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

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

## Credit Profile

US\$14.5 mil Auxliary Enterprise Sys Rev Bnds ser 2016A due 10/01/2041

*Long Term Rating*

A+/Positive

New

## Rationale

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

In addition, S&P Global Ratings assigned its 'A+' rating and positive outlook to MSU's series 2016A auxiliary enterprise system revenue bonds.

The positive outlook reflects the university's sound balance sheet metrics and consistently positive operating results, coupled with its increasing enrollment and healthy demand profile.

We assessed MSU's enterprise profile as very strong, characterized by moderate enrollment growth and 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 pro forma 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;
- Stable-to-growing enrollment with 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 34% of fiscal 2015 operating expenses and 68% of pro forma debt, including bonds and capital leases; and
- Manageable pro forma MADS burden of 4.3%, including capital leases, of fiscal 2015 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 \$73.5 million as of June 30, 2015.

The \$14 million series 2016A bonds will be used to support the development of a new health and wellness center. We understand that in September 2015, the student body approved a \$29 fee per semester beginning in fall 2017 for the center. Management anticipates the fee will generate approximately \$1 million annually. The project is scheduled to be open in January 2018.

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 was 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.

Following issuance of the series 2016A bonds, MSU's pro forma debt will be approximately \$176 million, including \$8 million of capital leases. We understand that the university could issue additional debt beyond the two-year outlook period to support various capital projects on campus. It is our opinion that the university has capacity for additional debt given current balance sheet strength.

Founded in 1905, MSU is one of 13 four-year public colleges and universities in Missouri and the state's the 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 24,000 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 in the next two years. In addition, the positive outlook reflects our expectation that enrollment will increase moderately and that operating performance will remain strong on a full-accrual basis.

### **Upside scenario**

We could take a positive rating action if available resources improve to 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 fail to improve 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 was 24,266 for fall 2015, a record high for the university. Approximately 78% of all students are undergraduates. Management reports that fall 2016 enrollment should exceed 26,000. Demand has also been stable despite significant regional competition from area community colleges. Applications increased 7.8% in fall 2015 to 8,672 from 8,044 in fall 2014. While MSU's total enrollment has consistently increased at a moderate rate, and management has made a concerted effort in 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 2015 was 86%. 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 2015 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, and in April 2013, MSU named Steve Foucart chief financial officer. Prior to this, Mr. Foucart had served as the interim chief financial officer since August 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.

In line with our Dec. 15, 2015, article "Assessing The Impact Of GASB 68 On U.S. Public Universities And Charter Schools", we have recorded adjustments starting in audited fiscal year-end 2015 to adjust out the impact of Governmental Accounting Standards Board (GASB) 68, "Accounting and Financial Reporting for Pensions--An Amendment of GASB Statement No. 27". We believe these adjustments result in financial metrics more fairly representative of the legal obligations and expenses for which the operating entity is responsible. We note that the university adopted GASB 68 during fiscal 2014 and our adjustments reflect this change.

### **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. In fiscal 2015, the university generated an operating surplus of \$10.7 million, compared with operating surpluses of \$6.9 million and \$8.5 million in fiscal 2014 and 2013, respectively. Management expects fiscal 2016 full-accrual operating results to be consistent with historical levels.

We view the university's revenue sources as diverse, with 42% from net tuition and fees, 23.7% from state operating appropriations, 10.3% from auxiliary enterprises, and 5.7% from grants and contracts in fiscal 2015. 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 2015, state appropriations for operations totaled approximately \$84 million and capital appropriations were \$2.25 million. Management reports that fiscal 2016 state appropriations for operations increased modestly. We anticipate that the university will continue to experience stable funding support from the state. According to management, the university received state capital support in fiscal 2015 and 2016. 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. Total unrestricted net assets (UNA) equaled \$116.3 million as of June 30, 2015. Total adjusted UNA accounted for 33.8% of operating expenses and 68% of pro forma debt.

As of June 30, 2015, the university foundation's market value was \$73.5 million. The asset allocation is liquid and conservative, in our opinion, with 53% in equity, 12% in fixed income, 20% in hedge funds, and the remainder in real assets, cash, and private equity. MSU's endowment spending policy is a standard 4.5% of a rolling three-year market value average. Due to the endowment's relatively small size, the effect of the rise in market value on university operations has been nominal.

### **Debt and contingent liabilities**

MSU's pro forma debt, including capital leases, is approximately \$176 million based on audited financials as of June 30, 2015. The pro forma MADS burden remains manageable, in our opinion, or about 4.3% of fiscal 2015 operating expenses.

## 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, 2015, the plan's funded status was 75%. University-required contributions were 16.97% of annual covered payroll, for fiscal 2015. 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. As of 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 \$8 million in fiscal 2015 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 1.8x exceeded the covenant rate of 1.1x DSC at fiscal year-end 2015.

## 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. Sunvilla Tower, with a capacity of 237, reopened for the fall 2015 semester after a year of renovations. Fiscal 2015 occupancy estimates were 96%, excluding Sunvilla Tower. 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, MO						
	--Fiscal year ended June 30--					Medians
	2016	2015	2014	2013	2012	Public Colleges & Universities 'A' 2015
<b>Enterprise Profile</b>						
Full-time equivalent	18,803	18,567	18,222	17,880	17,761	11,127
Freshman acceptance rate (%)	85.9	85.0	85.3	83.3	83.1	74.6
Freshman matriculation rate (%)	43.6	41.0	43.2	42.0	44.2	MNR
Freshman retention (%)	79.1	76.6	75.2	75.4	75.0	74.8
Faculty with terminal degrees (%)	77.4	76.5	77.3	78.8	72.0	MNR
Average SAT scores	N.A.	N.A.	N.A.	N.A.	N.A.	1,046
Average ACT scores	24	24	24	24	24	23
Freshman Applications	8,672	8,044	7,464	7,342	7,072	MNR
Annual freshman application percentage change (%)	7.8	7.8	1.7	3.8	(7.7)	MNR
Graduation rates (six years) (%)	52.0	52.4	54.7	53.4	55.4	MNR

Missouri State University, MO (cont.)

	--Fiscal year ended June 30--					Medians
	2016	2015	2014	2013	2012	Public Colleges & Universities 'A' 2015
Undergraduates as a % of total enrollment (%)	78.2	77.1	77.1	76.7	76.7	85.4
Tuition discount (%)	N.A.	22.4	22.2	22.4	22.2	24.3
Alumni participation rates (%)	7.7	7.8	7.8	7.9	9.9	MNR
Endowment per FTE	N.A.	3,961	4,170	4,328	3,506	MNR
Students from inside of the state (%)	83.7	84.2	85.0	N.A.	N.A.	82.4
Average age of plant (years)	N.A.	13.4	13.3	12.7	12.5	13.9
<b>Financial Profile</b>						
Net operating margin (%)	N.A.	3.12	2.06	2.65	3.28	(0.49)
Student dependence (%)	N.A.	52.4	52.4	52.2	50.7	51.6
State appropriation dependence (%)	N.A.	23.7	23.0	23.4	23.8	22.7
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	5.7	5.5	5.6	5.8	MNR
Endowment and investment income dependence (%)	N.A.	0.3	0.1	0.1	0.2	0.3
Other operating revenue dependence (%)	N.A.	0.0	0.0	0.0	0.0	MNR
Endowment spending rate (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	2.82	2.91	3.03	N.A.	4.52
Pro forma MADS burden (%)	N.A.	4.28	N.A.	N.A.	N.A.	MNR
Cash and investments (\$000s)	N.A.	165,747	168,517	135,965	148,441	MNR
Cash and investments to debt (%)	N.A.	105.0	118.3	123.4	128.2	93.5
Cash and investments to pro forma debt (%)	N.A.	96.4	N.A.	N.A.	N.A.	MNR
Adjusted UNA (\$000s)	N.A.	116,272	136,040	117,036	128,268	MNR
Adjusted UNA to operations (%)	N.A.	33.8	40.8	36.6	40.9	22.2
Adjusted UNA plus debt service reserve to debt (%)	N.A.	74.1	96.0	106.8	111.4	44.1
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	68.1	N.A.	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	343,653	333,396	319,810	313,808	MNR
Total debt	N.A.	157,856	142,490	110,211	115,777	155,104
Total pro forma debt	N.A.	171,856	N.A.	N.A.	N.A.	MNR
Current debt service	N.A.	13,927	11,582	11,963	11,672	MNR
Pension funded status (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pension expense	N.A.	17,911	17,916	14,882	14,051	MNR
OPEB expense	N.A.	824	808	1,358	1,306	MNR
Pct Retired 10 years (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

Missouri State University, MO (cont.)

	--Fiscal year ended June 30--					Medians
	2016	2015	2014	2013	2012	Public Colleges & Universities 'A' 2015
Contingent liabilities	N.A.	N.A.	N.A.	N.A.	N.A.	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 plus financial aid expense. Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Tuition dependence = 100\*(gross tuition revenue/adjusted operating revenue). Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term & long-term investments Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Ratings Detail (As Of October 5, 2016)

Missouri St Univ PCU_USF		
<i>Long Term Rating</i>	A+/Positive	Outlook Revised
<b>Series 2007A</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Outlook Revised
<b>Series 2010A, 2010B, 2010C</b>		
<i>Long Term Rating</i>	A+/Positive	Outlook Revised
<b>Missouri Hlth &amp; Educl Facs Auth, Missouri</b>		
Missouri St Univ, Missouri		
Missouri Hlth & Educl Facs Auth (Missouri St Univ) PCU_USF		
<i>Long Term Rating</i>	A+/Positive	Outlook Revised
<b>Series 2010A, 2010B</b>		
<i>Long Term Rating</i>	A+/Positive	Outlook Revised

Many issues are enhanced by bond insurance.



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