

# RatingsDirect®

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## Summary:

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

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# Missouri Health and Educational Facilities Authority

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

Credit Profile		
US\$17.0 mil educl facs rev bnds (Missouri State University) ser 2015B due 10/01/2035		
<i>Long Term Rating</i>	A+/Stable	New
Missouri St Univ aux sys rev rfdg bnds ser 2015A due 04/01/2032		
<i>Long Term Rating</i>	A+/Stable	Affirmed
<b>Series 2007A</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Series 2010A, 2010B, 2010C</b>		
<i>Long Term Rating</i>	A+/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.

## Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to the Missouri Health and Educational Facilities Authority's series 2015 educational facilities revenue bonds issued on behalf of Missouri State University.

At the same time, Standard & Poor's affirmed its 'A+' long-term rating on the university's series 2005A, 2010A, 2010B, 2010C, 2014A and 2015A auxiliary enterprise revenue bonds.

Finally, Standard & Poor's affirmed its 'A+' long-term rating on the series 2014, 2010A, and 2010B educational facilities revenue bonds, also issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of the university. The outlook on all ratings is stable.

The rating reflects our opinion of the university's strong financial resources, solid operating trends with healthy surpluses for the past several fiscal years, moderate enrollment growth, and stable demand profile despite decreasing state appropriations. The rating further reflects our view of the university's small but growing endowment compared with that of peer institutions and limited additional debt plans within the two-year outlook period.

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

- Status as the second leading 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 (UNA) equal to 45% of fiscal 2014 operating expenses and 74% of pro forma debt, including bonds and capital leases; and
- Manageable pro forma maximum annual debt service (MADS) burden of 3.8%, including capital leases, of fiscal 2014 expenses.

Partly offsetting the above strengths, in our view, are:

- Budgetary stresses at the state level that have led to reductions in appropriated funds;
- Competitive market pressure as a result of 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 in relation to the university's size (the endowment was \$73.5 million as of Dec. 31, 2014).

The proceeds of the series 2015 bonds, in the amount of approximately \$20 million, will be used to support renovations to the university's college of business. Management reports that total project costs are projected to be approximately \$25 million; we understand the university has pledges of \$5.1 million to offset project costs and that university reserves and foundation gifts further support the project.

Following issuance of the series 2015 bonds, the university's pro forma debt will be \$184 million, including \$6 million of capital leases. We understand that the university could issue additional auxiliary system revenue debt outside of the two-year outlook period to support potential housing renovations and renovations to the student health center. We will evaluate the impact of this potential debt as plans solidify, but anticipate that any additional debt issuance will be commensurate with growth in financial resources.

The series 2015A, 2014A, 2005A, 2010A, 2010B, and 2010C auxiliary enterprise system revenue bonds are secured by 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. Among the revenue streams for the auxiliary enterprise system are mandatory fees for the student union, health center, athletic and recreation facilities, and shuttle system; we consider this equivalent to an unlimited student fee pledge. The university covenants to maintain net income of the auxiliary enterprise system of at least 1.1x annual debt service. There is no debt service reserve.

For more information, see our full analysis published March 27, 2015 on RatingsDirect.

## **Outlook**

The stable outlook reflects our 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, as well as build unrestricted resources. Positive rating action, although not likely during the two-year outlook period, could occur should the university continue its operating surpluses on a full-accrual

basis, increase its endowment, and strengthen financial resource ratios compared with operating expenses and debt. Although we do not anticipate doing so, we could lower the rating during the outlook period if enrollment were to weaken substantially with 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

### **Related Research**

Standard & Poor's Reclassifies 157 U.S. Public Universities; They Are No Longer Government-Related Entities, Dec. 5, 2014

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