

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's downgrades Missouri State University's issuer rating and facilities revenue bonds to A1 and auxiliary revenue bonds to A2; outlook revised to stable**

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08 Jun 2021

New York, June 08, 2021 -- Moody's Investors Service has downgraded Missouri State University's (MSU) issuer rating and \$41 million of Educational Facilities Revenue Bonds to A1 from Aa3. Concurrently, we downgraded \$66 million of Auxiliary Enterprises System Revenue Bonds to A2 from A1. The outlook is revised to stable from negative. As of fiscal 2020, Missouri State University had approximately \$179 million of total debt outstanding.

#### RATINGS RATIONALE

The downgrade of Missouri State University's issuer rating and Educational Facilities Revenue bonds to A1 from Aa3 incorporates our expectations of continued constrained revenue growth, stemming from student market pressures, limited pricing flexibility and muted net tuition revenue growth going forward. Weakened operating cash flow margins and narrowing, but still sufficient debt service coverage highlights the impact of MSU's competitive pressures. Declining numbers of in-state high school graduates and an ongoing focus on affordability will further constrain net tuition revenue.

The downgrade of Missouri State University's Auxiliary Enterprise System bonds to A2 from A1 reflects the narrower pledge and limited revenue stream supporting debt service, which has weakened in recent years as a result of student market pressures. Fiscal 2020 net revenues available for debt service provides 1.25x coverage of auxiliary debt, weaker than the 1.65x and 1.61x coverage recorded in each of the two most recent fiscal years. Management expects that coverage will remain above 1.1x.

The university's A1 senior rating further reflects MSU's important regional role and solid reputation within the state as a higher education provider. MSU is the second largest in-state public university with comprehensive programming and relatively steady student demand. Favorably, the university maintains solid liquidity and a manageable direct debt burden. The rating is constrained by significant debt-like liabilities through the university's participation in statewide multi-employer pension plan. Ongoing capital needs, including plans to spend up to \$24 million to acquire a new residence hall, also temper credit quality.

#### RATING OUTLOOK

The stable outlook incorporates Moody's expectation that MSU will maintain operating performance stability with cash flow margins around 10%. It also incorporates expectations of no material increase in leverage beyond planned and maintenance of wealth in line with A1-rated peers.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained stronger revenue growth and cash flow
- Substantial growth in flexible reserves relative to debt and operations
- Material and sustained strengthening of pledged revenues

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained deterioration in operating performance and debt service coverage
- Material use of reserves or long-term declines in cash and investments
- Inability to hold at least 1x debt service coverage from pledged revenues

#### LEGAL SECURITY

The Educational Facilities Revenue Bonds (\$41 million outstanding at June 30, 2020) are unsecured general

obligations of the university, payable from all legally available funds, excluding state appropriated funds, and funds pledged to payment of Auxiliary Enterprise System Revenue Bonds. The Educational Facilities Revenue Bonds have a sum sufficient rate covenant and a negative mortgage pledge.

The Auxiliary Enterprise System Revenue Bonds (\$66 million outstanding at June 30, 2020) are secured by a more limited pledge of the University's net income and revenues from its Auxiliary Enterprise System. The bonds are subject to a 1.1x coverage rate covenant. We expect the university to continue to meet this coverage requirement, with fiscal 2020 pledged revenue providing 1.25x coverage.

## PROFILE

Founded in 1905, MSU is the second largest public university in the state, with fiscal 2020 operating revenue of \$322 million and 17,402 full-time equivalent students in fall 2020. The university's enrollment reflects its doctoral/professional four-year campus in Springfield and an open admissions two-year program in West Plains. Business, education, and health sciences are among the most popular areas of study.

## METHODOLOGY

The principal methodology used in these ratings was Higher Education published in May 2019 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1175020](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1175020) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004) .

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