordinary draws or changes to the policy.

Debt and contingent liquidity

UMass' debt burden remains elevated compared with those of similarly sized and comprehensive universities and is higher than our medians for the rating category. Maximum annual debt service (MADS) is in 2026 and above average at almost 6% of fiscal 2024 adjusted operating expenses. We understand that about \$245 million of principal will be amortized in fiscals 2026 and 2027, providing some capacity for the potential additional debt during the next two to four years. Most of the system's debt is fixed rate. Contingent debt risk outstanding is the CP and series A (\$20 million). In fiscal 2013, the authority approved a CP program to help

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fund the system's capital plan. The program is authorized for \$200 million and is supported by a standby letter of credit.

In our opinion, the high debt and elevated MADS burden remain a challenge, particularly as the system handles enrollment challenges and its significant capital plans will likely continue to limit its balance sheet growth. Nevertheless, we believe that overall debt will remain manageable at the current rating because of university trustee policies that limit debt service to 8% of operating expenses (including the Build America Bonds subsidy). In addition, debt service is conservatively somewhat front-loaded, which we believe provides some flexibility.

The university's capital plan for fiscal years 2024-2028 includes over 100 projects and totals about \$2 billion of capital spending. Funding sources include about \$777 million in total debt (the majority already issued), \$344 million of state funding, with the remaining from other internal and external sources. Based on the capital plan, we expect debt to remain elevated compared with that of the system's peers and the rating medians. The plan currently anticipates about \$179 million of additional debt to complete the projects. Some recent projects include an engineering building, computer sciences investments, Goodell building renovations, and School of Public Health addition on the Amherst campus.

The system built a 1,000-bed freshman housing facility on time and within budget, through a 501(c)(3) ownership structure on its Boston campus. In addition, UMass Dartmouth engaged into a 1,210-bed housing facility project through a 501(c)(3) ownership structure. The associated debt for the two projects was approximately \$260 million, which is not included in the calculation of resources to debt ratios. We understand that the system entered into a service concession agreement with a developer for an undergraduate and graduate housing project at UMass Amherst. As part of the deal, UMass received a \$20 million up-front payment and will retain ownership of the property.

UMass contributes to the Massachusetts state employees' retirement system, a cost-sharing, multiple-employer, defined-benefit pension plan administered by the State of Massachusetts. We understand that the pension plan funded status in fiscal 2024 was approximately 73%, which we view as sufficient. UMass' contributions were what we consider manageable in fiscal 2024.

University of Massachusetts System, Massachusetts--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges & universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	65,221	64,855	64,578	64,785	66,070	38,162
Undergraduates as a % of total enrollment	76.8	76.9	77.7	78.3	79.7	80.2
First-year acceptance rate (%)	71.8	70.6	73.7	72.7	69.6	73.7
First-year matriculation rate (%)	15.9	16.8	17.7	17.4	19.7	27.1
First-year retention rate (%)	82.3	82.4	82.4	83.6	83.4	85.6
Six-year graduation rate (%)	68.5	70.0	71.4	70.9	70.4	71.0
Financial performance						
Adjusted operating revenue (\$000s)	N.A.	4,794,794	4,552,144	4,325,598	3,805,067	MNR

University of Massachusetts System, Massachusetts--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges & universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Adjusted operating expense (\$000s)	N.A.	4,632,223	4,402,361	4,195,611	3,789,501	MNR
Net adjusted operating margin (%)	N.A.	3.5	3.4	3.1	0.4	2.1
Estimated operating gain/loss before depreciation (\$000s)	N.A.	523,697	494,655	460,702	334,394	MNR
Tuition discount (%)	N.A.	31.1	28.2	26.9	27.1	28.2
Student dependence (%)	N.A.	40.7	42.4	41.9	37.8	36.2
State appropriations to revenue (%)	N.A.	24.0	22.2	20.3	22.2	17.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	17.2	16.4	16.6	17.5	14.5
Financial resources						
Endowment market value (\$000s)	N.A.	1,526,385	1,295,214	1,101,885	1,204,034	1,291,622
Related foundation market value (\$000s)	N.A.	1,194,640	992,278	816,452	825,294	MNR
Cash and investments including foundation (\$000s)	N.A.	3,629,902	3,203,468	2,952,084	2,693,893	2,690,303
Cash and investments including foundation to operations (%)	N.A.	78.4	72.8	70.4	71.1	116.1
Cash and investments including foundation to debt (%)	N.A.	101.8	91.1	80.7	78.2	290.2
Cash and investments including foundation to pro forma debt (%)	N.A.	96.9	N.A.	N.A.	N.A.	MNR
Debt						
Total debt with foundation (\$000s)	N.A.	3,567,283	3,516,756	3,659,719	3,446,557	985,387
Proposed debt (\$000s)*	N.A.	539,895	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	3,746,283	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	6.1	6.4	6.5	6.2	3.5
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.7	12.4	12.2	11.3	12.7

Proposed debt includes the refunding debt plus \$179 million of potential debt that might be issued during the two year outlook period. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Ratings List

New Issue Ratings

US\$340.0 mil rfdg rev bnds (University of Massachusetts System) ser 2025-1 due 11/01/2040

Long Term Rating AA-/Stable

Ratings Affirmed

Education

University of Massachusetts System, MA Unlimited Student Fees AA-/Stable

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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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