S&P Global
Ratings

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

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

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

Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'A+' long-term rating on Missouri State University's (MSU) auxiliary enterprise revenue bond series 2015A, 2016A, and 2019A. In addition, S&P Global Ratings affirmed its 'A+' long-term rating to the Missouri Health & Educational Facilities Authority's (MOHEFA) series 2014, 2015, and 2019B educational facilities revenue bonds, issued for MSU.

The revision to stable reflects S&P Global Ratings' opinion that state appropriations for operations will be restored for fiscal 2022 and university operations will likely return to positive as a result of the federal and state CARES stimulus funds. Although there may continue to be some pressure on undergraduate enrollment, available resources ratios are still expected to be consistent for the rating.

MSU's outstanding debt, as of June 30, 2020, totaled $178.7 million. This includes $117.5 million of auxiliary enterprise system revenue bonds, $55.4 million of MOHEFA bonds, and $5.8 million of capital leases. 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. There is no debt service reserve. The revenue bonds issued by MOHEFA are general unsecured obligations of the university.

As a result of the COVID-19 pandemic, the university offered a hybrid approach to learning for the 2020-2021 year with approximately 36% in person, 26% blended in person and online and 38% online. In our view, while the pandemic added to some of the enrollment pressures, total enrollment of full time equivalent (FTE) students, particularly at the undergraduate level was already pressured prior to the pandemic due to the declining demographics of high school students, increased competition, and larger classes in the past that are now graduating. International enrollment declined as a result of the pandemic, but it was less than 5% of total FTE even prior to the pandemic, so we do not expect it will have any meaningful impact. MSU is currently planning to offer full in-person instruction in fall 2021.

For fiscal 2020, the university experienced some operating pressure and posted a slight full accrual deficit. The deficit was mainly driven by housing and dining refunds as well as the state of Missouri withholding a total of $11.9 million of state appropriations during April, May and June 2020 as a result of COVID-19. The university received $15.5 million in CARES funding to offset some of the losses and disbursed $12.1 million to students, including food and housing refunds. For fiscal 2021, we expect operations to improve as a result of various stimulus funding despite the softening of undergraduate enrollment and lower auxiliary revenues as a result of reduced occupancy. Auxiliary revenues typically account for about 10% of total revenue but with the pandemic this has declined to around 8%. State and county funding via CARES totaled around $14.9 million, and CRRSAA funding totaled around $26.6 million, $19.2 million of which can be used by the university. The state appropriation also increased to $91.1 million; although $11.5 million was initially withheld, the governor has since released $3.3 million for operations and the remaining $8.4 million for approved repair and maintenance projects. The governor's budget for fiscal 2022 restores the entire $91.1 million for operations. While not awarded yet, the university anticipates around $44.8 million from the American Recovery Plan, half for student grants and half for the institution, which we believe will further support the university's operations.

Credit overview

We assessed MSU's enterprise profile as strong, characterized by nice growth in graduate enrollment offsetting some of the softness in undergraduate, nice growth in applications even in the midst of the pandemic, good retention and solid management. We assessed MSU's financial profile as very strong, with good revenue diversity, healthy financial resources and a reasonable maximum annual debt service (MADS) burden. Combined, we believe these credit factors lead to an indicative stand-alone profile of 'a+' and final rating of 'A+'.

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

- Good available resource ratios for the rating category with adjusted unrestricted net assets (UNA) equal to 39.3% of fiscal 2020 operating expenses and 88.3% of debt;
- Manageable MADS burden of 3.8%; and
- Experienced and stable management team with solid risk management and budgeting practices.

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

- Declines in undergraduate enrollment which have led to total FTE decline in fall 2020 although this is offset by nice growth in graduate enrollment;
- 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; the endowment was $87.6 million as of June 30, 2020.

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 to roughly 19,000 FTE students 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 university also owns and manages a 125-acre agriculture research and demonstration center in Springfield and a research observatory near Marshfield. The main Springfield campus is in southwest Missouri on a 225-acre site.

Environment, social, and governance (ESG) factors

Because of the COVID-19 pandemic, MSU moved to a hybrid education model to protect the students' health and safety and limit social risks associated with community spread of COVID-19. We view health and safety issues as a social risk under our ESG factors. Despite this, we consider management and governance risks in-line with its higher-education-sector peers.

Stable Outlook

Downside scenario

A negative rating action is possible if available resources materially deteriorate from current levels or if the university began posting consistent operating deficits due to enrollment declines. Significant additional debt issuance without commensurate growth of financial resources would also be viewed negatively. Further unforeseen pressures from the pandemic that cause material weakening of demand, finances, or the trajectory of the school's plan to mitigate the effects of the COVID-19 outbreak could also result in a negative rating action.

Upside scenario

Positive rating action is possible if available resources were to grow significantly to levels more consistent with a higher rating and if enrollment and demand metrics improved to levels more comparable with higher rated peers.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, the university has limited geographic diversity, with approximately 82% of students coming from Missouri. As such, our assessment of the university economic fundamentals is anchored by the state GDP per capita.

Market position and demand

MSU's total FTE enrollment declined by 2.7% to 19,360 mostly driven by a decline in undergraduate FTE enrollment by 4% to 15,563, offset by tremendous growth in graduate FTE by 45.5% to 4,762. While the university still remains largely undergraduate (80%), the university's efforts to increase its graduate offerings in areas of education, business, and health fields seem to be paying off.

Applications increased substantially in fall 2020 to 9,591 or 26.5% as a result an aggressive campaign although matriculation declined slightly to 32% compared with years past. Selectivity remained weak but consistent with peers at about 86.6% and is reflective of its regional draw. Management attributes the weaker undergraduate enrollment to unfavorable demographics and increased competition. Prior years' large classes are now graduating so we expect total enrollment will likely remain lower in the near term. The university intends to keep tuition increases very modest for in-state students in hopes of maintaining affordability for prospective students and improving retention for 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. A current MSU student, a nonvoting member, also sits on the board. The board has administrative and financial oversight over the university's activities. No major changes have occurred at the board level outside of normal rotations. Clifton M. Smart III has served as president since June 2011. We understand that the university's senior management team remains stable, with no changes expected in the near future. 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, which highlight specific financial risks for the organization and specific actions planned to mitigate or offset those risks, which we view positively.

Financial Profile

Financial policies

The university has formal policies for endowment and investments. It operates according to a strategic plan, and has a formal reserve liquidity policy. The university meets standard annual disclosure requirements. The financial policies assessment is neutral, reflecting our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with comparable providers.

Financial performance

Operations for fiscal 2020 were negative for the first time in the long history of operating surpluses. Net tuition revenue saw a slight loss as a result of declining undergraduate enrollment. The loss coupled with housing and dining refunds due to the pandemic, a decline in state appropriations to $79.3 million from $81.5 million in fiscal 2019, and adjustments for pension expense net of pension contributions related to GASB 68 of $39.1 million led to a $5.6 million deficit or negative 1.4% margin. The university recognized and distributed $12 million of the $15.5 million in CARES funding to students in fiscal 2020. Despite the loss, we note that tuition discounting remains low for a public institution around 23% and the university continues to benefit from good revenue diversity with 51.4% of revenue generated from tuition and fees, 20% from state appropriations and 9% from research.

As noted, fiscal 2021 is expected to be stronger despite the enrollment pressure as a result of federal and state stimulus via the CARES Act coupled with expense measures such as hiring freezes and deferring the employer's portion of social security taxes from April 2020 through Dec. 31, 2020, as allowed under the CARES Act. In total, the university received approximately $12.5 million from the state and county CARES funds and $26.6 million of CRRSAA funds. The university also anticipates receiving $44.8 million from the American Recovery Plan, half for student grants and half for the institution. We anticipate these funds will be recognized in fiscal 2021 and fiscal 2022.

The university has a state appropriation budget of $91.1 million for fiscal 2021. Initially, the governor withheld $11.5 million, but later released $3.3 million for operations and $8.4 million for approved repair and maintenance projects. The governor's budget restores the entire $91.1 million for operations in fiscal 2022 which we view positively given the funding declines in the past.

Available resources

MSU has sound available resources relative to both operations and debt for the rating. We calculate total adjusted UNA of $157.8 million as of June 30, 2020, after adjusting for pension liabilities of $247.5 million and adding $8.6 million of unrestricted net assets from the foundation. Total adjusted UNA accounted for 39.3% of operating expenses and 88.3% of debt. This is in line with similarly rated peers. The university is currently in a comprehensive campaign for capital projects, programs and student and faculty scholarships. $215 million of the $250 million goal has been raised as of April 2021.

As of June 30, 2020, the university foundation's market value was $87.6 million. The asset allocation is liquid and conservative, in our opinion, with 43.3% in equity, 28.6% in fixed income, 10.5% real estate and 14.6% alternative investments. Approximately $80.5 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 outstanding debt, as of June 30, 2020, totaled $178.7 million. This includes $117.5 million of auxiliary enterprise system revenue bonds, $55.4 million of MOHEFA bonds, and $5.8 million of capital leases. Debt service coverage (DSC) for the auxiliary system of 1.25x exceeded the covenant rate of 1.1x DSC at fiscal year-end 2020. We expect coverage to be above the 1.1x for fiscal 2021. MADS burden is very manageable at 3.8%.

Currently $66.3 million is in the form of direct purchase debt. While we do not rate the direct purchase bonds, we have looked at the legal documents for the series 2017 and 2018 bonds and determined that the risks for default and remedies are the same as the publicly rated auxiliary system revenue bonds and therefore there are no additional contingent risks. For the series 2019 bonds, while there is risk of immediate acceleration, we view the triggers as remote. The university also has sufficient cash (approximately $159 million at the end of fiscal 2020) to cover the risk.

We understand that additional refinancing of public debt to direct purchase debt may be done in fiscal 2021 and will evaluate the contingent risk upon final closing. Management does not anticipate any immediate debt plans, although the university is exploring the idea of issuing debt to reimburse itself for a $24 million purchase of a suite residence hall that was completed in June 2020.

Pension plans and other postemployment benefits (OPEB)

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 2020, MOSERS has a funded status of 55.5%. Other postemployment benefits, 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 5.5%, which we view as manageable at this time. For more information on the plan, please see the debt and liabilities section in the state report titled Missouri Board of Public Buildings, Missouri; Appropriations; General Obligation, published, July 28, 2020.

Missouri State University, Missouri Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	25,424	25,404	25,470	25,615	25,482	MNR
Full-time equivalent	19,360	19,893	19,426	19,837	19,730	14,995
Freshman acceptance rate (%)	86.6	87.9	85.0	84.0	84.4	77.2
Freshman matriculation rate (%)	31.9	40.2	40.1	40.8	41.9	MNR
Undergraduates as a % of total enrollment (%)	84.7	85.6	86.4	87.0	87.4	82.9
Freshman retention (%)	79.2	78.1	77.7	77.3	79.1	77.1
Graduation rates (six years) (%)	58.6	55.9	54.5	54.9	54.2	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	395,857	397,486	384,520	371,637	MNR
Adjusted operating expense ($000s)	N.A.	401,476	392,965	378,402	366,732	MNR
Net adjusted operating income ($000s)	N.A.	(5,619)	4,521	6,118	4,905	MNR
Net adjusted operating margin (%)	N.A.	(1.40)	1.15	1.62	1.34	(0.30)
Estimated operating gain/loss before depreciation ($000s)	N.A.	22,913	33,044	33,010	30,759	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	(35,760)	(16,339)	(47,709)	(12,719)	MNR
State operating appropriations ($000s)	N.A.	79,299	81,489	80,899	83,148	MNR
State appropriations to revenue (%)	N.A.	20.0	20.5	21.0	22.4	22.7
Student dependence (%)	N.A.	51.4	53.7	54.8	54.4	54.1
Research dependence (%)	N.A.	9.0	6.1	5.9	6.3	MNR
Endowment and investment income dependence (%)	N.A.	1.4	1.7	0.2	(0.1)	1.2
Debt						
Outstanding debt ($000s)	N.A.	178,718	186,734	167,917	172,105	224,613
Total pro forma debt ($000s)	N.A.	178,718	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.85	3.98	3.88	4.34	MNR
Current MADS burden (%)	N.A.	3.80	4.03	4.18	4.23	4.50

Missouri State University, Missouri Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Financial resource ratios						
Endowment market value ($000s)	N.A.	87,643	89,102	84,524	77,773	131,376
Related foundation market value ($000s)	N.A.	165,594	143,889	141,043	143,017	159,566
Cash and investments ($000s)	N.A.	190,274	194,586	175,888	186,403	MNR
UNA ($000s)	N.A.	(108,217)	(72,457)	(56,118)	(8,409)	MNR
Adjusted UNA ($000s)	N.A.	157,817	154,297	140,786	152,291	MNR
Cash and investments to operations (%)	N.A.	47.4	49.5	46.5	50.8	46.0
Cash and investments to debt (%)	N.A.	106.5	104.2	104.7	108.3	88.4
Cash and investments to pro forma debt (%)	N.A.	106.5	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	39.3	39.3	37.2	41.5	33.5
Adjusted UNA plus debt service reserve to debt (%)	N.A.	88.3	82.6	83.8	88.9	57.2
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	88.3	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.7	14.7	14.6	14.2	15.3
OPEB liability to total liabilities (%)	N.A.	2.0	1.8	1.9	0.7	MNR

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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020