

RATING ACTION COMMENTARY

Fitch Affirms University of Massachusetts Revs at 'AA'; Outlook Stable

Tue 29 Sep, 2020 - 3:01 PM ET

Fitch Ratings - Chicago - 29 Sep 2020: Fitch Ratings has affirmed the 'AA' rating on approximately \$320 million of Refunding Revenue Bonds Senior Series 2020-4 to be issued by the University of Massachusetts Building Authority (UMBA) on behalf of the University of Massachusetts (UMass). The 2020-4 bonds were delayed from an expected pricing in March and will now price the week of Oct. 14. The bonds will be used to restructure and refund existing debt for aggregate savings.

Fitch has also affirmed the 'AA'/F1+' long- and short-term ratings on outstanding bonds issued by the UMBA, the Massachusetts Development Finance Agency, and the Massachusetts Health and Educational Facilities Authority.

The Rating Outlook is Stable.

SECURITY

UMass revenue bonds are secured by a pledge of the university's gross unrestricted revenue and other legally available funds. The bonds and commercial paper notes are special obligations of the University of Massachusetts Building Authority (UMBA) payable from payments made by the university. Under a service contract between the university

and UMBA, the university is required to remit to the authority annually an amount sufficient to pay debt service and other costs associated with operating and maintaining the financed projects during the next year, referred to as the certified amount. The annual certified amount is payable from a variety of revenue streams, including all legally available revenues of the university and UMBA, including state appropriations, as well as unrestricted net assets (UNA, defined as unrestricted fund accumulated surpluses, as well as quasi-endowment, unexpended plant fund, and unrestricted renewal and replacement fund).

ANALYTICAL CONCLUSION

The 'AA' Issuer Default Rating (IDR) and revenue bond rating reflect UMass' role as the Commonwealth of Massachusetts' flagship public research system of higher education and the strong operating and capital support provided by the Commonwealth (AA+/Stable). The rating further reflects UMass' rigorous attention to managing cash flow needs in support of its material capital improvement program. The 'F1+' rating is consistent with the university's strong long-term credit profile and reflects its ample reserves in support of its modest self-liquidity obligations.

The Stable Outlook reflects Fitch's expectation that UMass' financial and operating profile will remain resilient, with steady enrollment and a commitment to preserving a structural operating balance through the pressures of the pandemic in fiscal 2021.

Coronavirus Impacts

The ongoing coronavirus pandemic and related government-led containment measures create an uncertain environment for the U.S. public finance higher education sector. Fitch's forward-looking analysis is informed by management's expectations coupled with Fitch's common set of baseline and downside macroeconomic scenarios. Fitch's scenarios will evolve as needed during this dynamic period. Fitch's current baseline scenario incorporates the sharp economic contraction in 2Q20, with an initial bounce in 3Q20 followed by a slower recovery trajectory from 4Q20. For the higher education sector, the baseline case assumes the closure of most residential campuses for a three- to four-month period with continued sporadic closures through fall 2020. Rating sensitivities address potential rating implications under a downside scenario, which assumes slower economic recovery and prolonged or recurring disruptions related to the coronavirus into fiscal 2021, including enrollment and related revenue pressures for higher education.

UMass shifted to a fully remote learning model effective March 16, 2020 and substantially vacated its university-owned residence halls and campus. UMass received \$46 million in Coronavirus Aid, Relief and Economic Security (CARES) Act proceeds, of which \$23 million available for institutional use helped partially offset room and board adjustments totaling about \$65 million. Fall 2020 courses have resumed in a mix of in-person, remote and hybrid structures, with remote learning as the predominant model.

Revenue Defensibility: 'aa'

Steady Demand and Strong State Support

The 'aa' revenue defensibility assessment reflects UMass' steady enrollment trends over time, against somewhat mixed demand characteristics that are reflective of a statewide public system. Enrollment in fall 2020 remains stable. The 'aa' assessment also reflects the consistent and solid support provided by the Commonwealth of Massachusetts.

Operating Risk: 'aa'

Consistent Operating Performance; Meaningful Capital Improvement Plans

The 'aa' operating risk assessment is driven by very steady operating results, with cash flow expected to remain solid near current levels (13.8% in fiscal 2019) beyond pressures expected in fiscal 2021. UMass' system-wide operating and efficiency efforts are expected to support cash flow resilience in support of a robust capital improvement plan that is ongoing.

Financial Profile: 'aa'

Solid Financial Profile with Adequate Liquidity

UMass is expected to maintain liquidity against its debt and expenses at a level consistent with the 'aa' assessment. UMass had approximately \$1.7 billion in available funds at fiscal 2019, equal to nearly 50% of total expenses and 44% of adjusted debt, and its leverage levels are expected to remain steady through Fitch's stress case scenario, inclusive of additional debt plans.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric additional risk considerations apply to UMass' ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Continued favorable trend of revenue growth and prudent expense management, which translates into stronger cash flow and balance sheet strengthening would prompt upward rating consideration, particularly as available funds (AF) levels approach 80% of adjusted debt.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Failure to maintain steady leverage levels against expected increases in debt and capital needs may pressure the rating, should available funds (AF)-to-total-adjusted debt fall persistently below 30%.

--A sustained decline in operating performance to adjusted cash flow levels consistently below 12% could pressure the rating, particularly against UMass' sizeable expected capital improvement plan.

--Material erosion in internal liquid resources and/or significant downward movement in the university's long-term rating, while highly unlikely, would influence the short-term rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>].

CREDIT PROFILE

UMass is the Commonwealth of Massachusetts' only public research university system. UMass was established in 1863 and encompasses five separate campuses at Amherst (its flagship campus), Boston, Dartmouth, Lowell and Worcester. The five campuses are geographically dispersed throughout the commonwealth and possess distinct and complementary missions. In fall 2019, the system enrolled 66,003 full time equivalent (FTE) students. In addition, UMass has system-wide online education (UMass Online), which in fiscal 2019 offered over 1,500 online and blended courses with nearly 150 certificate and degree programs.

The UMBA, the university's debt issuance arm (reported as a blended component unit of the university), is a public instrumentality of the Commonwealth of Massachusetts and is empowered to construct dormitory, auxiliary, academic and other facilities for the university's campuses. Fitch does not view the UMBA as having any distinct operating risk from that of UMass, and thus there is no separate IDR assigned.

UMBA revenue bonds and commercial paper notes are special obligations of the UMBA payable by the university. Under a service contract between the university and UMBA, the university is required to remit to the authority annually an amount sufficient to pay debt service and other costs associated with operating and maintaining the financed projects during the next year, referred to as the certified amount. The annual certified amount is payable from a variety of revenue streams, including all legally available revenues of the university and UMBA, including state appropriations, as well as unrestricted net assets

(UNA, defined as unrestricted fund accumulated surpluses, as well as quasi-endowment, unexpended plant fund, and unrestricted renewal and replacement fund).

REVENUE DEFENSIBILITY

UMass continues to draw solid student demand despite a challenging longer-term demographic picture. Enrollment has grown consistently near 1% annually for several years, supported in part by healthy out of state demand at the flagship Amherst campus. Enrollment is expected to remain within 1% of prior year in fall 2020, once final data is reported. UMass Online has helped support enrollment growth (over 65,000 full time equivalents and over 83,000 course enrollments in fall 2020, up from prior year). Student quality has remained steady to improving, with a consistently solid 85% retention rate of freshman students. Selectivity has also been steady, near 67% for freshman and 70% for transfers in fall 2019, and matriculation is somewhat light at just under 22% for freshman, though not unusual for a multi-campus public system.

UMass continues its work toward a new virtual college, announcing a strategic partnership with Brandman University (a nonprofit affiliate of Chapman University), which specializes in serving adult students in a primarily online format. A capital contribution is not currently contemplated; rather its anticipated to be structured as a strategic partner to help support UMass' goals in furthering continuing adult education needs.

Solid state support continues, despite some uncertainty regarding a final fiscal 2021 budget from the Commonwealth. Total commonwealth appropriations (including for fringe benefits) were about \$780 million in fiscal 2019, and the base appropriation for fiscal 2020 was steady at \$560 million over prior years' \$542 million. UMass' pooled endowment equaled about \$1 billion in fiscal 2020 (unaudited), and the university utilized a 4% spending distribution in fiscal 2019 and 2018.

OPERATING RISK

UMass' operating risk profile is assessed at 'aa' and characterized by diverse revenues and a stable trend of breakeven operations and consistent cash flow margin averaging near 12% over the last three fiscal years. The coronavirus pandemic had an \$114 million impact on fiscal 2020 results (unaudited) and UMass successfully adjusted its operations by \$77 million as an offset in order to achieve operating balanced. An interim fiscal 2021 budget

was approved in July (to be used through October), which presumed a 4.9% enrollment loss (on which UMass is outperforming) as well as lower funding levels from the Commonwealth. With about \$291 million in operating adjustments in the works, including workforce reductions, furloughs, non-personnel expense reductions, UMass is committed to achieving balanced operations. In addition, capital projects are undergoing a new approval process, and UMass has identified \$222 million in previously approved projects to be put on hold.

UMass leadership continues to focus on sufficient and sustainable operations at each of its campuses, and as a system overall. Solid cash flow continues to be an important offset to UMass' sizable capital plans, and management will closely monitor its capital and debt levels on both a campus and system level. UMass' policy is to maintain debt service-to-total expenditures at no more than 8% by campus, which it has been largely successful at maintaining in recent years.

UMass generates consistent annual and solid campaign giving results in support of its strategic needs. Annual giving has been above \$115 million since fiscal 2014, and UMass also benefits from fairly stable state capital appropriation support (equal to \$25 million in fiscal 2019). UMass' robust \$1.8 billion five-year capital plan through 2025 will be funded from a combination of additional debt, fundraising, state support and internal resources. Approximately \$650 million of the \$1.8 billion has already been spent to date.

FINANCIAL PROFILE

UMass' financial profile is also assessed at 'aa'. Its debt burden remains manageable and materially unchanged with the series 2020-4 refunding transaction, with no extension of current debt maturities. Current debt service coverage (as Fitch calculates) was 2x in fiscal 2019, and debt service is slightly front-loaded, with over half of the principal amortizing within 15 years. Maximum annual debt service on the authority bonds will be approximately \$235 million (excluding bond refunding/restructuring), with final maturity in 2051. Some additional debt is likely and can be absorbed at the current rating as principal amortization will provide some additional capacity over the next few years. Fitch expects any future debt issuance to be accompanied by growth or maintenance of resources sufficient to cover debt service.

Total long-term debt equaled approximately \$3 billion at fiscal 2019, including approximately \$133 million in commercial paper (\$200 million maximum authorization) and \$295 million in VRDB's, that have various standby bank purchase agreements with

expirations in July and August, 2022. UMass also has \$20 million in debt supported by self-liquidity that Fitch rates 'F1+' given the university's long-term credit quality and coverage from ample highly liquid resources. Overall, UMass maintains adequate balance-sheet resources, with steady available funds against expenses of 49%. However, AF is weaker against adjusted debt at just under 44%.

Debt equivalents totaled about \$780 million in fiscal 2019, in the form of non-cancellable operating leases and the Massachusetts State Employees Retirement System cost-sharing, multi-employer defined benefit pension plan liability. The pension obligation is the largest component of adjusted debt, reflecting UMass' reported \$409 million in net pension liability adjusted to a 6% discount rate (down from the 7.35% disclosed discount rate). The state provides support for a portion of UMass' fringe benefit costs, that equaled \$234.5 million net of the university's contribution of its portion in fiscal 2019. In fiscal year 2020 (unaudited) UMass' total unrestricted net position of \$1.3 billion was offset by \$526.7 million in unfunded pension liability and \$993 million in unfunded other postretirement benefits liability, resulting in a \$213.5 million net unrestricted net position.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
University of Massachusetts (MA)	LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
● University of Massachusetts (MA) /General Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
● University of Massachusetts (MA) /Self-Liquidity/1 ST	ST	F1+	Affirmed	F1+

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Emily Wadhvani

Director

Primary Rating Analyst

+1 312 368 3347

Fitch Ratings, Inc.

One North Wacker Drive Chicago 60606

Nancy Moore

Director

Secondary Rating Analyst

+1 212 908 0725

Joanne Ferrigan

Senior Director

Committee Chairperson

+1 212 908 0723

MEDIA CONTACTS

Elizabeth Fogerty

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[U.S. Public Finance College and University Rating Criteria \(pub. 26 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.1 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Massachusetts Development Finance Agency

EU Endorsed

Massachusetts Health & Educational Facilities Authority (MA)

EU Endorsed

University of Massachusetts Building Authority (MA)

EU Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING

SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts,

including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not

intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance North America United States
