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

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# Missouri Health & Educational Facilities Authority

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

Credit Profile		
US\$25.795 mil educl facs rev bnds (Missouri St Univ) ser 2014 due 10/01/2039		
Long Term Rating	A+/Stable	New
<b>Series 2010A, 2010B, 2010C</b>		
Long Term Rating	A+/Stable	Affirmed

### Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating and stable outlook to Missouri Health & Educational Facilities Authority's series 2014 revenue bonds, issued for Missouri State University (MSU).

At the same time, Standard & Poor's affirmed its 'A+' rating, with a stable outlook, on the university's series 2007A, 2010A, 2010B, 2010C, and 2014 auxiliary enterprise revenue bonds.

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

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 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 40.7% of fiscal 2013 operating expenses and 107.3% of total debt, including bonds and capital leases; and
- Manageable debt burden of 4.1%, 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 (CPI); and
- Small, but growing, endowment compared to the university's size -- The endowment was \$75.9 million as of June 30, 2014.

We understand MSU plans to use series 2014 bond proceeds to:

- Construct a building for the new occupational therapy program and other related health and human services programs,
- Exercise a lease-purchase agreement for the art and design academic building,
- Partially fund the construction of a student admission and success center, and
- Renovate the Jim D. Morris building.

The series 2014 bonds are a general obligation of the university, and the bonds carry the university's full-faith-and-credit pledge. We understand management currently intends to budget and appropriate money for the repayment of the bonds from university money other than money appropriated to the university by Missouri, as well as funds pledged to the payment of auxiliary system revenue bonds.

The series 2014A, 2007A, 2010A, 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.

Postissuance of the series 2014 bonds, MSU's pro forma debt will be \$161.1 million, secured with two different security pledges. We consider both pledges quite broad and equivalent to an unlimited student fee pledge; therefore, we rate them the same. When including \$6.9 million of capital leases, total pro forma debt equals \$168.8 million.

## 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, as well as build unrestricted resources. Although we consider raising the rating within the outlook period unlikely, due to the additional debt plans and financial resource ratios compared to pro forma debt, we would consider continued positive operating surpluses on a full-accrual basis and strengthened financial resource ratios compared 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.

## Enterprise Profile

### The university

Founded in 1905, MSU is one of 13 four-year public colleges and universities in Missouri; it is the second leading university in the state. Under a state-recognized public affairs mission, MSU offers a broad array of academic programs to roughly 24,000 students on three campuses in the Springfield, Mountain Grove, and West Plains areas. MSU operates the state's largest school of business, and it participates in NCAA Division I athletics. The university also owns and manages a 125-acre agriculture research and demonstration center in Springfield and a research observatory

near Marshfield. The main campus is in southwest Missouri on approximately 225 acres in Springfield, which has a metropolitan service area population estimate of 385,000.

### **Demand and enrollment**

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. After decreasing slightly in fall 2011, full-time-equivalent enrollment has been relatively stable with 1.9% growth to 18,222 in fall 2013. We understand, based on preliminary results, that enrollment is up by more than 2% for fall 2014. Approximately 86% of students come from Missouri, and 66% of all students are full-time undergraduates. Demand has also been stable despite significant regional competition with area community colleges. The state's "A+ Program" has added to this competitive pressure; the program subsidizes community college tuition subject to certain criteria and allows students to attend community colleges for free. The university has responded by establishing and strengthening its articulation agreements with area community colleges and increasing recruiting efforts that focus on the full four-year experience.

After applications decreased by 7.7% in fall 2011, they increased by 3.8% in fall 2012 and 1.7% in fall 2013 to 7,342 and 7,464, respectively. While MSU's total enrollment has increased recently and the university is working toward recruiting more out-of-state and international students, as well as focusing on retention and recruitment efforts, we believe the state's evolving demographics could become a challenge due to the university's predominantly regional student draw. Like many public institutions, the university is not highly selective; the acceptance rate for fall 2013 was 85.1%. Matriculation rates have hovered at about 42%-45% since fall 2005, which we consider solid and indicative of a regional academic niche. Student quality is above average: fall 2013 mean ACT scores were 24 compared with the national average of approximately 21.

Graduate students accounted for about 12% of fall 2011 full-time-equivalent enrollment. Graduate enrollment has averaged 3,200 over the past five years. In fall 2013, what we consider a solid 74% of accepted graduate students chose to attend the university.

### **Management and governance**

A nine-member board of governors, appointed by the governor with the advice and consent of the Missouri Legislature, governs MSU. Each member serves a six-year term. A current MSU student, a nonvoting member, also sits on the board. The board has administrative and financial oversight over the university's activities. The board's duties and responsibilities, among others, include the:

- Setting of tuition and fees,
- Developing of an institutional plan,
- Determining of academic programs,
- Establishing of administrative policies,
- Approving of debt issuance, and
- Granting of degrees.

The university has had some relatively recent turnover in key leadership positions. In October 2012, the university named Clifton M. Smart III president; he has served as interim president since June 2011. We understand the president recently signed a four-year contract extension with the university; his current employment agreement will

continue through June 30, 2022. MSU named Steve Foucart chief financial officer in April 2013; he has served as the interim chief financial officer since August 2011. According to MSU, it also named Dr. Dee Siscoe vice president of student affairs after the previous vice president of student affairs retired.

### **Government-related entities**

In accordance with our criteria for government-related entities (GREs), we based our view of a "low" likelihood of extraordinary government support on our assessment of the university's "limited" link with Missouri due to the state's history of ongoing operating support and ability to appoint the governing board, as well as provide additional funding, as needed, subject to legislative approval. In addition, the university plays a role of "limited importance" in the state's economy compared with that of other GREs based on its position as a regional provider of higher education services, coupled with the related economic development benefits to the state. The university is an independent component unit of the state. Pursuant to our GRE criteria, changes to the rating on Missouri do not change the stand-alone credit profile rating on the university.

## **Financial Profile**

### **State appropriations**

The university receives substantial support in the form of operating appropriations from Missouri. For the first time since fiscal 2009, the university received an increase in state appropriations of \$1.4 million in fiscal 2014 -- the maximum amount due to a university meeting all five state performance measures, including funds for the development of an occupational therapy program. This amount reflects a special withholding of \$1.5 million. According to management, the university did not receive any state capital support in fiscal 2014; it does not expect any support for fiscal 2015. Due to the lack of state capital support for the past decade, MSU reports it will likely fund new capital projects through debt issuance, as well as the use of internal reserves and private funding sources.

### **Operations: financial performance**

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 compared with \$8 million in fiscal 2012 very solid. According to management, it expects fiscal 2014 full-accrual operating results to be consistent with fiscal 2013 results.

We view the university's revenue sources as diverse with 35.6% from net tuition and fees, 25.9% from state operating appropriations, 11.7% from auxiliary enterprises, and 6.2% from grants and contracts in fiscal 2013. We believe this diversity partially mitigates some of the decreased operational flexibility regarding setting tuition rates. State mandates limit tuition and fee increases for undergraduate resident students to the CPI or the cost of living, restraining one of the university's revenue-generating streams.

In-state tuition was \$6,908 for the 2013-2014 academic year; when room and board costs and other charges are factored into tuition, the total was \$15,336. According to management, it raised tuition by 2.3% in fiscal 2014. Despite the increase, we view MSU's tuition comparable with rates charged at other peer institutions. According to management, tuition affordability for students remains a key area of focus; consistent with this goal, MSU has been investing more in financial aid recently.

### **Balance sheet: financial resources**

The UNA value was \$110.2 million as of June 30, 2013. A foundation, with total net assets of \$126.4 million, the bulk of which are restricted, supports MSU. Total adjusted UNA accounted for 38.1% of operating expenses and 67.4% of pro forma debt, including capital leases, which we consider strong for the rating category.

In September 2005, MSU launched its "Our Promise" campaign. The campaign ran through the end of calendar 2012. We understand the school exceeded its \$125 million goal and raised \$167 million.

As of June 30, 2014, the university foundation's market value was \$75.9 million. The asset allocation is, in our opinion, liquid and conservative with 54% in equity; 24% in fixed income; 12% in hedge funds; and the remainder in real assets, cash, and private equity. MSU's endowment spending policy is a standard 5.7% of a rolling three-year market value average. Due to the endowment spending policy's relatively small size, the effect on university operations has been nominal.

### **Debt**

MSU's debt outstanding, including capital leases, was \$110.2 million as of June 30, 2013. The annual debt service burden remains, in our opinion, manageable, or about 4% of fiscal 2013 operating expenses.

### **Pension plans and other postemployment benefits**

MSU provides retirement benefits through Missouri State Employees' Retirement System (MOSERS), a state-administered, defined-benefit pension plan. As of June 30, 2013, the plan's funded status was 73.2%. University-required actuarial contributions were an estimated 14.45% of annual covered payroll, or \$13.3 million, for fiscal 2013. We understand MSU has made 100% of the required contributions in each of the past three fiscal years. We recognize all full-time faculty members not enrolled in MOSERS participate in a 401(a) defined-contribution retirement plan. MSU offers other postemployment benefits, primarily retiree health care benefits, through a university-administered, single-employer, defined-benefit plan that it funds through pay-as-you-go financing.

## **The Auxiliary Enterprise System**

MSU's auxiliary enterprise system has historically consisted of housing, parking, student union, bookstore, and recreational facilities on the main campus and certain auxiliary operations at West Plains campus. As of fiscal 2007, the university also added health facilities to the auxiliary system. Health facilities include services provided at the university's health and wellness center, such as routine preventative care, diagnosis and treatment for illness or injury, prescription services, laboratory testing, X-rays, and various health education-wellness programs. All students are assessed a health-care-related fee, determined by the number of credit hours the student is taking. The auxiliary enterprise system produced an increase in net assets of \$3.4 million in fiscal 2013 and \$5.6 million in fiscal 2012. Debt service coverage (DSC) for the auxiliary system of 1.6x exceeded the covenanted rate of 1.1x DSC at fiscal year-end 2013.

### **Housing facilities**

Housing facilities include 11 residence halls with a capacity of 4,029 students; four dining facilities; and student union building, all of which are on the Springfield campus. MSU maintains a freshman residency requirement. Fiscal 2013

occupancy estimates were 85%. In addition to residence halls, MSU students have access to a variety of fraternities and sororities, as well as other off-campus-housing alternatives not part of the auxiliary enterprise system.

Missouri State University Select Demand And Financial Statistics						
	-- Fiscal year-ended June 30 --					'A' public colleges & universities medians
	2014	2013	2012	2011	2010	2013
<b>Enrollment And Demand</b>						
Headcount	23,394	22,731	22,418	22,612	22,533	12,911
Full-time equivalent	18,222	17,880	17,761	17,993	17,649	10,622
Freshman acceptance rate (%)	85.3	83.3	83.1	77.3	83.0	70.9
Freshman matriculation rate (%)	43.2	42.0	44.2	45.1	45.2	37.4
Undergraduates as a % of total enrollment (%)	86.1	76.7	76.7	75.9	75.6	86.1
Freshman retention (%)	75.2	75.4	75.0	73.0	76.0	72.4
Graduation rates (five years) (%)	50.8	50.4	48.6	50.1	50.5	43.1
<b>Income Statement</b>						
Adjusted operating revenue (\$000s)	N.A.	297,622	295,106	298,418	297,044	MNR
Adjusted operating expense (\$000s)	N.A.	289,118	284,814	278,126	281,418	MNR
Change in net income before capital (\$000s)	N.A.	8,444	8,094	20,125	15,678	MNR
Estimated operating gain/loss before depreciation (\$000s)	N.A.	30,476	30,920	39,210	34,184	MNR
Change in unrestricted net assets (UNA) (\$000s)	N.A.	(12,580)	(10,022)	23,516	15,953	MNR
State operating appropriations (\$000s)	N.A.	76,963	77,193	82,755	87,303	MNR
State appropriations to revenue (%)	N.A.	25.9	26.2	27.7	29.4	26.5
Student dependence (%)	N.A.	47.3	45.8	43.6	43.4	MNR
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Endowment and investment income dependence (%)	N.A.	0.1	0.3	0.3	0.5	MNR
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	110,209	115,777	121,311	91,262	123,000
Proposed debt (\$000s)	N.A.	65,105	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	175,314	N.A.	N.A.	N.A.	MNR
Pro forma maximum annual debt service (MADS)	N.A.	14,003	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.1	4.1	11.3	4.6	4.1
Current MADS burden (%)	N.A.	3.4	N.A.	4.2	3.3	MNR
Pro forma MADS burden (%)	N.A.	4.8	N.A.	N.A.	N.A.	MNR
<b>Financial Resource Ratios</b>						
Endowment market value (\$000s)	N.A.	68,999	62,263	61,228	51,304	33,348
Related foundation market value (\$000s)	N.A.	126,456	118,928	113,111	104,069	68,500
Cash and investments (\$000s)	N.A.	135,965	148,441	159,564	128,637	MNR

Missouri State University Select Demand And Financial Statistics (cont.)						
UNA (\$000s)	N.A.	110,210	122,790	132,812	109,296	MNR
Adjusted UNA (\$000s)	N.A.	117,554	128,268	136,428	111,478	MNR
Cash and investments to operations (%)	N.A.	47.0	52.1	57.4	45.7	47.0
Cash and investments to debt (%)	N.A.	123.4	128.2	131.5	141.0	93.3
Cash and investments to pro forma debt (%)	N.A.	77.6	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	40.7	45.0	49.1	39.6	MNR
Adjusted UNA plus debt service reserve to debt (%)	N.A.	107.3	111.4	113.0	123.6	53.3
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	67.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.7	12.5	12.6	12.0	12.7
Other postemployment benefits liability to total liabilities (%)	N.A.	2.3	1.9	1.4	1.1	4.8

Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Tuition dependence = 100\*(gross tuition revenue/adjusted operating revenue). Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(MADS expense/adjusted operating expenses). Adjusted UNA = unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A. -- Not available. MNR -- Median not reported.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

### Ratings Detail (As Of September 3, 2014)

#### Series 2007A

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

#### Missouri Hlth & Educl Facs Auth, Missouri

Missouri St Univ, Missouri

#### Series 2010A, 2010B

Long Term Rating

A+/Stable

Affirmed

Many issues are enhanced by bond insurance.



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