Moody's assigns Aa2 rating to University of Massachusetts Building Authority's $270 million of Senior Series 2013-1 and 2013-2 Project Revenue Bonds and affirms outstanding Aa2 ratings; outlook is stable

University of Massachusetts will have approximately $1.6 billion of debt with an underlying rating

New York, February 26, 2013 -- Moody's Rating

Issue: Project Revenue Bonds, Senior Series 2013-1; Rating: Aa2; Sale Amount: $200,000,000; Expected Sale Date: 03-08-2013; Rating Description: Revenue: Public University Broad Pledge

Issue: Project Revenue Bonds, Senior Series 2013-2 (Federally Taxable); Rating: Aa2; Sale Amount: $70,000,000; Expected Sale Date: 03-08-2013; Rating Description: Revenue: Public University Broad Pledge

Opinion

Moody's Investors Service has assigned a Aa2 rating to the University of Massachusetts Building Authority's $270 million of combined fixed-rate Senior Series 2013-1 Project Revenue Bonds ($200 million; tax-exempt) and Senior Series 2013-2 Project Revenue Bonds ($70 million; taxable). Moody's has also affirmed its Aa2 ratings on the University of Massachusetts', University of Massachusetts Building Authority's (UMBA), and Worcester City Campus Corporation's outstanding rated bonds. The outlook is stable.

The University of Massachusetts Building Authority is a public instrumentality of the Commonwealth of Massachusetts (Commonwealth G.O. rating of Aa1). The authority is empowered to construct dormitory, auxiliary, academic and other facilities for the university's five campuses. The authority's financial data is consolidated within the university's audited financial statements as a blended component unit.

SUMMARY RATING RATIONALE: The Aa2 long-term rating reflects the University of Massachusetts' important role as a public university system with five campuses in the Commonwealth of Massachusetts, serving diverse student populations and conducting growing levels of research activity, coupled with positive operating performance and multi-year growth of unrestricted net assets. Credit challenges include a significant increase in debt in recent years and expectation of further borrowing in coming years, pressure on state funding, and relatively modest levels of philanthropic support for a system of this size.

The Aa2/VMIG1 rating on the university's Series 2011-1 bonds also reflects the standby bond purchase agreement provided by Wells Fargo Bank (rated Aa3/P-1).

STRENGTHS

*Large and growing enrollment of 60,337 full-time equivalent (FTE) students in fall 2012 with a statewide presence through the system's five campuses as well as UMass Online

*Positive operating performance and ongoing focus on expense containment contributing to growth of financial resources

*Revenue diversification and growth of research activity

CHALLENGES

*Rapid growth in debt levels resulting in increased balance sheet and operating leverage

*State appropriations becoming a smaller portion of revenue (Commonwealth Aa1 G.O. rating) enhances need to continue to grow private revenue streams

*Relatively low philanthropic support compared to similarly sized systems

Outlook
The stable outlook reflects an expectation of ongoing strong student demand, and continued growth of operating cash flow and financial resources to better support increased debt levels. An inability to grow operating cash flow to support future debt service could negatively pressure the rating.

WHAT COULD MAKE THE RATING GO UP

Substantial increase in liquid financial resources and operating performance over time including significant strengthening of fundraising and student market position coupled with improvement of the Commonwealth's credit profile

WHAT COULD MAKE THE RATING GO DOWN

Deterioration in operating performance or student market position; deterioration of the Commonwealth's credit profile; significant increase in debt without compensating increase in financial resources and revenue available to pay debt service

PRINCIPAL RATING METHODOLOGIES

The principal methodology used for the underlying rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. The principal methodologies used for the variable rate demand rating were U.S. Not-for-Profit Private and Public Higher Education published in August 2011 and Variable Rate Instruments Supported by Third-Party Liquidity Providers published in November 2006. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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