



Rating Action: Moody's assigns A1 and Aa3 ratings to Missouri State University's (MO) Series 2019A and Series 2019B; outlook negative

30 Oct 2019

New York, October 30, 2019 -- Moody's Investors Service has assigned an A1 to Missouri State University's (MSU) proposed \$15.6 million of Auxiliary Enterprise System Revenue Bonds Series 2019A. Concurrently, we also assign a Aa3 to MSU's proposed \$6.6 million of Educational Facilities Revenue Bonds (Missouri State University) Series 2019B to be issued by the Missouri State Health and Educational Facilities Authority. Both series of bonds have expected final maturities in 2035. We also maintain a Aa3 issuer rating, Aa3 ratings on about \$44 million of outstanding Educational Facilities Revenue Bonds, and the A1 rating on about \$77 million of Auxiliary Enterprise System Revenue Bonds. The outlook is negative.

RATINGS RATIONALE

The Aa3 senior rating reflects MSU's important regional role as a large public university provider with a solid financial position and manageable direct debt. With diverse programs and delivery formats, MSU will maintain generally steady student demand despite considerable market challenges. Total headcount enrollment held stable in fall 2019, as growth in graduate and dual enrollment students helped mitigate a 12% annual decline in the number of first year students. Sound financial management will continue to support double-digit operating cash flow margins, even as some contraction materializes. Favorably, the university is budgeted to receive a substantial 12% increase in state funding in fiscal 2020 due to adjustments to equity funding. Finally, while absolute wealth is relatively modest at the rating level, the university maintains solid liquidity and manageable leverage.

The rating is tempered by significant student demand challenges given weak regional demographics and heightened competition. These factors will constrain the university's ability to grow net tuition revenue. In addition, MSU has substantial debt-like liabilities through the university's participation in statewide multi-employer pension plan and additional capital needs including a \$24 million residence hall.

The A1 for the Auxiliary Enterprise System bonds reflects the narrower pledge and limited revenue stream supporting debt service. Fiscal 2019 pledged revenues amount to \$63 million, which represents about 20% of total operating revenue and provides 1.65x coverage of auxiliary debt.

RATING OUTLOOK

The negative outlook reflects expectations of continued student demand challenges, which will contribute to constrained net tuition revenue and some contraction in operating cash flow margins. It also reflects expectations of tempered financial reserve growth in coming years.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial growth in flexible reserves relative to debt and operations
- Sustained strengthening in revenue growth driven by improvement in student demand
- Material strengthening of pledged revenues relative to auxiliary expenses

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Softening in student demand, leading to weaker debt service coverage on auxiliary bonds or additional declines in net tuition revenue beyond fiscal 2019
- Deterioration in operating performance
- Failure to grow financial reserves in-line with similarly rated peers or commensurate with new debt

LEGAL SECURITY

The Educational Facilities Revenue Bonds are unsecured general obligations of the university, payable from all legally available funds, excluding state appropriated funds, and funds pledged to payment of 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 more limited pledge of the University's net income and revenues from its Auxiliary Enterprise System. The bonds are subject to a 1.1x coverage rate covenant. We expect the university to continue to meet this coverage requirement comfortably.

USE OF PROCEEDS

Proceeds from the proposed Series 2019A bonds will be used to advance refund a portion of the Series 2010B auxiliary system revenue bonds, and pay issuance costs. Proceeds from the proposed Series 2019B bonds will be used to advance refund a portion of the Series 2010B Educational Facilities Revenue Bonds, and pay issuance costs. In both cases, there is no extension of the final maturity and the university will achieve economic savings.

PROFILE

Founded in 1905, MSU is the second largest public university in the state, with fiscal 2018 operating revenue of \$323 million and 18,174 full-time equivalent students in fall 2018. The university's enrollment reflects its doctoral/professional four-year campus in Springfield and an open admissions two-year program in West Plains. Business, education, and health sciences are among the most popular areas of study.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in May 2019. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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