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

Primary Credit Analyst:

Stephanie Wang, Harrisburg + 1 (212) 438 3841; stephanie.wang@spglobal.com

Secondary Contact:

Sean M Wiley, Chicago + 1 (312) 233 7050; sean.wiley@spglobal.com

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<i>Long Term Rating</i>	A+/Stable	Affirmed
Missouri St Univ PCU_USF		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Missouri Hlth & Educl Facs Auth, Missouri		
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Missouri Hlth & Educl Facs Auth (Missouri State University) ed facs rev bnds (Missouri State University) ser 2019B due 10/01/2035		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A+' long-term rating on Missouri State University's (MSU) auxiliary enterprise revenue bonds series 2016A and 2019A, along with the Missouri Health & Educational Facilities Authority's (MOHEFA) 2019B educational facilities revenue bonds, issued for MSU.
- The outlook is stable.
- Note: References herein to financial results for the fiscal year ended June 30, 2022, are based on preliminary, not fully audited, data. The fiscal 2022 audit is expected shortly.

Security

MSU's debt outstanding as of June 30, 2022, totaled \$168.5 million. This includes \$95.5 million of auxiliary enterprise system revenue bonds, \$51.4 million of MOHEFA bonds, \$9.1 million of capital leases, and \$12.5 million of operating leases, which we view as manageable. MSU's auxiliary enterprise bonds are secured by a pledge of net income from the university's auxiliary enterprise system that includes dormitory, dining, social, recreational, athletics, housing, and parking facilities charges and fees. Among the revenue streams for the auxiliary enterprise system are mandatory fees for the student union, sports complex, health center, and shuttle system, which we consider to be 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, of which they are in compliance. There is no debt service reserve. The revenue bonds issued by MOHEFA are general unsecured obligations of the university.

Credit overview

We assessed MSU's enterprise profile as strong, characterized by continual growth in applications, a rebound in graduate students following a large decline due to the pandemic, and improvement in the graduation rate. This is offset

by continual declines in undergraduate enrollment and weakened selectivity and matriculation. We assessed MSU's financial profile as very strong, with healthy financial resources and a low maximum annual debt service (MADS) burden. We believe these combined credit factors lead to an indicative stand-alone profile of 'a+' and a final rating of 'A+'.

The long-term rating reflects our view of MSU's:

- Good available resource ratios for the rating category;
- Manageable MADS burden of 4.05% when including operating leases, with a fairly front-loaded debt service schedule; and
- Experienced and stable management team, with transparent updates on university initiatives, solid risk management, and budgeting practices.

Offsetting factors, in our opinion, include MSU's:

- Total full-time equivalent (FTE) declines for the past two years, coupled with weak selectivity and matriculation;
- Competitive market pressure due to the state's unfavorable demographic trend and the university's largely in-state geographic draw; and
- Small endowment compared with the university's size, with low endowment per FTE relative to rating category medians and peers.

Founded in 1905, MSU is one of 13 four-year public colleges and universities in Missouri and the state's second-leading university, after the University of Missouri. Under a state-recognized public affairs mission, MSU offers a broad array of academic programs on three campuses in the Springfield, West Plains, and Mountain Grove area. MSU operates the state's largest school of business and participates in NCAA Division I athletics. The main Springfield campus is in southwest Missouri on a 225-acre site.

Environmental, social, and governance

We view the health and safety social risks posed by the pandemic as somewhat abating for the higher-education sector, but given the pandemic's significant effects on modes of instruction, as well as enrollment trends over the past two-and-a-half years, we believe a future public health event of similar size and scope could again affect demand and finances. In addition, we believe there to be demographic challenges in the region, given the lower number of high school graduates in the state, which could add further enrollment pressure to the university. We evaluated the university's environmental and governance risks and view them to be neutral within our credit analysis.

Outlook

The stable outlook reflects the university's solid available resource ratios and manageable debt burden, which remain consistent for the rating. Operations have not shown signs of weakness, despite enrollment pressure. No additional debt is expected.

Downside scenario

A negative rating action is possible if available resources materially deteriorate from current levels or if the university begins posting consistent operating deficits. Further declines in enrollment or weakening of demand metrics would be viewed negatively.

Upside scenario

Positive rating action is possible if enrollment and demand metrics improve to levels more comparable with those of higher-rated peers, operations are consistently positive apart from stimulus, and available resources continue to show improvement.

Enterprise Profile

Market position and demand

MSU's total FTE enrollment declined by 4.5%, to 18,491, in fall 2021, mainly due to undergraduate enrollment pressures. Graduate enrollment, which accounts for about 17% of total enrollment, has rebounded slightly to around 2,200, although it still remains below the all-time high of 3,280 pre-pandemic. While applications have increased in the last two years, selectivity and matriculation remain weak at around 93.9% and 28.1%, respectively, when compared with rating category medians. With over 81.4% of enrollment students coming from within Missouri, the declining demographics and competition among neighboring schools will remain a pressure point for the university.

With the hiring of the new position of executive vice president and a new vice president for community and global partnerships, interim provost and interim chief diversity officer, management hopes to revamp the recruiting strategy, build new international connections, and reverse the declining enrollment trends. Financial aid strategies are also being looked at in hopes of recruiting more Pell-eligible students in addition to improving retention among current students.

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. No major changes have occurred at the board level, outside of normal rotations.

Aside from the four senior positions noted earlier (one newly created position and three planned retirements), the university's senior management team remains stable. Of the four positions, two came from Missouri Higher Education institutions and the other two were internal promotions. The president is very transparent about the strategic plan and various initiatives, often writing about it on his university blog. We view management's financial practices as thorough, with conservative budget assumptions and good cash management. Decisions about whether to use reserves or debt to fund various capital needs are typically well-thought-out, and market conditions are monitored to ensure all opportunities are being considered. Management also produces efficiency reports that highlight specific financial risks for the organization and specific actions planned to mitigate or offset those risks, which we view positively.

Financial Profile

Financial performance

Operations for fiscal years 2022 and 2021 were positive at 5.3% and 8.2%, respectively, largely buoyed by federal stimulus along with good expense management. These results also include pension and other postemployment benefits (OPEB) contribution adjustments, net of expenses. In fiscal 2021, MSU recognized over \$45.1 million in grants related to COVID-19 relief, and in fiscal 2022, MSU recognized over \$46.4 million. Growing state appropriations of around \$94.6 million in fiscal 2022 have also contributed to the solid results, despite flat-to-declining net tuition revenue. Tuition discounting remains low for a public institution, at around 23%, and the university continues to benefit from good revenue diversity, with 46.6% of revenue generated from tuition and fees, 21.4% from state appropriations, and 8% from research.

Since most of the federal stimulus has been recognized, management is budgeting for break-even results in fiscal 2023. Revenues are expected to be weaker due to the declining enrollment, but careful expense management and growth in interest income are expected to help offset this.

Available resources

MSU has sound available resources relative to both operations and debt for the rating. We calculate total adjusted unrestricted net assets (UNA) of \$223.2 million as of June 30, 2022, after adjusting for pension and OPEB liabilities of \$283.6 million. Total adjusted UNA accounted for 53.2% of operating expenses and 132.5% of debt, which is strong relative to rating category medians and peers. MSU also recently completed a comprehensive campaign, raising over \$274 million, exceeding the \$250 million goal, which we view positively.

As of June 30, 2022, the university foundation's market value was \$105.3 million. Approximately \$90 million can be liquidated within 30 days. MSU's endowment spending policy is a standard 4.5% of a rolling three-year market value average. Management reports that it does not anticipate any material changes to its asset allocation or endowment spending policy.

Debt and contingent liabilities

MSU's debt outstanding as of June 30, 2022, totaled \$168.5 million, including \$95.5 million of auxiliary revenue bonds. Debt service coverage (DSC) for the auxiliary system of 1.9x exceeded the covenant rate of 1.1x DSC at fiscal year-end 2021. We expect coverage to be above the 1.1x for fiscal 2022. As of fiscal 2022 year-end, MSU had \$91.7 million in direct-purchase debt. While we do not rate the direct-purchase bonds, we have looked at the legal documents and determined that the risks for default and remedies are the same as the publicly rated debt; therefore, there are no additional contingent risks. In July 2022, the university refinanced the MOHEFA series 2015 bonds into direct-purchase debt. There are no additional plans for the debt in the outlook period.

Pension plans and other postemployment benefits

MSU contributes to Missouri State Employees' Retirement System (MOSERS), a single-employer, defined-benefit public employees' pension plan administered by the state. As of fiscal year-end 2021, MOSERS has a funded status of 63%. OPEB, offered through a single-employer retiree benefit plan, are funded on a pay-as-you-go basis. MSU's pension and OPEB cost relative to adjusted operating expense is about 5.9%, which we view as manageable.

Missouri State University, Missouri--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges & universities
	2022*	2021	2020	2019	2018	2021
Enrollment and demand						
Headcount	24,886	25,424	25,404	25,470	25,615	17,431
Full-time equivalent	18,491	19,360	19,893	19,426	19,837	14,060
Freshman acceptance rate (%)	93.9	86.6	87.9	85.0	84.0	78.2
Freshman matriculation rate (%)	28.1	31.9	40.2	40.1	40.8	24.6
Undergraduates as a % of total enrollment (%)	83.6	84.7	85.6	86.4	87.0	84.9
Freshman retention (%)	75.2	79.2	78.1	77.7	77.3	79.3
Graduation rates (six years) (%)	59.9	58.6	55.9	54.5	54.9	56.0
Income statement						
Adjusted operating revenue (\$000s)	441,510	414,934	395,857	397,486	384,520	MNR
Adjusted operating expense (\$000s)	419,313	383,452	401,476	392,965	378,402	MNR
Net adjusted operating income (\$000s)	22,197	31,482	(5,619)	4,521	6,118	MNR
Net adjusted operating margin (%)	5.29	8.21	(1.40)	1.15	1.62	2.70
Estimated operating gain/loss before depreciation (\$000s)	53,825	60,734	22,913	33,044	33,010	MNR
Change in unrestricted net assets (UNA; \$000s)	21,787	23,859	(35,760)	(16,339)	(47,709)	MNR
State operating appropriations (\$000s)	94,555	83,001	79,299	81,489	80,899	MNR
State appropriations to revenue (%)	21.4	20.0	20.0	20.5	21.0	21.3
Student dependence (%)	46.6	48.4	51.4	53.7	54.8	48.3
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	8.0	7.7	9.0	6.1	5.9	9.2
Endowment and investment income dependence (%)	1.2	1.2	1.4	1.7	0.2	0.7
Debt						
Outstanding debt (\$000s)	168,477	169,545	178,718	186,734	167,917	233,330
Proposed debt (\$000s)	13,590	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	168,307	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma MADS	14,857	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.88	3.85	3.98	3.88	MNR
Current MADS burden (%)	N.A.	3.86	3.80	4.03	4.18	4.30
Pro forma MADS burden (%)	4.05	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	105,300	100,567	87,603	89,102	84,524	152,236
Related foundation market value (\$000s)	N.A.	189,073	165,594	143,889	141,043	186,488
Cash and investments (\$000s)	257,181	237,042	190,274	194,586	175,888	MNR
UNA (\$000s)	(62,571)	(84,358)	(108,217)	(72,457)	(56,118)	MNR

Missouri State University, Missouri--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges & universities
	2022*	2021	2020	2019	2018	2021
Adjusted UNA (\$000s)	223,210	205,620	157,817	154,297	140,786	MNR
Cash and investments to operations (%)	61.3	61.8	47.4	49.5	46.5	52.7
Cash and investments to debt (%)	152.7	139.8	106.5	104.2	104.7	114.7
Cash and investments to pro forma debt (%)	152.8	N.A.	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	53.2	53.6	39.3	39.3	37.2	39.8
Adjusted UNA plus debt service reserve to debt (%)	132.5	121.3	88.3	82.6	83.8	86.8
Adjusted UNA plus debt service reserve to pro forma debt (%)	132.6	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	16.1	15.7	14.7	14.6	15.8
OPEB liability to total liabilities (%)	N.A.	2.0	2.0	1.8	1.9	MNR

*Unaudited.

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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