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Ratings

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

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Credit Profile		
US$15.635 mil auxil enterprise sys rev bnds ser 2019A dtd 12/04/2019 due 10/01/2035		
Long Term Rating	A+/Stable	New
US$6.64 mil ed facs rev bnds (Missouri State University) ser 2019B due 10/01/2035		
Long Term Rating	A+/Stable	New
Missouri State Univ PCU_USF		
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 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

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Missouri State University's (MSU) series 2019A auxiliary enterprise system revenue bonds. In addition, S&P Global Ratings assigned its 'A+' long-term rating to the Missouri Health & Educational Facilities Authority's (MOHEFA) series 2019B educational facilities revenue bonds, issued for MSU. We also affirmed our 'A+' long-term rating on MOHEFA's series 2010B, 2014A, and 2015A educational facilities revenue bonds issued for MSU and MSU's auxiliary enterprise revenue bond series 2010B, 2015A, and 2016.

We assessed MSU's enterprise profile as strong, characterized by a longer-term trend of rising enrollment, although showing some recent softness in fall 2018 and 2019, superior economic fundamentals in a state with our highest rating and solid management. We assessed MSU's financial profile as very strong, with low and affordable tuition, good revenue diversity, healthy financial operations, excellent 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:

- Solid record of positive operating results on a full-accrual basis;
- Healthy available resource ratios for the rating category with adjusted unrestricted net assets (UNA) equal to 37.2% of fiscal 2018 operating expenses and 78.2% of pro forma debt; and

- Manageable pro forma MADS burden of 4.2%.

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

- Two consecutive years of declines in undergraduate enrollment and applications reflective of the state's unfavorable demographic trend for college bound high school graduating seniors although total full-time equivalent (FTE) enrollment increased for six consecutive years including fall 2012 through fall 2017;
- Competitive market pressure due to the state's tuition-subsidized community college enrollment program and the university's largely in-state geographic draw; and
- Small, but growing, endowment compared with the university's size; the endowment was $84.5 million as of June 30, 2018.

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 and the full faith and credit of the University (except funds appropriated to the University by the State of Missouri and funds pledged to payment of the University's revenue bonds) is pledged to the payment of the University's obligations related to the revenue bonds issued by MOHEFA.

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 26,000 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. Recent efforts to improve access to higher education and thus boost enrollment include: introducing a pilot program to provide dual credit scholarships to students who qualify for free and reduced lunches in Springfield and four Kansas City area school districts, recent participation in the Common App-an application enabling students to apply to multiple colleges by submitting a single application, strengthening articulation and other cooperative relationships with area community colleges and other universities enabling easier access to accelerated programs and expanding various programs at all academic levels.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that MSU's enrollment will stabilize and return to a modest growth trend in response to the introduction of programs to improve access to higher education, operating performance will remain at or near current levels on a full accrual basis, and available resource ratios will remain consistent with the rating.

Downside scenario

While unlikely, a negative rating action is possible if available resources materially deteriorate from current levels or if enrollment were to weaken substantially such that operating results decline from current levels. Significant additional debt issuance without a commensurate growth of financial resources would also be viewed negatively.

Upside scenario

Positive rating action could occur 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.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends. We believe the higher education sector has a low-to-intermediate credit risk compared with other industries and sectors.

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 enrollment trend has generally been favorable with positive year over year full time equivalent (FTE) total enrollment increases of from 1% to 2% in most recent years. However, in fall 2017 the increase in total FTE enrollment was only 0.5% and in fall 2018 a 2.1% decline was recorded. We understand a 2.4% increase in total FTE enrollment occurred in fall 2019, however, undergraduate FTE enrollment declined 4.8% to 16,192 students from 17,006 in fall 2018. MSU's FTE graduate enrollment has fluctuated significantly as of late, declining 3.6% in fall 2016, rising 25.8% in fall 2017, declining 16.4% in fall 2018 and rising 71.1% in fall 2019 to 3,280 students from the 1,917 students reported for fall 2018.

Management attributes the enrollment fluctuations to greater competition, unfavorable demographics for college bound high school seniors, a strengthening economy, and more restrictive national travel policies that have adversely impacted foreign students while at the same time the university has been re-tooling and expanding a number of its graduate and post-graduate programs. Since these programs are smaller in size a significant change in enrollment in either direction can have an outsized impact on the enrollment trend in any given year. Approximately 81% of all FTEs are undergraduates for fall 2019. Going forward, management expects enrollment to stabilize and then increase modestly. A growth in certificate offerings may help diversify some revenue but is not expected to significantly add to FTEs. Also, in fiscal 2018, the state of Missouri passed a bill that replaces Missouri State's statutory degree restrictions with a program approval framework that will give the university more flexibility to offer professional doctorate degrees. The university hopes to grow its graduate and professional programs in areas of education, business and health fields to help increase graduate enrollment over time.

Undergraduate demand has continued to weaken in fall 2019, with applications down 15.7% after falling 4.9% in fall 2018. Management cites increased competition and declining demographics as main reasons for the decline. Selectivity and matriculation, however, remain relatively stable at 87.9% and 40%, respectively. This is consistent with similarly rated peers and reflective of its regional draw. Student quality is above average: fall 2019 mean ACT scores were 24 compared with the national average of approximately 21. We understand that the university has remained conservative in its budget development and assumed flat enrollment for the current year.

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. 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

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

Net tuition revenue growth remains solid at 4.6%, and despite some decline in state appropriations, the university still generated a positive operating surplus of $6.1 million, or 1.6% margin, in fiscal 2018. At the time of this analysis, audited fiscal 2019 results are not yet available. In arriving at the aforementioned $6.1 million operating surplus for fiscal 2018 several adjustments to the audited operating expense figure were made that include adding $37.9 million for student financial aid and subtracting $26.5 million for pension expense net of pension contributions related to GASB 68 for a total adjusted operating expense of $378.4 million. Total adjusted operating revenue was $384.5 million. Consistent positive full accrual margins remain a credit strength for the university. State appropriation after declining 2.4% in fiscal 2017 and 2.7% in fiscal 2018 rose 0.7% to $81.5 million in fiscal 2019 and we understand rose further by 11.9% to $91.2 million for the current fiscal year. In prior years, the university was limited by the state on its ability to increase tuition above the Consumer Price Index (CPI). Now under the state's Higher Education Student Funding Act, the university is allowed to increase tuition rates above CPI if the state reduces appropriations from the prior year. While the university wants to remain affordable, this bill does allow for some operational flexibility should state appropriations decrease in future years.

We view the university's revenue sources as diverse; major components of the university's revenue base according to fiscal 2018 financial statements include 55% from net tuition and fees, 21% from state operating appropriations, and 8% from gifts and research.

Available resources

MSU has sound available resources relative to both operations and debt for the rating. We calculate total adjusted UNA of $140.8 million as of June 30, 2018, after adjusting for pension liabilities of $177.6 million and adding $9.2 million of unrestricted net assets from the foundation. Total adjusted UNA accounted for 37.2% of operating expenses and 78.2% of pro forma debt. This is in line with similarly rated peers.

As of June 30, 2018, the university foundation's market value was $84.5 million. The asset allocation is liquid and conservative, in our opinion, with 43.5% in equity, 22.3% in fixed income and 29.7% alternative investments. 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, 2018, totaled $168 million. This includes $117.5 million of auxiliary enterprise system revenue bonds, $43.8 million of MOHEFA bonds, and $6.6 million of capital leases. We understand based on unaudited 2019 results outstanding debt as of June 30, 2019, including $7.1 million of capitalized leases, totals approximately $186.7 million.

Series 2017 bonds of $36.19 million were issued in the form of a direct purchase bond with Regions Bank to refund the series 2005A and series 2014A bonds. Series 2018 bonds of $19 million were also issued in the form of a direct purchase bond with Regions Bank to renovate the Woods House residence life facility; $5 million was drawn at the end of fiscal 2018, an additional $10 million was drawn in fiscal 2019 and the remaining $4 million was drawn in fiscal 2020. In addition, on Jan. 23, 2019, the university also issued $15.73 million of series 2019 revenue bonds in the form of a direct purchase with Capital One for the purchase of four buildings (Brick City) in Springfield, Missouri that it was leasing for various academic purposes. The university also used $2 million of its own equity for the purchase of the buildings. The debt service on the bond is lower than the lease expense, which will result in net savings. 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 publically 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 to cover the risk.

Total pro forma debt equals approximately $180 million. The pro forma MADS burden remains unchanged at 4.2% of fiscal 2018 operating expenses, which we view as manageable. The university is planning on purchasing a suite residence hall that is expected to be completed in June 2020 with $24 million of cash reserves that has already been set aside. There are currently no additional debt plans over the next two years with the exception of possible bond financing for a public-private partnership project that is still in the formative stage and thus uncertain if it would move forward during this time frame.

In 2015, the university foundation and the John Q Hammons (JQH) Trust entered into a gift agreement whereby the JQH Trust agreed to make payments to the foundation equal to approximately 47.5% of the debt service payments on the series 2015A bonds, which were used to refund the series 2007A bonds, which partly funded the construction of the JQH Arena. On June 26, 2016, the John Q Hammons Trust filed for bankruptcy. On Sept. 28, 2018, the university and foundation reached a settlement agreement with JD Holdings (previously the JQH Trust) whereby JD Holdings agreed to pay $8.4 million in four installments ending in 2022. All naming rights with respect to JQH Arena were terminated in May 2018 and the university is currently seeking a new partner for naming rights. We view the risk of non-payment on the bonds as limited given the university is still ultimately responsible to make debt service payments irrespective of the timing and donations of JD Holdings and there has been no issues with payment in the past.

Pension plans and other postemployment benefits

MSU contributes to the Missouri State Employer Retirement System (MOSERS), a single-employer, public employee retirement system. We understand that the overall pension funded status is 60.41%. MSU's pension and OPEB cost relative to adjusted operating expense is about 5.16%, 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, Missouri Board of Public Buildings Appropriations, General Obligation", published, April 10, 2018.

The auxiliary enterprise system

MSU's auxiliary enterprise system has historically consisted of housing, recreational and athletic facilities, parking facilities, book store, health facilities, and certain auxiliary operations at the West Plains campus. Health facilities include services provided at MSU's health and wellness center, such as routine preventive 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's net assets rose to $5.7 million in fiscal 2018 after the adjustment for the cumulative effect in the change in accounting principles for GASB 68. Debt service coverage (DSC) for the auxiliary system of 1.6x exceeded the covenant rate of 1.1x DSC at fiscal year-end 2018.

Housing facilities

Housing facilities include 11 residence halls with a capacity of 4,080 students, four dining facilities, and a student union building, all of which are on the Springfield campus. MSU maintains a freshman residency requirement. Fiscal 2018 occupancy estimates were 93%. 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 Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2020	2019	2018	2017	2016	2018
Enrollment and demand						
Headcount	25,404	25,566	25,615	25,482	24,233	MNR
Full-time equivalent	19,893	19,426	19,837	19,730	18,881	12,854
Freshman acceptance rate (%)	87.9	85.0	84.0	84.4	85.9	74.3

Missouri State University Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2020	2019	2018	2017	2016	2018
Freshman matriculation rate (%)	40.2	40.1	40.8	41.9	43.6	MNR
Undergraduates as a % of total enrollment (%)	85.6	86.1	87.0	87.4	86.4	83.3
Freshman retention (%)	78.1	77.7	77.3	79.1	79.1	77.3
Graduation rates (six years) (%)	55.9	54.5	54.9	54.2	52.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	N.A.	384,520	371,637	375,938	MNR
Adjusted operating expense ($000s)	N.A.	N.A.	378,402	366,732	363,654	MNR
Net adjusted operating income ($000s)	N.A.	N.A.	6,118	4,905	12,284	MNR
Net adjusted operating margin (%)	N.A.	N.A.	1.62	1.34	3.38	(1)
Estimated operating gain/loss before depreciation ($000s)	N.A.	N.A.	33,010	30,759	38,245	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	N.A.	(47,709)	(12,719)	10,055	MNR
State operating appropriations ($000s)	N.A.	N.A.	80,899	83,148	85,192	MNR
State appropriations to revenue (%)	N.A.	N.A.	21.0	22.4	22.7	21.0
Student dependence (%)	N.A.	N.A.	54.8	54.4	52.6	52.4
Research dependence (%)	N.A.	N.A.	5.9	6.3	5.9	MNR
Endowment and investment income dependence (%)	N.A.	N.A.	0.2	(0.1)	0.7	0.7
Debt						
Outstanding debt ($000s)	N.A.	N.A.	167,917	172,105	169,065	169,922
Proposed debt ($000s)	N.A.	N.A.	36,275	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	N.A.	179,932	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	15,834	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	N.A.	3.88	4.34	4.24	MNR
Current MADS burden (%)	N.A.	N.A.	4.18	4.23	N.A.	4.50
Pro forma MADS burden (%)	N.A.	N.A.	4.18	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	89,102	84,524	77,773	70,495	115,187
Related foundation market value ($000s)	N.A.	N.A.	141,043	143,017	137,342	138,714
Cash and investments ($000s)	N.A.	N.A.	175,888	186,403	176,671	MNR
UNA ($000s)	N.A.	N.A.	(56,118)	(8,409)	4,310	MNR
Adjusted UNA ($000s)	N.A.	N.A.	140,786	152,291	143,381	MNR
Cash and investments to operations (%)	N.A.	N.A.	46.5	50.8	48.6	46.3
Cash and investments to debt (%)	N.A.	N.A.	104.7	108.3	104.5	100.6
Cash and investments to pro forma debt (%)	N.A.	N.A.	97.8	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	N.A.	37.2	41.5	39.4	31.3
Adjusted UNA plus debt service reserve to debt (%)	N.A.	N.A.	83.8	88.9	85.2	57.3

Missouri State University Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2020	**2019**	**2018**	**2017**	**2016**	**2018**
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	N.A.	78.2	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	N.A.	14.6	14.2	13.3	14.6
OPEB liability to total liabilities (%)	N.A.	N.A.	1.9	0.7	0.9	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