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Missouri Health & Educational Facilities Authority Missouri State University; Public Coll/Univ - Unlimited Student Fees

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Missouri State University auxil enterprise sys rev bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Missouri St Univ PCU_USF		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Missouri Health & Educational Facilities Authority, Missouri		
Missouri State University, Missouri		
Missouri Hlth & Educl Facs Auth (Missouri State University) ed facs rev bnds (Missouri State University) ser 2019B due 10/01/2035		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A+' long-term rating on Missouri State University's (MSU) series 2016A and 2019A auxiliary enterprise revenue bonds.
- , S&P Global Ratings also affirmed its 'A+' rating on Missouri Health & Educational Facilities Authority's (MOHEFA) 2019B educational facilities revenue bonds, issued for MSU.
- The outlook is stable.

Security

MSU's debt outstanding as of June 30, 2023, totaled \$164.1 million. This includes \$88.8 million of auxiliary enterprise system revenue bonds, \$49.2 million of MOHEFA bonds, and \$26 million in various leases. MSU's auxiliary enterprise bonds are secured by a pledge of net income from the university's auxiliary enterprise system that includes housing, dining, social, recreational, athletics, and parking facilities charges and fees. Among the revenue streams for the auxiliary enterprise system are mandatory fees for the student union, sports complex, health center, and shuttle system, which we consider to be equivalent to an unlimited student fee pledge. The university covenants to maintain net income of the auxiliary enterprise system of at least 1.1x annual debt service, of which it is in compliance as of fiscal year-end 2023. There is no debt service reserve. The revenue bonds issued by MOHEFA are general unsecured obligations of the university.

Credit overview

We assessed MSU's enterprise risk profile as strong, characterized by recent improvement in total enrollment following consecutive declines and strengthening in the retention rate, offset by a weak selectivity rate. We assessed MSU's financial risk profile as very strong, with healthy financial resources and a low maximum annual debt service (MADS) burden. We believe these combined credit factors lead to an anchor of 'a+' and a final rating of 'A+'.

The long-term rating reflects our view of MSU's:

- Recent improvement in full-time equivalent (FTE) enrollment driven by increased freshmen matriculants in fall 2023 after three years of consecutive declines;
- Sufficient financial resource ratios for the rating category; and
- Manageable MADS burden of 3.3% when including leases, with a fairly front-loaded debt service schedule.

Offsetting factors, in our opinion, include MSU's:

- Weak selectivity rate;
- Competitive market pressure due to the state's demographic trend and the university's largely in-state geographic draw, which could destabilize enrollment; and
- Small endowment compared with the university's size, with low endowment per FTE relative to rating category medians and peers.

Founded in 1905, MSU is one of 13 four-year public colleges and universities in Missouri and the state's second-leading university, after the University of Missouri. Under a state-recognized public affairs mission, MSU offers a broad array of academic programs on three campuses in the Springfield, West Plains, and Mountain Grove area. MSU operates the state's largest college of business and participates in NCAA Division I athletics. The main Springfield campus is in southwest Missouri on a 225-acre site.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. We believe there to be demographic challenges in the region, given the lower number of high school graduates in the state, which could pressure the university's enrollment. We evaluated the university's environmental and governance risks and view them to be neutral within our credit analysis.

Outlook

The stable outlook reflects the university's solid financial resource ratios and manageable debt burden, which remain consistent for the rating despite operations being negative on a full-accrual basis. It also reflects the recent stabilization in enrollment after multiple years of declines. No additional debt is expected.

Downside scenario

A negative rating action is possible if financial resources materially deteriorate from current levels or if the university sustains a trend of significant operating deficits. A trend of declining enrollment or weakening of demand metrics would be viewed negatively.

Upside scenario

A positive rating action is possible if enrollment and demand metrics improve to levels more comparable with those of higher-rated peers, operations are consistently positive apart from one-time funding, and financial resources show

continued improvement.

Enterprise Risk Profile--Strong

Market position and demand

MSU's total FTE enrollment has improved by 3.41% to 17,192 in fall 2023 following three years of consecutive declines. The improvement in enrollment is attributed to an over 20% increase in new freshmen matriculants, which grew to 2,841 in fall 2023 from 2,332 the previous year. Graduate enrollment, which accounts for about 17% of total enrollment, has continued to grow modestly over the past three years, which has supported the stabilization in enrollment. Applications increased considerably in fall 2023 by 24% due to the introduction of the Common Application. At the same time, the selectivity rate improved modestly to 91.1% from 92.6%, which we consider weak for the rating category.

Financial aid strategies are being implemented with the aim of enhancing access, recruiting more Pell-eligible students, and to improve retention among current students. Management also continues to expand employer partnerships and enhance internal processes and technologies to support the admissions process. Retention is a priority for the school and in fall 2023 it increased to 79% from 76% the previous year, which we consider healthy for the rating.

Management and governance

A nine-member board of governors, appointed by the governor with the advice and consent of the Missouri legislature, governs MSU. Each member serves a six-year term. No major changes have occurred at the board level, outside of normal rotations. There is currently one vacancy at the board level that the university anticipates will be filled in the near term.

In March 2024, the board of governors announced the appointment of a new president, Dr. Richard Williams, effective July 1, 2024. He succeeds President Clif Smart, who led the university for 13 years and had announced his retirement. Dr. Williams has 25 years of leadership in higher education and was formerly the president of Utah Tech University from 2014 through 2024. Outside of the presidential transition, MSU's chief financial officer of 12 years retired in 2023 and the university reorganized some divisions, leading to a combined division of administration and finance, which management believe provides effective synergy across various lines of operation. Matt Morris, an MSU employee of 24 years stepped into the vice president of administration and finance role and previously was the vice president for administrative services. Cindy Schull, an MSU employee of 25 years stepped into the assistant vice president for finance and accounting. Aside from these changes, the university's senior management team remains stable.

The current strategic plan runs from 2021 through 2026 and leadership is very transparent about the various initiatives, publishing key performance indicator reports annually on the website. We view management's financial practices as thorough, with conservative budget assumptions and good cash management. Decisions about whether to use reserves or debt to fund various capital needs are typically well-thought-out, and market conditions are monitored to ensure all opportunities are being considered. Management also produces efficiency reports that highlight specific financial risks for the organization and specific actions planned to mitigate or offset those risks, which we view positively.

Financial Risk Profile--Adequate

Financial performance

Operations for fiscal year 2023 were negative 1.68% following a 4.5% surplus in fiscal 2022, due to lack of federal stimulus seen in previous years. These results also include pension and other postemployment benefits (OPEB) contribution adjustments, net of expenses. The majority of federal stimulus was recognized in fiscal years 2021 and 2022, with over \$45 million in federal grants related to pandemic relief in each year. However, the decrease in federal grants in fiscal 2023 was partially offset by the growing state appropriations of about \$102.6 million in fiscal 2023. Tuition discounting remains low for a public institution, at 25% for fiscal 2023, and the university continues to benefit from good revenue diversity, with 50% of revenue generated from tuition and fees, 24% from state appropriations, and 11% from research grants and contracts.

Management budgets conservatively and has budgeted for break-even results in fiscal 2024; it budgeted conservatively for flat enrollment and given the improved enrollment result, revenues have exceeded the budget, with some of the increase being offset by scholarship costs. On the cost side, the university anticipate some inflationary increases, but careful expense management and growth in interest income are expected to help offset this.

Financial resources

MSU has sufficient financial resources relative to both operations and debt for the rating. Total cash and investments including foundation net assets accounted for 87% of operating expenses and 228% of debt, which is healthy relative to rating category medians. In 2022, MSU also completed a comprehensive campaign, raising over \$274 million, exceeding the \$250 million goal, which we view positively. According to management, fundraising continues to be a top priority, and it is focused on raising funds for specific initiatives on campus.

As of June 30, 2023, the university foundation's market value was \$113.3 million. Approximately \$96 million can be liquidated within 30 days. MSU's endowment spending policy is a standard 4.5% of a rolling three-year market value average. Management reports that it does not anticipate any material changes to its asset allocation or endowment spending policy.

Debt and contingent liabilities

MSU's debt outstanding as of June 30, 2023, totaled \$164.1 million, including \$88.8 million of auxiliary revenue bonds. As of fiscal 2023 year-end, MSU had \$99.6 million in direct-purchase debt. While we do not rate the direct-purchase bonds, we have looked at the legal documents and determined that the risks for default and remedies are the same as the publicly rated debt; therefore, there are no additional contingent risks. There are no plans for additional debt in the outlook period.

Pension plans and other postemployment benefits

MSU contributes to Missouri State Employees' Retirement System (MOSERS), a single-employer, defined-benefit public employees' pension plan administered by the state. As of fiscal year-end 2022, MOSERS has a funded status of 53.53%. OPEB, offered through a single-employer retiree benefit plan, are funded on a pay-as-you-go basis. MSU's pension and OPEB cost relative to adjusted operating expense is about 6.5%, which we view as manageable.

Missouri State University, Missouri--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'A' category rated public colleges and universities
	2024	2023	2022	2021	2020	2022.0
Enrollment and demand						
Full-time-equivalent enrollment	17,192	16,625	17,283	19,360	19,893	12990.0
Undergraduates as a % of total enrollment	83.8	83.4	84.1	80.4	81.4	84.7
First-year acceptance rate (%)	91.1	92.6	93.9	86.6	87.9	81.5
First-year matriculation rate (%)	26.2	26.2	28.1	31.9	40.2	23.8
First-year retention rate (%)	79.0	76.0	75.2	79.2	78.1	76.0
Six-year graduation rate (%)	57.0	59.6	59.9	58.6	55.9	57.4
Income statement						
Adjusted operating revenue (\$000s)	N.A.	421,134	438,195	415,170	395,857	489805.0
Adjusted operating expense (\$000s)	N.A.	428,345	419,307	383,782	401,476	486926.0
Net adjusted operating margin (%)	N.A.	-1.7	4.5	8.2	-1.4	2.5
Estimated operating gain/loss before depreciation (\$000s)	N.A.	26,229	50,730	62,990	22,913	MNR
Tuition discount (%)	N.A.	25.0	23.5	22.5	22.8	26.4
Student dependence (%)	N.A.	49.7	47.0	48.3	51.4	47.7
State appropriations to revenue (%)	N.A.	24.4	21.6	20.0	20.0	20.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	11.3	8.1	7.7	9.0	8.6
Debt						
Foundation debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total debt with foundation (\$000s)	N.A.	164,084	168,477	169,545	178,718	241762.0
Proposed debt (\$000s)	N.A.	N.A.	13,590	31,300	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.4	3.1	3.9	3.8	MNR
Current MADS burden (%)	N.A.	3.3	3.5	3.9	3.8	4.0
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.6	15.6	14.9	15.7	15.9
Financial resource ratios						
Endowment market value (\$000s)	N.A.	113,245	105,795	100,567	87,603	164766.0
Related foundation market value (\$000s)	N.A.	182,282	178,684	189,073	165,594	178684.0
Cash and investments including foundation (\$000s)	N.A.	373,547	407,454	395,705	318,945	457156.0
Cash and investments including foundation to operations (%)	N.A.	87.2	97.2	103.1	79.4	96.5
Cash and investments including foundation to debt (%)	N.A.	227.7	241.8	233.4	178.5	208.7

Missouri State University, Missouri--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' category rated public colleges and universities
	2024	2023	2022	2021	2020	2022.0
Cash and investments including foundation to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

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.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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