Fitch Ratings-New York-28 February 2013: Fitch Ratings assigns an 'AA' rating to the following University of Massachusetts Building Authority (UMBA) bonds issued on behalf of the University of Massachusetts (UMass):

--$267 million UMBA project revenue bonds, senior series 2013-1 (tax-exempt) and senior series 2013-2 (federally taxable).

The UMBA fixed-rate bonds are expected to sell in two series (taxable and tax-exempt) via negotiated sale during the week of March 4th. Bond proceeds will be used to finance the cost of various capital projects spread over UMass' five campuses, pay capitalized interest, and to pay cost of issuance.

At the same time, Fitch affirms various long-term ratings detailed at the end of this press release.

The Rating Outlook is Stable.

SECURITY

UMBA revenue bonds are secured by gross unrestricted revenue of the university and other legally available funds.

KEY RATING DRIVERS

STABLE CREDIT CHARACTERISTICS: The 'AA' rating reflects the university's narrowing but consistently positive operating margins, with growth in student-generated revenues and proactive expense management efforts driving both financial performance and growing balance sheet resources which are modest relative to debt.

FAVORABLE DEMAND PROFILE: UMass continues to exhibit enrollment related revenue growth reflecting demand and affordability, despite student fee increases, which supports the growing debt burden.

INCREASING BUT MANAGEABLE LEVERAGE: UMass' leverage is expected to remain high under its substantial five-year capital plan. Debt levels are closely monitored by management to ensure UMass' debt policy of maintaining debt service to total expenditures does not exceed 10%. Current levels remain manageable given the university's steady financial performance.

RATING SENSITIVITY

INCREASED FINANCIAL LEVERAGE: Failure of UMass to grow operating revenues, including research related activity, and balance sheet resources to support increasing debt levels may yield negative rating pressure.

CREDIT PROFILE

The university's fiscal 2011 and 2012 actual results reflect a narrowing operating margin of 1.8% and 2%, respectively, compared to 3.8% in fiscal year 2010. These narrowing margins are due to reductions in Commonwealth of Massachusetts (Commonwealth GO rated 'AA+') appropriations. UMass received $150.6 million in federal stimulus funding in fiscal 2010, in addition to state appropriations, compared to $37.9 million in fiscal 2011 and received no stimulus funds in fiscal 2012. Fiscal 2013 state appropriations remained flat. Fitch anticipates greater student fee revenues
and further cost reductions, as implemented in fiscal 2012, will be needed to achieve similar operating results in fiscal 2013 and fiscal 2014.

The university managed state aid cuts in fiscal 2012 with an increase in mandatory fees and some growth in enrollment, without significant reductions in core academic and student services. This is expected to continue with an additional 4.9% increase in mandatory fees for resident undergraduate students approved by the board for fiscal 2013, following a 7.5% increase for fiscal 2012.

Total full-time equivalents (FTEs) enrollment in fall 2011 and fall 2012 grew 1.6% and 1.4%, respectively, which was slightly below previous years. Between fall 2008 and fall 2012, FTE growth at UMass' five campuses was still healthy at a 3.2% compounded average annual rate. According to management, the university has invested in faculty to support enrollment growth and boost quality across all degree programs. UMass has plans to grow enrollment 13.5% to 70,110 FTEs by fiscal 2017.

UMass' fiscal 2013 budget was cut 1% ($4.2 million) in December 2012 after the Governor released a plan to close a projected budget shortfall. As a result, each campus has positioned itself to implement the necessary cost efficiencies. UMass anticipates that Commonwealth support will increase based on the Governor's projected 2014 budget which includes funding to begin the phase-in of UMass' proposed 50/50 funding formula. The formula, if fully implemented, would over two fiscal years result in the Commonwealth paying 50% of education costs. Fitch does not have any assurance as to the level of the Commonwealth support included in the final fiscal 2014 budget.

UMass plans to move forward with its substantial five-year capital plan, which proposes $1.73 billion in debt funding. Factoring in $700 million already borrowed, $1 billion remains to be borrowed (including the current issue) during the five-year period (2013-2017). After the current issue, UMass anticipates issuing another $250 million later this year followed by $280 million in June 2014 and $200 million in May 2015 which will support new construction, deferred maintenance, renovations and other capital projects across UMass campuses.

In fiscal 2012, the Commonwealth provided $150.4 million in capital support, compared to approximately $28 million in each of the prior two years. Major construction projects managed by the Commonwealth's construction agency are underway which accounts for the increase in support. The Commonwealth maintains the commitment, under legislative approval, to fund $1 billion of the university's capital projects through fiscal 2018. Fitch views UMass' capital plans over the next five years as aggressive but manageable. The increasing capital support from the Commonwealth is viewed favorably by Fitch but recognizes that this level of support may fluctuate.

UMass' debt burden remains moderately high, with pro forma maximum annual debt service consuming 7.5% of fiscal 2012 operating revenues (excluding the Build America Bonds (BABs) subsidy) which is offset somewhat by sound pro forma coverage of 1.3x. Fitch's concern over increasing debt load with the anticipated borrowing is offset by management's willingness to scale back planned projects and refrain from issuing any additional debt if leverage exceeds the internal debt burden limit of 10%, which requires board approval if exceeded. Based on projections provided, Fitch views positively management's ability to manage its debt load to fiscal capacity.

The university's increased focus on life sciences research is reflected in the growth of research and development funding to approximately $536 million in fiscal 2012, which is largely federally funded (66%) and Commonwealth funded (12.6%). As is the case with most public research institutions, a potential reduction in federal funding for these programs is anticipated. However, the university projects research and development funding to grow 26% to $677.7 million by fiscal 2017.

UMass expects a major effort by the Commonwealth to increase its competitive position in the life sciences industry will provide the university with significant capital investments in collaborative facilities and funding for programs. Fitch will continue to monitor if increased levels of sponsored research and development funding can be achieved as projected given the current environment and the potential impact on financial performance.
Remarketing of Series A
The Massachusetts Development Finance Agency (MDFA), formerly the Massachusetts Health and Educational Facilities Authority (MHEFA), is expecting a remarketing of its variable rate demand revenue bonds (VRDBs)(UMass issue), series A, the week of March 25th. The bonds, currently outstanding in the long-term mode, are subject to mandatory tender April 1, 2013. The university plans to rollover the series A bonds for another three years in the long-term rate mode through April 1, 2016. The bonds are fully supported by internal liquidity. On Sept. 28, 2012 Fitch affirmed the short-term rating of 'F1+' on the series A bonds. The revolving loan program was originally issued to create a pool of funds from which the university would finance and refinance equipment and systems and pay renovation costs related to the program by UMass' various campuses on a revolving basis.

The University is a co-educational institution established in 1863 and encompasses five separate campuses at Amherst, Boston, Dartmouth, Lowell and Worcester in the Commonwealth. In fall 2012, the university enrolled 60,337 FTE students. The five campuses are geographically dispersed throughout the commonwealth and each possess a unique and complimentary missions. In addition, UMass has system-wide online education, which in fiscal 2012 offered approximately 1,500 online and blended courses.

Fitch affirms the following long-term ratings:

--$1.8 billion of UMBA project revenue, refunding revenue, and taxable refunding revenue, senior series bonds (excludes commonwealth-guaranteed bonds) at 'AA';
--$354 million Massachusetts Development Finance Agency (MDFA)/ (formerly MHEFA) revenue bonds (Worcester City Campus Corporation Issue - UMass project) and MHEFA (UMass issue) revenue bonds at 'AA';
--$20 million MHEFA VRDBs series A (UMass issue).

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Revenue Supported Rating Criteria' (June 12, 2012);
--'U.S. College and University Rating Criteria' (May 25, 2012);
Applicable Criteria and Related Research
Revenue-Supported Rating Criteria
U.S. College and University Rating Criteria
Criteria for Assigning Short-Term Ratings Based on Internal Liquidity

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