

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa3 to Missouri State University's Series 2014 Educational Facilities Revenue Bonds; outlook stable

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Global Credit Research - 26 Aug 2014

#### \$163.9M rated debt

MISSOURI STATE UNIVERSITY  
Public Colleges & Universities  
MO

#### Moody's Rating

ISSUE	RATING
Educational Facilities Revenue Bonds, Series 2014	Aa3
<b>Sale Amount</b> \$25,795,000	
<b>Expected Sale Date</b> 09/26/14	
<b>Rating Description</b> Revenue: Public University Limited Pledge	

**Moody's Outlook** STA

#### Opinion

NEW YORK, August 26, 2014 --Moody's Investors Service has assigned an Aa3 rating to Missouri State University's (MSU) \$25.8 million Educational Facilities Revenue Bonds, Series 2014 issued through the Health and Educational Facilities Authority of the State of Missouri. The outlook is stable.

#### SUMMARY RATING RATIONALE

The Aa3 rating and stable outlook reflect MSU's diverse academic offerings and strong student demand from within the State, consistently positive operations, and good levels of liquid reserves. The rating also incorporates limited flexibility to increase tuition and demographic challenges that could present challenges to future enrollment and tuition revenue growth. While debt has increased substantially over the past five years, the university has a rapid repayment schedule and no further immediate borrowing plans.

#### STRENGTHS

\*Favorable student demand as a regional public university with diverse programmatic offerings primarily serving southwest Missouri contributes to modestly growing enrollment. MSU enrolled 16,797 full-time equivalent students in fall 2013, a 2.2% increase over fall 2012 FTE enrollment.

\*Consistently healthy operating performance, even in the face of declining state support, is evidenced by FY 2013 operating and cash margins of 5.4% and 15.2%, respectively.

\*The university's management team employs prudent budgeting practices including regular and close monitoring of key performance indicators.

\*All debt is in fixed rate mode with an aggressive principal payment schedule. Debt service coverage was a strong 3.56 times in FY 2013.

\*Monthly liquidity is strong at 203 days monthly cash on hand as of FYE 2013.

#### CHALLENGES

\*Revenue growth pressures will continue, as the university agreed to hold undergraduate resident tuition flat in FY 2015 in exchange for a modest increase in state appropriations. Missouri state law prohibits tuition increases that

exceed CPI.

\*A limited student draw greatly exposes MSU to state-wide economic and demographic shifts.

\*The university has limited additional debt capacity at the current rating level as it has significantly increased debt and spent a modest amount of reserves to fund a multi-year program of capital investment.

\*The Auxiliary System Revenue bonds have a more limited security pledge, and the Series 2007A rely on an annual contribution from a single donor's to pay nearly half of annual debt service. This donor's trust has consistently made debt service payments on time and has a history of support for the university; however there are multiple pending law suits against the donor's trust.

#### DETAILED CREDIT DISCUSSION

**USE OF PROCEEDS:** The Series 2014 bonds are being issued to acquire, construct and renovate, and improve various educational facilities on MSU's main campus in Springfield, including: (i) construction of a new University Student Admissions and Success Center (Welcome Center), (ii) construction of a new occupational therapy/health sciences building, (iii) acquisition of and improvements to Brick City Building 4, (iv) improvements to the Jim D. Morris Building for international students and continuing education programs, and (v) miscellaneous capital improvements to academic facilities on the Springfield campus.

**LEGAL SECURITY:** The Educational Facilities Revenue Bonds are an unsecured general obligation of the university, excluding state appropriated funds and funds pledged to the payment of the auxiliary enterprise system revenue bonds. Educational Facilities Revenue Bonds are secured with a sum sufficient rate covenant and a negative mortgage pledge.

The Auxiliary Enterprise System Revenue bonds constitute special obligations of the university payable solely from net income and revenues derived from the operation of the Auxiliary Enterprise System, including investment income and other funds available to the university for use within the Auxiliary Enterprise System.

Under the Support Agreement for the Auxiliary Enterprise System Revenue Bonds, Series 2007A, a donor's trust has agreed to make annual contributions to the foundation in the amount equal to 47.54%, or \$1.9 million per year, of annual debt service payments on \$29 million of the principal amount. This gift is to be received at least 15 days in advance of the semi-annual payments. The university then has a Support Agreement with the foundation whereby the trust's contribution is transferred to make debt service payments. Since issuance, the trust has consistently made debt service payments on time and has a history of support for the university; however there are currently three pending lawsuits against the donor's trust alleging overstated assets. Excluding the donor's gifts completely from the auxiliary system revenue stream, pro-forma MADS coverage on the auxiliary system revenue bonds would be a sufficient 1.25 times in FY 2013. Under a rate covenant, the university agrees to establish and collect fees that will produce at least 1.1 times annual debt service coverage. The series 2007A bonds are further secured with a debt service reserve which is funded with a surety bond provided by Syncora Guarantee, Inc.

**DEBT STRUCTURE:** All of the university's debt consists of amortizing, fixed-rate bonds with final maturity in 2039. The university's debt structure is conservative and consists of a principal payment schedule that reduces the university's debt by 25% over the next five years.

#### RECENT DEVELOPMENTS/RESULTS:

Ongoing development of academic programs, capital investment and attractive pricing continue having a positive impact on enrollment. Management reports that fall 2014 enrollment projections are in line with expectations and that MSU will experience nearly 2% growth in FTE enrollment. This growth is counter to demographic trends within the State, which is experiencing a shrinking number of high school graduates. Despite statutory limits on tuition increases, MSU continues to grow net tuition revenue per student due to more effective financial aid strategies. Net tuition revenue per student has grown an average of 6.3% per year over the past five years. FY 2014 results are expected to show another increase.

Prudent fiscal management and conservative budgeting is expected to contribute to another year of operating surpluses. FY 2014 results will be slightly weaker than FY 2013 due to a holdback in state appropriations of \$1.5 million, salary increases and an increased depreciation expense. FY 2013 cash flow covered pro forma debt service coverage a strong 3.04 times. The FY 2015 budget incorporates flat enrollment and no increases to tuition rates for in-state students. In exchange, MSU expects to receive a 5% increase in state appropriations. In keeping in line with its conservative budgeting practices, the university always budgets for 3% less than what the state

approves for appropriations. If budget projections hold, FY 2015 operations will be similar to expected FY 2014 results.

Retained cash flow and investment returns provide financial flexibility as the university pursues strategic investments in academic programs and capital projects. As of June 30, 2014, the university's cash and investments totaled \$152.8 million compared to \$136 million as of FYE 2013. Expendable financial resources of \$193.9 million as of FYE 2013 cover pro forma debt 1.1 times, stronger than FY 2013 median coverage of 0.92 times for Aa3-rated public universities. The university will continue to strategically spend its cash on various capital projects that support the university's academic programs. We expect the university to continue to maintain healthy coverage of debt and operations despite its use of unrestricted cash reserves. No additional debt is expected within the next two years except for possible support for the College of Business renovation and addition project currently in design.

For more detail on Missouri State University's credit profile, please refer to our most recent report published on February 10, 2014.

#### Outlook

The stable outlook reflects our expectation that the university will maintain steady enrollment with moderate growth in net tuition revenue and some increase in state funding contributing to continued positive operations. It also incorporates expectations that capital plans will be balanced with resource growth and continued strong operating cash flow.

#### WHAT COULD CHANGE THE RATING UP

Positive rating pressure could result from a substantial increase in financial resources alongside further strengthening of student demand.

#### WHAT COULD CHANGE THE RATING DOWN

Erosion of financial resource coverage of debt and operations could result in a downgrade, as would sustained enrollment declines that contribute to a deterioration of operating performance.

#### KEY INDICATORS (FY 2013 financial data and 2013 fall enrollment)

Total FTE Enrollment: 16,797 students

Total Financial Resources: \$239.6 million

Total Direct Debt: \$110.2 million (\$175.6 pro forma)

Total Operating Revenue: \$280.4 million

Reliance on State Appropriation Revenue (% of Moody's Adjusted Operating Revenue): 27.4%

Reliance on Tuition Revenue (% of Moody's Adjusted Operating Revenue): 51.9%

Monthly Days Cash on Hand: 203 days

Operating Cash Flow Margin: 15.2%

Three-Year Average Debt Service Coverage: 3.97 times

State of Missouri Rating: Aaa/stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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