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**Massachusetts Health and Educational Facilities
Authority
(University of Massachusetts)**

Credit Profile

\$116.34 mil rev bnds (University Of Massachusetts) (Worcester) ser 2007E due 10/01/2036 Sale date: 11-DEC-2006	A
\$9.97 mil rev bnds (University Of Massachusetts) (Lowell) ser 2007D due 10/01/2031 Sale date: 11-DEC-2006	A
\$100.62 mil rev bnds (University Of Massachusetts) ser 2007F due 10/01/2036 Sale date: 11-DEC-2006	A

AFFIRMED

Massachusetts Health & Educational Facilities Authority, Massachusetts

\$48.655 mil. Massachusetts Hlth & Ed Fac Auth (Univ Of Massachusetts) (Worcester Campus Proj) (FGIC)	AAA/A(SPUR)
\$11.140 mil. Massachusetts Hlth & Ed Fac Auth (Univ of Massachusetts) (Lowell Campus Proj) (FGIC)	AAA/A(SPUR)

University of Massachusetts Building Authority, Massachusetts

\$47.365 mil. University of Massachusetts Bldg Auth (Univ of Mass) (AMBAC)	AAA/A(SPUR)
University of Massachusetts Building Authority, Massachusetts University of Massachusetts System, Massachusetts	
\$113.110 mil. University of Massachusetts Bldg Auth (University of Massachusetts System) (AMBAC)	AAA/A(SPUR)

OUTLOOK: POSITIVE

Rationale

Standard & Poor's Ratings Services revised its rating outlook on Massachusetts Health and Educational Facilities Authority's revenue bonds, issued for the University of Massachusetts and University of Massachusetts System, to positive from stable. Standard & Poor's also assigned its 'A' rating to the authority's series 2006D, E, and F revenue and refunding revenue bonds, issued for the university, and affirmed its 'A' rating on the university's existing debt.

The 'A' rating reflects the university's:

- Leading role in the Commonwealth of Massachusetts (AA/Stable) public higher education system and improving levels of state support;
- Relatively stable enrollment and demand trends;
- Historically good financial operations, balanced by adequate liquidity relative to operating expenses and debt;
- Level of debt that, while manageable as a percentage of operating expenses, has risen significantly over the past several years.

The positive outlook reflects improving demand at the various campuses in the system as well as an improved state funding environment demonstrated by good increases in state support in fiscals 2006 and 2007. It is likely that the rating will remain in the 'A' category for the foreseeable future because of the high level of outstanding debt and substantial remaining capital needs. The university trustees approved a significant five-year capital plan in August 2006 that calls for \$2.14 billion of investment from fiscal 2007-2011, some of which is dependent on state funding and some on the issuance of additional debt. With this issuance of bonds, the university's debt will rise to \$1.2 billion, and it is likely that debt will continue to rise in conjunction with the capital plan over the next several years.

The positive outlook captures an improvement in the funding environment, which led to substantial increases in state support in fiscals 2006 and 2007; improving demand especially in fall 2005 and 2006; stable leadership at the system level, and improvements in the system's financial infrastructure.

The series 2006 revenue bonds are being issued as fixed-rate bonds in three series. All bonds are a general obligation of the university, and management expects them to be additionally supported by municipal bond insurance provided by FGIC. Bond proceeds will be used to refinance various outstanding revenue bonds at both the Worcester campus and the Lowell campus and to finance new capital projects at the Worcester campus. The series E proceeds will be used in part to finance the construction of a seven-story, approximately 260,000 square-foot advanced education and clinical practice center on the Worcester medical center campus, and the series F proceeds will be used in part to finance the construction of a four-story, approximately 180,000 square-foot research facility and parking garage. The garage will be located on the parcel of land known as Lot 3A on the west campus of the former Boston State Hospital.

Outlook

The positive outlook reflects the expectation that the rating could be raised over the next one to two years if financial operations continue to be positive, enrollment trends remain stable, and additional debt does not vary significantly from what is currently being anticipated.

Finances: Good Operating Performance

Financial statements for the fiscal year ended June 30, 2006 are presented on a consolidated basis, in accordance with GASB 35 guidelines. Financial operations have been historically positive, with an operating surplus exceeding \$100 million in fiscal 2005 and \$43 million in fiscal 2006. These operating surpluses have served to increase unrestricted net assets. At fiscal year-end 2006, adjusted unrestricted net assets rose to \$383 million, equal to approximately 19% of operating expenses of \$2.1 billion and 30% of estimated pro forma debt of \$1.2 billion. In fiscal 2006, total net assets rose by \$58 million to \$1.35 billion from \$1.29 billion at fiscal year-end 2005.

In fiscal 2005, net assets increased by \$123 million, on a revenue base of \$2.03 billion, of which \$1.51 billion was operating revenue and \$521.5 million was non-operating revenue, including commonwealth appropriations. In fiscal 2006, net assets increased by \$58 million, on a revenue base of \$2.1 billion. Overall, management indicates that fiscal 2006 operations were slightly better than what was originally budgeted. State appropriations rose to \$527 million in fiscal 2006 from \$479 million in fiscal 2005, according to the audited financial statements.

In recent years, the university's debt load has increased substantially, reaching approximately \$1.2 billion with this issuance. At fiscal year-end 2006, the university recorded a total debt load of approximately \$1.0 billion, including capital lease obligations. Overall, including the effects of the new debt, the University's overall debt burden, or maximum annual debt service (approximately \$95.7 million) as a percent of expenses, is a manageable approximately 4.5%. The trustees have approved a sizable \$2.14 billion five-year capital plan from 2007-2011, that is expected to be funded by a variety of sources. A large component of the plan is being targeted toward deferred maintenance. In conjunction with the issuance of series 2006-1 variable interest rate bonds, the university entered into an interest rate swap agreement with Citibank N.A. The swap converted the university's payments from a variable rate to a synthetic, fixed interest rate of 3.482%. The bonds and the related swap both mature on Nov. 1, 2034, and the swap's notional amount of \$243.8 matches the amount on the variable bonds. Standard & Poor's will evaluate the swap documents to determine a Debt Derivative Profile (DDP) score. In connection with the bonds, the university also entered into a SBPA with Depfa Bank PLC. The agreement expires in 2013.

The university's revenue stream remains fairly diverse, with commonwealth appropriations accounting for 25% of total revenues, followed by grants/contracts at 21%, and net tuition and fees at 19%. As the flagship institution and the only public university system in Massachusetts, the university receives the greatest amount of appropriations from the commonwealth. After a period of reductions from fiscal 2001-2004, the funding environment has begun to improve. The university's base maintenance appropriation grew by 4.1% for fiscal 2006 and is expected to increase by 8.5% for fiscal 2007. However, on Nov. 10, 2006 the governor declared that state revenues were projected to be

insufficient to meet fiscal 2007 budgeted expenses, and implemented mid-year reductions to a number of state agencies, including the university. It is possible the proposed mid-year cut will be addressed in January 2007. The university participates in the Commonwealth of Massachusetts' fringe benefits program, including health insurance and pensions. Included in the university's state funding appropriation is an allocation to cover the costs of fringe benefits. In fiscal 2006, this amount was \$123.9 million, up from \$114.2 million for fiscal 2005.

Research continues to be a growing component of the revenue base, with total grants and contracts reaching approximately \$424 million in 2005, up 5.6% from the prior year and \$453 million in fiscal 2006. The institutional goal is to essentially double this revenue component within a 10-year period.

Mandatory fees increased substantially during the period in which the university sustained funding cuts. Since then, the university trustees have adopted a policy that tuition and mandatory fees will increase no more than the rate of inflation. Therefore, the increase implemented for in-state undergraduate students for fall 2005 was 3.2% and the rate for fall 2006 increased by 3.4%. This policy, however, does not apply to other revenues, namely student housing revenues.

The university's fund-raising efforts, like those of other New England public universities, have continued to lag behind those of the nation's other prominent public and private competitors. There are no plans for a university-wide capital campaign; however, the Amherst campus is in incipient stages of a campaign. In October 2005, the university established the University of Massachusetts Club, which is an alumni dining club that is managed by an outside party. It is expected that this club will help to unite alumni and improve fund-raising endeavors.

As of June 30, 2006, the university and University of Massachusetts Foundation had net assets of \$226 million and \$261 million, respectively, largely all of which is restricted. This relatively low resource level is comparable to many public institutions in New England; however, it is lower than some of the other large flagships located throughout the U.S.

Demand: Relatively Stable

Student demand has continued to be relatively stable. Total enrollment in fall 2005 was 57,178, reflecting a 1% increase from the prior year. Fall 2006 enrollment is currently on target, with small incremental growth expected, especially at the Amherst and Dartmouth campuses. The full-time equivalent in fall 2006 was 47,915, reflecting an increase of approximately 1,000 students from the prior year. Through 2010, the university expects to increase by 1,000 students annually, at which point management believes the university will be essentially capped.

Applications have shown good growth in the past few years, and the Amherst campus experienced a 13% increase in applications for fall 2006. Student selectivity has shown some fluctuation. In fall 2005, of those students who applied for admission to the university, 75% were accepted, compared with the five-year average of 70%. At the same time, the matriculation rate is weak, and has declined somewhat, to 30% of accepted students choosing to attend the university in fall 2005. The five-year

average matriculation rate is 32%. Amherst is the university's largest campus, with total full-time equivalent enrollment of 22,947 in 2005.

The medical school is required, by statute, to enroll only Massachusetts residents. In fall 2005, Massachusetts residents accounted for approximately 86% of undergraduate students, and 58% of graduate students. Of the total degree-seeking student population, approximately 20% is classified as graduate students. Student quality, as measured by SAT scores, is good, in the range of 1064-1143 for incoming freshmen in fall 2005. The retention rate (freshman to sophomore year), as a range of campus averages, is fairly weak at 71%-84% in fall 2005. In recent years, students have come from New York, New Jersey, Pennsylvania, and other New England States.

History/Description

The University of Massachusetts, established in 1863 in Amherst, is a coeducational, state-supported institution with campuses in Amherst, Boston, Dartmouth, Lowell, and Worcester, and its Center for Professional Education in Westborough. These campuses are geographically disbursed throughout the commonwealth, with complementary missions. In addition, UMass Online was launched in 2001, and offers more than 58 online degrees, certificates, and continuing medical education programs.

The university's flagship campus in Amherst, approximately 90 miles west of Boston, is also its largest campus, offering six associate-level programs, 89 bachelor's programs, 72 master's programs, and 51 doctoral programs. The campus consists of Commonwealth College (the university's honors college), the School of Education, the College of Engineering, the College of Natural Resources and the Environment, the College of Humanities and Fine Arts, the Isenberg School of Management, the School of Nursing, the College of Natural Sciences and Mathematics, the School of Public Health and Health Sciences, the College of Social and Behavior Sciences, and the Stockbridge School of Agriculture.

The Boston campus, encompassing 175 acres, is located three miles from downtown Boston, and focuses on the academic needs of the local urban and nontraditional populations in the greater Boston metropolitan region. In April 2004, a 331,000 square-foot campus center was opened to better serve these students. The campus offers 78 undergraduate, 60 graduate, and 13 doctoral programs through its College of Liberal Arts, College of Science and Mathematics, College of Management, College of Nursing and Health Science, College of Public and Community Service, McCormack School of Policy Studies, and the Graduate College of Education. The campus is a nonresidential campus.

The 710-acre Dartmouth campus is located in southeastern Massachusetts, and is composed of the College of Arts and Sciences, the Charlton College of Business, the College of Engineering, the College of Nursing, the College of Visual and Performing Arts, and the School for Marine Science and Technology. Through its various schools, Dartmouth offers more than 40 undergraduate programs and 25 graduate programs.

The Lowell campus is the university's most technologically oriented campus, focusing on engineering, management, science, education, and health. The campus consists of the College of Arts and Sciences, the College of Engineering, the School of Health and Environment, the College of

Management, and the Graduate School of Education. Combined, these colleges offer five associate, 38 bachelor's, 31 master's, and 15 doctoral degree programs.

The Worcester campus is the home of the School of Medicine, the Graduate School of Biomedical Sciences, the Graduate School of Nursing, and the university's campus hospital, UMass Memorial Health Care, a separate 501(c)(3) entity. In fall 2005, there were approximately 1,079 full-time-equivalent (FTE) graduate and medical students enrolled at the Worcester campus and approximately 541 medical residents. The medical school was created in 1962 to provide health care education to Massachusetts residents at an affordable cost. The medical school ranked third among medical schools, in the primary care category, in U.S. News and World Report's 2005 edition of America's Best Graduate Schools. The campus offers four master's and 13 doctoral degree programs.

Additional Contacts

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