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

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<i>Long Term Rating</i>	A+/Positive	Affirmed
Series 2010A, 2010B, 2010C		
<i>Long Term Rating</i>	A+/Positive	Affirmed
Missouri Hlth & Educl Facs Auth, Missouri		
Missouri St Univ, Missouri		
Missouri Hlth & Educl Facs Auth (Missouri St Univ) PCU_USF		
<i>Long Term Rating</i>	A+/Positive	Affirmed
Series 2010A, 2010B		
<i>Long Term Rating</i>	A+/Positive	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' rating on Missouri State University's (MSU) series 2005A, 2007A, 2010A, 2010B, 2014A, 2015A, and 2016A auxiliary enterprise revenue bonds. We also affirmed our 'A+' long-term rating on the university's series 2010B, 2014, and 2015 bonds, issued by the Missouri Health & Educational Facilities Authority. The outlook is positive.

We assessed MSU's enterprise profile as very strong, characterized by stable enrollment and a stable demand profile with moderate selectivity and healthy retention. We assessed MSU's financial profile as very strong, with strong financial resources, solid operating trends with healthy surpluses for the past several fiscal years, and reasonable maximum annual debt service (MADS) burden. Combined, we believe these credit factors lead to an indicative stand-alone profile of 'a+' and final rating of 'A+'.

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

- Status as the second leading public institution in the state, with a history of stable operating support from Missouri;
- History of strong enrollment growth with relatively stable to modest enrollment growth projected for the next couple of years;
- Solid record of positive operating results on a full-accrual basis;
- Strong available resource ratios for the rating category with adjusted unrestricted net assets (UNA) equal to 41.5% of fiscal 2017 operating expenses and 88.9% of total debt, including bonds and capital leases; and
- Manageable pro forma MADS burden of 4.2%, including capital leases, of fiscal 2017 expenses.

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

- Budgetary stresses at the state level that have led to reductions in or withholding of appropriated funds;
- Competitive market pressure due to the state's tuition-subsidized community college enrollment program;
- State-mandated limits on tuition and fee increases tied to the Consumer Price Index (CPI); and
- Small, but growing, endowment compared with the university's size; the endowment was \$85.5 million as of June 30, 2017.

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 to roughly 25,000 students on three campuses in the Springfield, Mountain Grove, and the West Plains area. MSU operates the state's largest school of business and participates in NCAA Division I athletics. The university also owns and manages a 125-acre agriculture research and demonstration center in Springfield and a research observatory near Marshfield. The main Springfield campus is in southwest Missouri on 225-acre site.

Outlook

The positive outlook reflects S&P Global Ratings' expectation that MSU's balance sheet metrics will continue to improve and that any additional debt will be met with a commensurate growth in available resources during the outlook period. In addition, the positive outlook reflects our expectation that enrollment and demand metrics remain relatively stable and that operating performance will remain at or near current levels on a full-accrual basis, and that the university will manage potential state funding pressures.

Upside scenario

We could take a positive rating action if available resources are sustained at levels consistent with a higher rating and the university is able to at least maintain current demand metrics, produce operating surpluses on a full-accrual basis, and build its endowment.

Downside scenario

We could revise the outlook to stable if available resources materially deteriorate from current levels or if enrollment were to weaken substantially such that operating results decline from current levels.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclical and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends. We believe the higher education sector has a low-to-intermediate credit risk compared with other industries and sectors.

Economic fundamentals

In our view, the university has limited geographic diversity, with approximately 84% of students coming from Missouri. As such, our assessment of the university economic fundamentals is anchored by the state GDP per capita.

Market position and demand

Enrollment has been stable to growing since at least fall 2003. Headcount reached 25,618 (19,837 full time equivalent FTE) in fall 2017, a new record high for the university. Approximately 88% of all FTEs are undergraduates.

Management anticipates enrollment remaining relatively stable or having modest growth during the outlook period. Demand has also been stable despite significant regional competition from area community colleges and pressure on international enrollment. Applications increased 4.6% in fall 2017 to 9,453 applicants. Management reports continued focus on diversifying its out-of-state and international student draw, as well as improving retention and recruitment efforts. We believe the state's changing demographics could become a challenge due to the university's predominantly regional student draw.

Like many public institutions, the university is not highly selective; the acceptance rate for fall 2017 was 84%. Matriculation rates have hovered at about 43% on average for the past several years, which we consider solid and indicative of a regional academic niche. Student quality is above average: fall 2017 mean ACT scores were 24 compared with the national average of approximately 21. We understand that the university has remained conservative in its budget development and assumes flat enrollment for each upcoming budget year.

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. A current MSU student, a nonvoting member, also sits on the board. The board has administrative and financial oversight over the university's activities. Clifton M. Smart III has served as president since June 2011. We understand that the university's senior management team remains stable, with no changes expected in the foreseeable future.

Financial Profile

The university has formal policies for endowment and investments. It operates according to a strategic plan, and has a formal reserve liquidity policy. The university meets standard annual disclosure requirements. The financial policies assessment is neutral, reflecting our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies to comparable providers.

Financial performance

In our opinion, MSU continues to demonstrate healthy fiscal discipline by producing solidly positive operating results on a full-accrual basis as it has for the past several fiscal years. According to draft financial statements, the university generated an increase in net position of \$4.9 million in fiscal 2017, compared with net positions of \$18.8 million and \$17 million in fiscals 2016 and 2015, respectively. Management expects fiscal 2018 full-accrual operating results to be consistent with historical levels.

We view the university's revenue sources as diverse; major components of the university's revenue base according to fiscal 2017 draft financial statements include 54% from net tuition and fees, 22% from state operating appropriations, and 6% from gifts in fiscal 2017. We believe this diversity partly mitigates some of the decreased operational flexibility

regarding tuition rates. State mandates limit tuition and fee increases for undergraduate resident students to the CPI or the cost-of-living index, restraining one of the university's revenue-generating streams.

In fiscal 2017, state appropriations for operations totaled approximately \$83 million and capital appropriations were \$13.5 million. Management reports that fiscal 2018 state appropriations for operations included a 2.5% hold back. According to management, the university anticipates receiving state capital support in fiscal 2018 to support various capital projects in the amount of approximately \$10 million. MSU anticipates capital support from the state in 2017 through capital appropriations and the State of Missouri bond issues. MSU will likely fund other new capital projects through debt issuance, internal reserves, and private funding sources.

Available resources

MSU has sound available resources relative to both operations and debt for the rating. According to draft financial statements, total unrestricted net assets (UNA) \$152.3 million, after adjusting for pension liabilities as of June 30, 2017. Total adjusted UNA accounted for 41.5% of operating expenses and 88.9% of total debt, compared with 'A' medians of 26.8% and 52%, respectively.

As of October 16, 2017, the university foundation's market value was \$85.5 million. The asset allocation is liquid and conservative, in our opinion, with 43.5% in equity, 22.3% in fixed income and 29.7% alternative investments. 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 outstanding debt, including capital leases, totals approximately \$172 million based on draft financial statements as of June 30, 2017. The MADS burden remains manageable, in our opinion, or about 4.2% of fiscal 2017 operating expenses.

The \$48.9 million series 2015A bonds, which refunded the series 2007A bonds and partly funded the construction of the JQH Arena, are secured by the Hammons trust. Under a gift agreement, the trust is to pay 47.5% of the semiannual bond payments; however, the Hammons trust filed for bankruptcy in June 2016. Management reports that while litigation is ongoing, the trust has made payments on time and in full. Management also stressed that the MSU's auxiliary operations are strong enough to support the series 2015A debt in the event that payments from the trust are interrupted.

Pension plans and other postemployment benefits

MSU provides retirement benefits through Missouri State Employees' Retirement System (MOSERS), a state-administered, defined-benefit pension plan. As of June 30, 2017, the plan's funded status was 63%. University-required contributions were 16.97% of annual covered payroll, for fiscal 2017. We understand MSU has made 100% of the required contributions in each of the past four fiscal years. We recognize that all full-time faculty members not enrolled in MOSERS participate in a 401(a) defined-contribution retirement plan. MSU offers other postemployment benefits, primarily retiree health care benefits, through a university-administered, single-employer, defined-benefit plan that it funds through pay-as-you-go financing.

The auxiliary enterprise system

MSU's auxiliary enterprise system has historically consisted of housing, parking, student union, bookstore, and recreational facilities on the main campus and certain auxiliary operations at the West Plains campus. In fiscal 2007, the university also added health facilities to the auxiliary system. Health facilities include services provided at MSU's health and wellness center, such as routine preventive care, diagnosis and treatment for illness or injury, prescription services, laboratory testing, X-rays, and various health education-wellness programs. All students are assessed a health care-related fee, determined by the number of credit hours the student is taking. The auxiliary enterprise system's net assets rose to \$5.6 million in fiscal 2017 after the adjustment for the cumulative effect in the change in accounting principles for GASB 68. Debt service coverage (DSC) for the auxiliary system of 1.78x exceeded the covenant rate of 1.1x DSC at fiscal year-end 2017.

Housing facilities

Housing facilities include 11 residence halls with a capacity of 4,020 students, four dining facilities, and a student union building, all of which are on the Springfield campus. MSU maintains a freshman residency requirement. Fiscal 2017 occupancy estimates were 96%. In addition to residence halls, MSU students have access to a variety of fraternities and sororities, as well as other off-campus-housing alternatives not part of the auxiliary enterprise system.

Missouri State University--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Enrollment and demand						
Headcount	25,615	25,482	24,266	24,009	23,394	MNR
Full-time equivalent	19,837	19,730	18,803	18,567	18,222	11,962
Freshman acceptance rate (%)	84.0	84.4	85.9	85.0	85.3	74.4
Freshman matriculation rate (%)	40.8	41.9	43.6	41.0	43.2	MNR
Undergraduates as a % of total enrollment (%)	87.0	87.4	78.2	77.1	77.1	84.5
Freshman retention (%)	77.3	79.1	79.1	76.6	75.2	77.0
Graduation rates (six years) (%)	N.A.	54.2	52.0	52.4	54.7	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	N.A.	375,938	354,371	340,279	MNR
Adjusted operating expense (\$000s)	N.A.	N.A.	363,654	349,138	333,396	MNR
Net adjusted operating income (\$000s)	N.A.	N.A.	12,284	5,233	6,883	MNR
Net adjusted operating margin (%)	N.A.	N.A.	3.38	1.50	2.06	(0.72)
Estimated operating gain/loss before depreciation (\$000s)	N.A.	N.A.	38,245	29,238	29,557	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	N.A.	10,055	(133,352)	17,915	MNR
State operating appropriations (\$000s)	N.A.	N.A.	85,192	83,947	78,365	MNR
State appropriations to revenue (%)	N.A.	N.A.	22.7	23.7	23.0	22.6
Student dependence (%)	N.A.	N.A.	52.6	52.4	52.4	53.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	N.A.	5.9	5.7	5.5	MNR

Missouri State University--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Endowment and investment income dependence (%)	N.A.	N.A.	0.7	0.3	0.1	0.4
Debt						
Outstanding debt (\$000s)	N.A.	N.A.	169,065	157,856	142,490	164,127
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	N.A.	4.24	3.99	3.47	MNR
Current MADS burden (%)	N.A.	N.A.	N.A.	2.78	2.91	4.40
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	N.A.	70,495	74,969	75,978	81,992
Related foundation market value (\$000s)	N.A.	N.A.	137,342	139,258	136,522	111,376
Cash and investments (\$000s)	N.A.	N.A.	176,671	165,747	168,517	MNR
UNA (\$000s)	N.A.	N.A.	4,310	(5,745)	127,607	MNR
Adjusted UNA (\$000s)	N.A.	N.A.	143,381	133,062	136,040	MNR
Cash and investments to operations (%)	N.A.	N.A.	48.6	47.5	50.5	45.2
Cash and investments to debt (%)	N.A.	N.A.	104.5	105.0	118.3	96.3
Cash and investments to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	N.A.	39.4	38.1	40.8	26.8
Adjusted UNA plus debt service reserve to debt (%)	N.A.	N.A.	85.2	84.7	96.0	52.0
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	N.A.	13.3	13.4	13.3	14.0
OPEB liability to total liabilities (%)	N.A.	N.A.	0.9	1.0	1.8	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense.

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