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CREDIT OPINION
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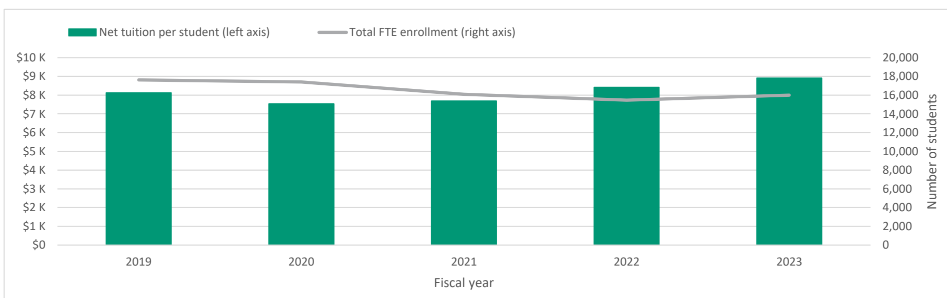
# Missouri State University

Update to credit analysis

## Summary


Missouri State University's (MSU; A1 stable) very good credit quality is supported by its importance as the second largest public university in the state of Missouri with fall FTE enrollment of 16,000 and $361 million of operating revenue in fiscal 2023. Further supporting the rating is MSUs favorable liquidity position, providing a cushion for the system as it continues to manage through softened margins driven by enrollment challenges and limited pricing flexibility. While near-term operating margins are expected to remain close to break-even, MSU has identified and started to implement several strategic initiatives to help drive enrollment growth. Initiatives include evaluating potential additional graduate programs, providing full tuition through the MO State Access Award, and its partnership with Cox Health, Ozarks Technical Community College & Springfield Public Schools for the Alliance for Healthcare Education. While direct debt remains moderate and there are no additional plans for debt, adjusted debt metrics will continue to be elevated due to the university's pension exposure.


Exhibit 1
**Modest growth in enrollment and net tuition per student constrain margins**




*Source: Moody's Ratings*

## Credit strengths

» Well-regarded regional brand as the second largest Missouri public university serving 16,00 fall 2023 full-time equivalent students

» Favorable liquidity levels at 232 monthly days cash on hand provide cushion as the system manages operating performance

» Manageable direct debt burden

## Credit challenges

» Limited tuition pricing flexibility and inflationary pressures provide a moderate 10.9% EBIDA margin in fiscal 2023

» Participation in state pension plan consumes nearly 12% of operating expenses

» Heightened student market challenges due to weak in-state high school demographic trends and substantial competition

» Moderate auxiliary revenue provides thin headroom to auxiliary bond covenant

## Rating outlook

The stable outlook incorporates expectations that the system will continue to grow FTE enrollment supporting growth of revenue. Additionally, maintenance of wealth levels and no plans for additional borrowing provide stability.

## Factors that could lead to an upgrade

» Improved and sustained revenue and cash flow growth

» Improvement in enrollment metrics resulting in growth of net tuition revenue

» Substantial growth in reserves relative to debt and operations

» Auxiliary Bonds: Material strengthening of pledged revenue coverage

## Factors that could lead to a downgrade

» Further degradation of operating performance beyond fiscal 2023

» Material reductions in unrestricted liquidity

» Increase in debt without commensurate increases in revenue or reserves

» Auxiliary Bonds: Reductions in pledged revenues resulting inability to meet rate covenant

## Key indicators

Exhibit 2
MISSOURI STATE UNIVERSITY

| | 2019 | 2020 | 2021 | 2022 | 2023 | Median: A Rated Public Universities |
|---|---|---|---|---|---|---|
| Total FTE Enrollment | 17,625 | 17,402 | 16,085 | 15,465 | 16,000 | 8,977 |
| Operating Revenue ($000) | 328,014 | 322,419 | 346,852 | 357,334 | 360,483 | 244,842 |
| Annual Change in Operating Revenue (%) | 1.6 | -1.7 | 7.6 | 3.0 | 0.9 | 5.3 |
| Total Cash & Investments ($000) | 311,459 | 316,015 | 391,166 | 405,982 | 371,846 | 246,428 |
| Total Adjusted Debt ($000) | 757,238 | 761,831 | 800,070 | 844,091 | 827,320 | 366,930 |
| Total Cash & Investments to Total Adjusted Debt (x) | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.7 |
| Total Cash & Investments to Operating Expenses (x) | 1.0 | 1.0 | 1.3 | 1.2 | 1.0 | 1.1 |
| Monthly Days Cash on Hand (x) | 207 | 203 | 272 | 279 | 232 | 193 |
| EBIDA Margin (%) | 12.5 | 10.4 | 20.3 | 17.8 | 10.9 | 12.9 |
| Total Debt to EBIDA (x) | 4.5 | 5.3 | 2.4 | 2.6 | 4.2 | 4.1 |
| Annual Debt Service Coverage (x) | 2.7 | 1.9 | 4.4 | 4.4 | 2.6 | 3.1 |

*Source: Moody's Ratings*

## Profile

Founded in 1905, MSU is the second largest public university in the state, with fiscal 2023 operating revenue of $361 million and 16,000 full-time equivalent students in fall 2023. 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.

## Detailed credit considerations

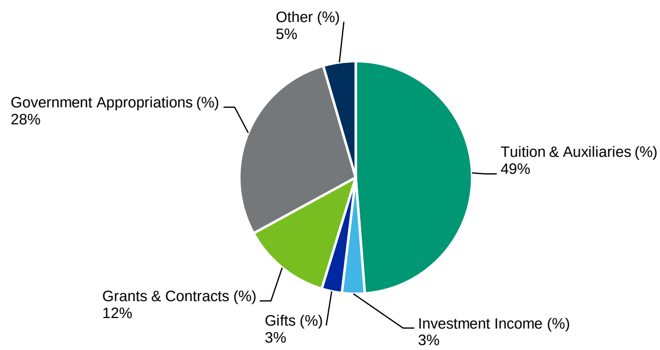
### Market profile

Enrollment growth will continue to be constrained in the coming years as the number of Missouri high school graduates is projected to marginally decline. This poses a material student market challenge because more than 80% of MSU students hail from Missouri. While enrollment has declined over the past five years, management reports that fall 2023 freshman enrollment was up by nearly 20% following an initiative to provide full tuition for pell eligible students. The university plans to continue this program which management expects will help grow enrollment in conjunction with programatic expansion of the its nursing program. Through the Alliance for Healthcare Education, Cox College will close after they complete teaching their current classes. Missouri State University and Ozarks Technical Community College will expand and develop new programs that can accommodate more students. For Missouri State University, the first students will begin in fiscal 2026. This partnership with Cox Healthcare will help grow the nursing program and provide additional occupational therapy and dietician degrees. Favorably, as the second largest public university in Missouri with a well-established brand across multiple campuses, prospects for enrollment stability are good. Effective management of enrollment and pricing remains important to credit quality as the university relies on student charges for over 50% of its operating revenue.

### Operating Performance

Net tuition revenue growth will continue to be constrained due to the university's affordability mission coupled with enrollment projections. Fiscal 2023 performance was constrained by growth of net tuition revenue and wage expense increases. While fiscal 2024 performance is expected to remain relatively flat relative to fiscal 2023, management reports that net tuition revenue is favorable to prior year. Sustained pressure on net tuition revenue and stagnant state funding will constrain meaningful improvement in university-wide operating performance. While state appropriations have trended up (+9%) FY22 to FY23, compensation and pension expenses place further pressure on bottom line performance. In response to revenue growth challenges, management will continue to deploy various spending reductions in an effort to maintain fiscal stability.

Exhibit 3
**Revenue growth is constrained by the high reliance on tuition revenue**



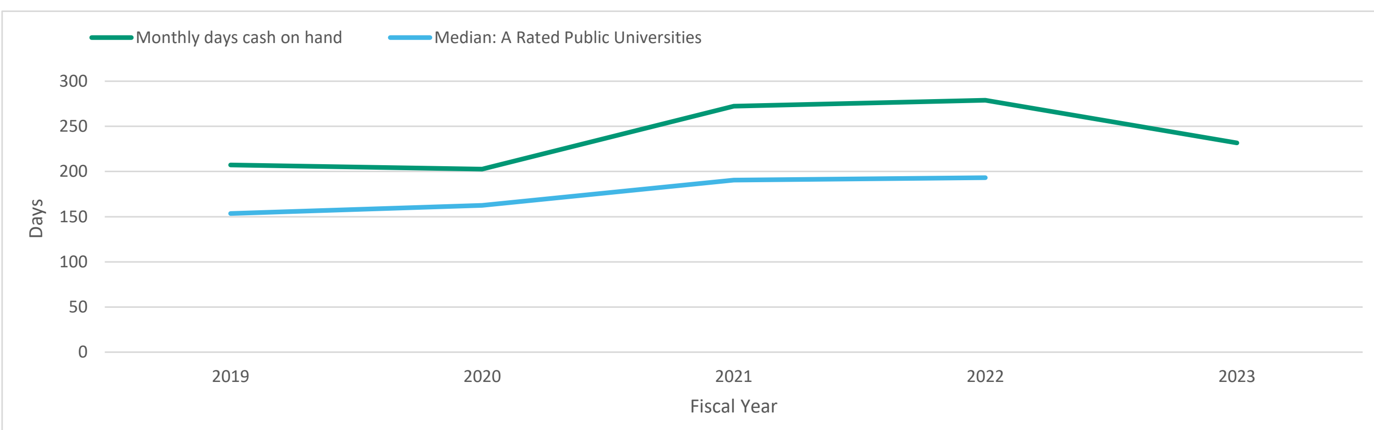

*Source: Moody's Ratings*

Auxiliary enterprise operating revenue continued to increase in fiscal 2023. Increases were driven primarily by increased enrollment and opening of a new residence hall. Additionally, ticket sales and distributions from the NCAA helped supplement revenue gains in fiscal 2023. Despite positive momentum on revenue growth the enterprise saw a large decline in net revenues available for debt service translating to a 1.1x coverage on bonded debt. Given current 2024 year to date performance management anticipates approximately 2x coverage on bonded debt in fiscal 2024.

## Financial Resources & Liquidity

Absolute wealth will remain relatively modest, with fiscal 2023 total cash and investments amounting to $371 million. Over the last five years, total cash and investments increased 19%. Liquidity will continue to be a credit strength and provide a strong cushion relative to operating expenses. In fiscal 2023, unrestricted monthly liquidity amounted to $165 million, which provides approximately 232 monthly days cash on hand. Exposure to liquidity risks is minimal given the university's favorable operations, fixed rate debt structure, and conservative asset allocation. The largest capital project currently in flight is the Blunt Hall Phase 1 renovation which will be paid for largely by federal and state funds.

Exhibit 4
**Liquidity provides a cushion as the university continues to manage expense challenges**




*Source: Moody's Ratings*

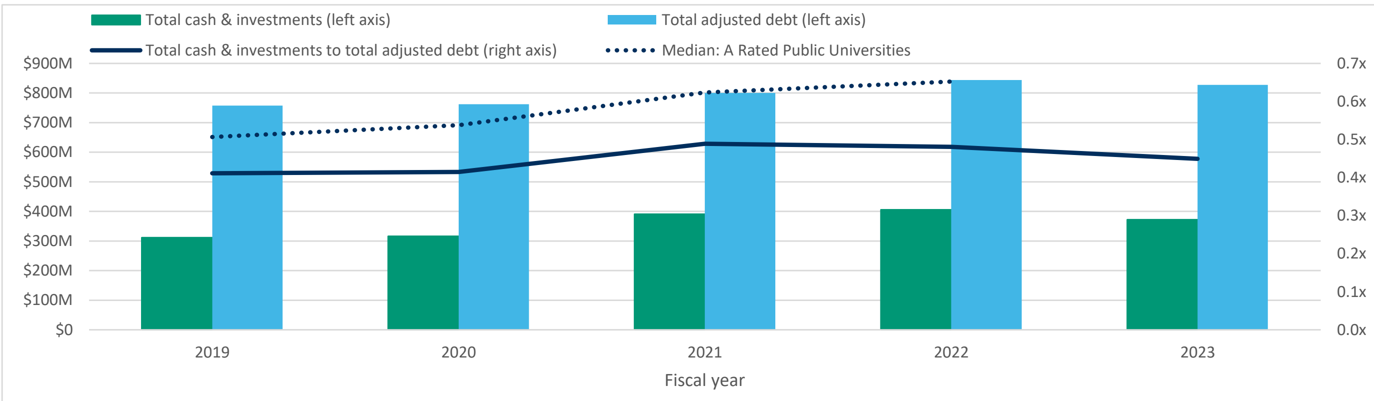
## Leverage and Coverage

With no anticipated new money borrowings direct debt will remain manageable. An entirely fixed rate debt structure with relatively rapid amortization provides predictability to the budget process by providing fixed costs to incorporate into financial plans. In fiscal 2023, spendable cash and investments provided a strong 1.7x coverage or debt, while debt to revenue was .45x.

The Auxiliary Enterprise System Revenue Bonds ($26 million outstanding at June 30, 2023) are secured by a more limited pledge of the University's net income and revenues from its Auxiliary Enterprise System. In fiscal 2023, the system just met its covenant at 1.1x. While timing of revenues can be uneven throughout the fiscal year, based on 2024 six month performance management anticipates coverage to be 2.2x at fiscal year end.

University 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. Pension contributions were approximately $28 million in fiscal 2023, representing nearly 12% of total operating expenses.

Exhibit 5
**Liquidity is somewhat constrained by the universities outsized pension burden**

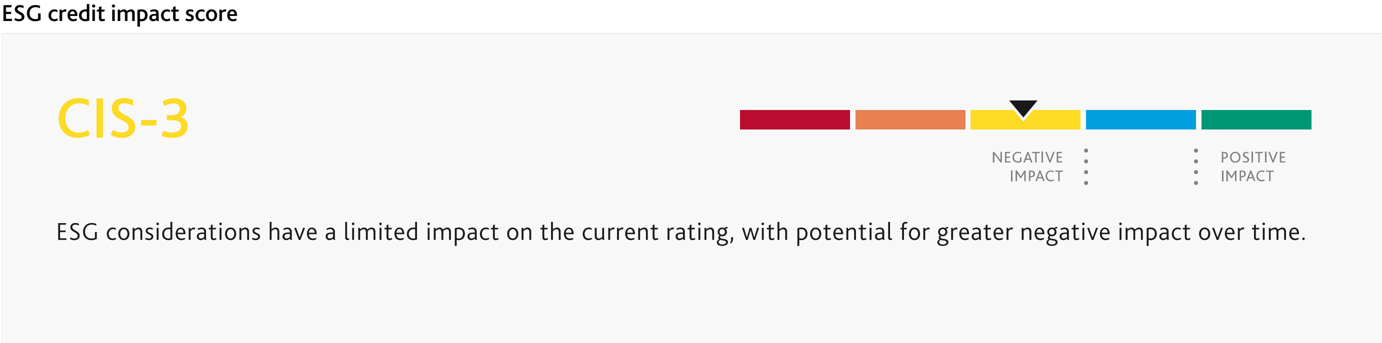



*Source: Moody's Ratings*

## ESG considerations

### Missouri State University's ESG credit impact score is CIS-3

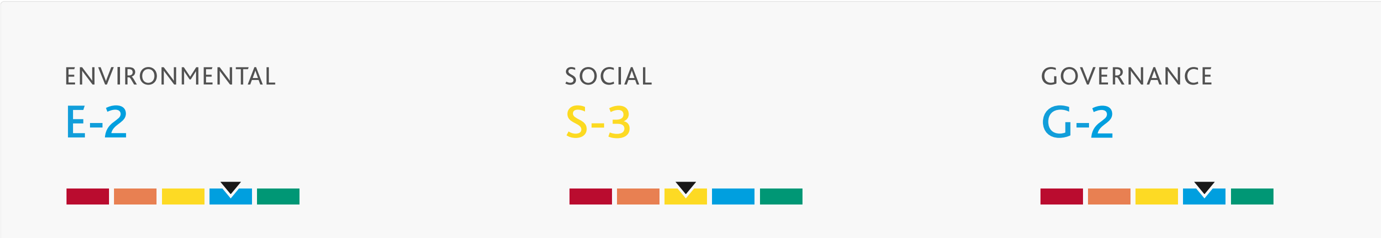
Exhibit 6
**ESG credit impact score**




*Source: Moody's Ratings*

Missouri State University's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. Its favorable wealth and strong institutional management help mitigate these ESG risks.

Exhibit 7
**ESG issuer profile scores**




*Source: Moody's Ratings*

### Environmental
The **E-2** incorporates the university's moderate exposure to climate risks, including heat and water stress. This could have broader impact on the region, though near-term risks specific to MSU are remote. These risks are balanced by the university's sustainability efforts. An ongoing strategic initiative of MSU includes a student sustainability fund which provides over $100k in funding for student led sustainability projects. Additionally, the university in collaboration with Missouri Science & Technology has started a pollution prevention (P2) program that provides onsite pollution prevention technical assistance and training to area manufacturers.

### Social
MSU's **S-3** is primarily driven by its exposure to demographic and human capital risks. Through its mission, the system maintains an important social role as a large provider of higher education within the state. Aging demographics and projected declines in high school graduates introduce social risk. The elevated human capital risks encompass the system's exposure to collective bargaining, faculty tenure, and the need to attract and retain specialized faculty and staff. Additionally, limited yet growing state support provide further risk. This is balanced by the system's essentiality which factors into its positive customer relations framework.

### Governance
MSU's governance risks (**G-2**) reflects the university's strong culture for long-term planning and accountability to meet strategic goals. Similar to other public universities, risks around board structure include exposure to potential political considerations that could create misalignment to institutional priorities. Favorably, individual board members have diverse backgrounds and areas of expertise as well as a track record of effective advocacy on behalf of the university to advance its institutional priorities

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The principal methodology used in this rating was Higher Education Methodology published in August 2021. The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard indicated outcome may or may not match an assigned rating. We assess brand and strategic positioning, financial policy and strategy, and operating environment on a qualitative basis.

Exhibit 8

**Missouri State University**

| Scorecard Factors and Sub-factors | | Value | Score |
|---|---|---|---|
| **Factor 1:** | **Scale (15%)** | | |
| | Adjusted Operating Revenue (USD Million) | 360 | A |
| **Factor 2:** | **Market Profile (20%)** | | |
| | Brand and Strategic Positioning | A | A |
| | Operating Environment | A | A |
| **Factor 3:** | **Operating Performance (10%)** | | |
| | EBIDA Margin | 11% | A |
| **Factor 4:** | **Financial Resources and Liquidity (25%)** | | |
| | Total Cash and Investments (USD Million) | 372 | Aa |
| | Total Cash and Investments to Operating Expenses | 1.0 | Aa |
| **Factor 5:** | **Leverage and coverage (20%)** | | |
| | Total Cash and Investments to Total Adjusted Debt | 0.4 | A |
| | Annual Debt Service Coverage | 2.6 | Aa |
| **Factor 6:** | **Financial Policy and Strategy (10%)** | | |
| | Financial Policy and Strategy | A | A |
| | | | |
| | Scorecard-Indicated Outcome | | A1 |
| | Assigned Rating | | A1 |

*Source: Moody's Ratings*

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