New Issue: Moody's assigns Aa3 to Missouri State University's $17M Ser. 2015 Educational Facilities Revenue Bonds; outlook stable

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$175M pro-forma rated debt

MISSOURI STATE UNIVERSITY
Public Colleges & Universities
MO

Moody's Rating

ISSUE	RATING
Series 2015 Educational Facilities Revenue Bonds	Aa3
Sale Amount $17,000,000	
Expected Sale Date 07/30/15	
Rating Description Revenue: Public University Broad Pledge	

Moody's Outlook STA

NEW YORK, July 23, 2015 --Moody's Investors Service assigns a Aa3 rating to Missouri State University's ("MSU" or "the university") planned $17 million of Educational Facilities Revenue Bonds, Series 2015. The bonds will be issued through the Health and Educational Facilities Authority of the State of Missouri. The Series 2015 bonds are expected to be issued as fixed rate and mature in 2040. The outlook is stable.

SUMMARY RATING RATIONALE

The assignment of the Aa3 rating reflects MSU's healthy net tuition revenue growth, despite a state imposed cap on in-state undergraduate tuition, which has more than offset declines in state funding.

MSU's Aa3 rating also favorably reflects its low cost per student, which provides additional pricing flexibility relative to peers, history of good operating performance, and sound donor support.

The rating incorporates MSU's relatively limited capital spending, with annual purchases of plant and equipment of less than annual depreciation in each of the last seven years and a paucity of state capital support. State funding reductions combined with state control of tuition setting place constraints on future revenue growth.

OUTLOOK

The stable outlook reflects expectations of continued healthy net tuition revenue growth, contributing to ongoing favorable operating surpluses.

WHAT COULD MAKE THE RATING GO UP

- Substantial growth in financial reserve cushion, while making ongoing investment to plant and programs

WHAT COULD MAKE THE RATING GO DOWN

- Material decline in financial reserves or liquidity

- Revenue stagnation or declines, contributing to weakened operating performance

STRENGTHS

- Healthy growth of net tuition revenue, averaging nearly 5% annually during FY 2012-2014

- Good financial management reflected by an average operating surplus of 5.3% from FY 2012-2014

- Sound unrestricted liquidity protects against state funding volatility, with 205 days monthly cash on hand

CHALLENGES

- State-imposed tuition cap for undergraduate resident students, at consumer price index (CPI), limits net tuition revenue growth

- History of volatility with state appropriations, including mid-year reductions, adds complexity to budgeting and planning

- Limited capital investment for this growing university could adversely affect student demand or become costly to address over time

RECENT DEVELOPMENTS

MSU continues to evaluate its capital needs and is in the process of vetting a residence hall renovation and improvements to a health and wellness center. While the costs, financing strategy, and timeline are not established, the university has the capacity to assume limited additional short-term debt given the (1) adequate cushion of debt to operations, (2) expectations of continued financial resource growth, and (3) decrease of $2 million of existing annual debt service after October 2017.

DETAILED RATING RATIONALE

MARKET POSITION: STABLE STUDENT DEMAND WITH INCREMENTAL ENROLLMENT GROWTH DRIVEN BY PROGRAM FLEXIBILITY AND TARGETED RECRUITING

Stable student demand is reflected by MSU's successive years of incremental enrollment growth, up a total of 5% from fall 2011. MSU benefits from strong name recognition as the second largest provider of public higher education in Missouri with 17,129 full-time equivalent (FTE) students in fall 2014. Management projects modest enrollment gains in fall 2015 based on internal data trends, though the university continues to budget for flat enrollment growth.

Enrollment growth will continue to be driven by the Springfield campus, as opposed to the West Plains campus, which, as a two-year campus, is more susceptible to losing students as the state's economy improves. Despite challenging local demographics, the university is well positioned to continue its upward enrollment trend given the favorable pricing structure, program flexibility and diversity, and outreach to out-of-state markets, which has yielded positive results. In fall 2014, 13% of enrollment was from out-of-state, up from 8% in fall 2012.

The percentage of out-of-state enrollment is expected to grow further as tuition prices among competition outside of Missouri continues to climb and the number of statewide high school graduates is projected to remain flat in FYE 2015. Additionally, MSU has gained exposure in East Asia through its branch campus at Liaoning Normal University (LNU) in China, further positioning itself to advance international student enrollment, which has been an area of growth.

FINANCIAL OPERATIONS AND POSITION: SURPLUS OPERATIONS; EXPENSE CONTAINMENT PARAMOUNT GIVEN REVENUE CONSTRAINTS; CAPITAL PLANS REMAIN

Surplus operations are expected to continue as management effectively balances revenue and expense growth. MSU has consistently generated good operations reflected by a 5.3% three-year average operating margin (FY 2012-2014) and 14.2% operating cash flow margin in FY 2014. Average debt service coverage from all operating cash flow was a solid 3.6 times from FY 2012 -2014.

Tight expenditure controls and prudent fiscal oversight will remain essential to the university's operating performance as revenue growth is expected to be constrained. Future financial support from the State of Missouri (Aaa stable) remains a challenge given the history of state appropriation volatility. The university's FY 2016 state appropriation will increase 1.5%, though there is a precedent for withholding increases.

The university benefits from good revenue diversity, though the reliance on student charges continues to grow and offset declines in state appropriations. Student charges represent the largest source of operating revenue, at 52%, followed by state appropriations and grants and contracts, at 27% and 9%, respectively. Tuition increases for in-state undergraduate students is capped by the state at only 0.8% for FY 2016, consistent with CPI. In recent years, net tuition revenue growth was driven by careful management of tuition discounting and incremental enrollment growth at the four-year Springfield campus, particularly among out-of-state and graduate students. We expect this trend to continue in FY 2016.

The financial resources of the university and affiliated foundation provide a solid cushion for debt and operations, and we expect continued good support due to well-managed capital planning strategies. In FY 2014, expendable financial resources of $220 million covered pro-forma debt 1.5 times and operations 0.8 times. Fundraising at MSU's affiliated foundation continues to strengthen, with FY 2014 and 2015 totals of $18 million and $19 million, respectively, among the most successful in the university's history.

Additional capital investment may be required to maintain market appeal and prevent large, costly upgrades over time. Over the last decade, the university's capital spending ratio has been consistently low as the pace of depreciation has regularly exceeded capital spending. In addition to the Glass Hall project, the university is in the process of evaluating additional capital projects.

The university's endowment totaled $75 million as of May 31, 2015, with the fiscal year-to-date return at 2.0%. For FY 2014, the endowment's twelve month return was 14.8%. Assets are diversified among equities (57%), alternatives (23%), fixed income (16%), real estate (4%). Oversight of the endowment is provided by a fiduciary committee of the institution's Board of Trustees and an external consultant.

Liquidity

MSU continues to have good unrestricted liquidity with $142 million of monthly liquidity in FY 2014 translating into 205 days cash on hand. Nearly all of the university's cash and investments are available within one month, enabling it to adequately address any unforeseen pressures on operating revenues or expenses. The university has limited calls on liquidity with an all fixed-rate debt structure and no unfunded commitments.

DEBT AND OTHER LIABILITIES: MODERATE LEVERAGE WITH LIMITED DEBT CAPACITY

MSU has a relatively modest debt burden, with debt service representing just 4% of operations in FY 2014, and pro-forma debt to operating revenues of approximately 0.6 times.

The estimated $1 million annual debt service on the Series 2015 Educational Facilities Revenue Bonds will be supported by a dedicated fee on upper-level undergraduate business courses. In FYs 2014 and 2015, this fee generated net amounts of $1 million and $1.2 million, respectively.

Debt Structure

All of the university's debt, including the proposed Series 2015 Educational Facilities Revenue Bonds, are fixed-rate with level debt service. This debt structure provides budgeting predictability and creates debt capacity as the bonds amortize over a 25 year period.

Debt-Related Derivatives

There are no debt-related derivatives.

Pensions and OPEB

MSU's share of its contributions to its state-run pension systems have been fixed through FY 2016, though potential increases remain a long-term credit risk. Employees participate in either a state-administered, cost-sharing, defined benefit plan, Missouri State Employees' Retirement System (MOSERS), or College and University Retirement Plan (CURP), a defined contribution plan. In FY 2014, total pension costs were $18 million, a moderate 6% of total expenses.

Post-retirement health benefits are provided through a defined benefit plan administered by the university, which has the authority to set and amend benefit provisions. OPEB contributions are stable limiting the growth of the liability, which was $3.6 million in FY 2014.

MANAGEMENT AND GOVERNANCE: PRUDENT FINANCIAL MANAGEMENT AND THOUGHTFUL PROGAMMATIC PLANNING

Conservative budgeting, careful planning, and prudent financial management will drive ongoing surplus operations despite state appropriations volatility and constraints on tuition pricing. The university continues to improve its strategic positioning through thoughtful capital investment, including the College of Business project which will accommodate the growing demand for a business education among MSU students. Additionally, management's continuing evaluation of academic offering to ensures alignment with student needs and market demand. Program flexibility has improved with more online options and additional offerings have been added at the undergraduate and graduate level, including a new program in cyber security.

KEY STATISTICS (FY 2014 Financials; Fall 2014 Enrollment)

- Total FTE Enrollment: 17,129 students

- Total Financial Resources: $268 million

- Total Direct Debt: $142.5 million

- Total Operating Revenue: $290.4 million

- Reliance on Tuition and Auxiliary Revenue (as % of operating revenue): 52.3%

- Reliance on State Appropriation Revenue (as % of operating revenue): 27%

- Monthly Days Cash on Hand: 205 days

- Operating Cash Flow Margin: 14%

- Three-Year Average Debt Service Coverage: 3.6 times

OBLIGOR PROFILE

Founded in 1905, MSU is the second largest public university in the state, serving 17,129 full-time equivalent students in fall 2014. The university's enrollment reflects its comprehensive four-year campus in Springfield and an open admissions two-year program in West Plains. Business and health sciences are among the most popular areas of study. In FY 2014, MSU had operating revenues of $290 million.

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. The Educational Facilities Revenue Bonds have a sum sufficient rate covenant and a negative mortgage pledge.

The Auxiliary Enterprise System Revenue Bonds are secured by a limited pledge of the university's net income from the operation of 11 residence halls (4,029 beds), bookstore, health and wellness center, parking facilities (8,644 spaces), athletic and recreation facilities, and certain auxiliary operations of the West Plains Campus. Further support for debt service is provided through a support agreement in which a donor's trust has committed to make continued annual contributions to the university's foundation in the amount equal to 47.54% of annual debt service payments on the Series 2015A bonds.

The Auxiliary Enterprise System bonds are rated one notch lower than the Educational Facilities Revenue Bonds, reflecting the narrower and potentially more volatile revenue pledge. In FY 2014, Auxiliary Enterprise System pledged revenue totaled $18.6 million, providing 1.9 times annual debt service coverage.

USE OF PROCEEDS

The proceeds from the Educational Facilities Revenue Bonds, Series 2015 will be used for the renovation and expansion of Glass Hall, the University's College of Business. Additionally, proceeds will fund various capital projects on the Springfield campus.

RATING 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 for a copy of this methodology.

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