

# RatingsDirect®

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## Summary:

# Missouri State University; Public Coll/Univ - Unlimited Student Fees

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### Credit Profile

US\$39.4 mil auxil enterprise sys rev bnds ser 2014A due 04/01/2036

*Long Term Rating*

A+/Stable

New

#### **Series 2010A, 2010B, 2010C**

*Long Term Rating*

A+/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating and stable outlook to Missouri State University's (MSU) series 2014A auxiliary enterprise system revenue bonds and affirmed its 'A+' rating, with a stable outlook, on MSU's series 2007A, 2010A, 2010B, and 2010C auxiliary enterprise revenue bonds.

Standard & Poor's also affirmed its 'A+' rating, with a stable outlook, on Missouri Health & Educational Facilities Authority's series 2010A and 2010B revenue bonds, issued for the university.

Standard & Poor's also withdrew its rating on the series 2012 bonds because the issue never went to market.

The rating reflects our opinion of MSU's strong financial resources, solid operating trends with healthy surpluses recorded consistently for the past several fiscal years, growing enrollment, and stable demand profile despite decreasing state appropriations.

More specifically, the rating reflects our opinion of the university's:

- Status as the second largest public institution in the state with a history of stable operating support from Missouri;
- Stable-to-growing enrollment trends recently with modest enrollment growth projected for the next couple of years;
- Solid record of positive operating results on a full-accrual basis;
- Strong financial resources for the rating category with adjusted unrestricted net assets equal to 40.7% of fiscal 2013 operating expenses and 79% of total pro forma debt, including bonds and capital leases; and
- Manageable pro forma maximum annual debt service burden of 4%, including capital leases, of fiscal 2013 expenses.

We believe somewhat offsetting credit factors include, what we consider, the university's:

- Budgetary stresses at the state level that have led to recent reductions in 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; and
- Small, but growing, endowment compared to the university's size -- The endowment was \$72.4 million as of Dec.31, 2013.

We understand that MSU plans to use the net proceeds of the series 2014A bonds to construct a new track; volleyball courts; and soccer, lacrosse, and field hockey fields. We also understand the university intends to use bond proceeds to renovate the football stadium and several residential facilities. MSU is issuing the series 2014A bonds on parity with the university's series 2007A, 2010A, and 2010C auxiliary enterprise system revenue bonds. We understand the university will issue the bonds as fixed-rate term bonds with a final maturity in 2036.

Postissuance of the series 2014A bonds, MSU's pro forma debt will be \$141.6 million. When including \$8 million of capital leases, total pro forma debt equals \$149.6 million. A pledge of net income from the university's auxiliary enterprise system -- including dormitory, dining, social, recreational, housing, health, and parking facilities charges and fees -- secures the auxiliary enterprise bonds. Among the revenue streams for the auxiliary enterprise system are mandatory fees for the student union; recreation; sports complex; and shuttle system, which we consider equivalent to an unlimited student fee pledge. The university agrees to maintain net income of the auxiliary enterprise system of at least 1.1x annual debt service. There is no debt service reserve.

Management indicates it plans to issue an additional \$20 million of debt this spring to fund several academic projects. We believe MSU has the capacity to absorb the additional \$20 million-\$25 million at the current rating, but we will evaluate any additional debt beyond that at the time of occurrence.

Founded in 1905, MSU is one of 13 four-year public colleges and universities in Missouri; it is the second-largest university in the state. Under a state-recognized public affairs mission, MSU offers a broad array of academic programs to roughly 23,000 students on three campuses in the Springfield, Mountain Grove, and West Plains areas. The main campus is in southwest Missouri on approximately 225 acres in Springfield, which has a metropolitan service area population of nearly 385,000. Enrollment at MSU has been stable-to-growing since at least fall 2003; student enrollment reached a headcount of 23,394 for fall 2013, up slightly by more than 6% over the past five years. In our opinion, MSU continues to demonstrate healthy fiscal discipline by producing solidly positive operating results on a full-accrual basis for at least the past several fiscal years. We consider fiscal 2013 operating surpluses of \$8.4 million very solid compared with \$8 million in fiscal 2012. According to management, it expects fiscal 2014 full-accrual operating results to be consistent with fiscal 2013 results.

(For more information on MSU's various rated debt and the university, please see the full analysis, published Dec. 24, 2013, on RatingsDirect.)

## Outlook

The stable outlook reflects Standard & Poor's opinion that during the outlook's two-year period, the university's enrollment and demand profile will likely remain stable and that the university will likely continue to exhibit strong operating performance on a full-accrual basis and build unrestricted resources.

Although we consider a positive rating action within the outlook period unlikely due to the additional debt plans and associated financial resource ratios relative to pro forma debt, we would consider continued positive operating surpluses on a full-accrual basis and strengthened financial resource ratios relative to operating expenses and debt as positive credit factors. Although not expected, we could lower the rating over the outlook period if MSU were to

experience substantially weakened enrollment and large negative net tuition revenue growth, if financial operations were to turn negative on a cash basis, or if financial resources were to deteriorate.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of February 7, 2014)		
Missouri State University		
<i>Long Term Rating</i>	NR	Withdrawn
<b>Series 2007A</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Missouri Hlth &amp; Educl Facs Auth, Missouri</b>		
Missouri St Univ, Missouri		
<b>Series 2010A, 2010B</b>		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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