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

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Missouri Hlth & Educl Facs Auth PCU_USF		
Long Term Rating	A+/Stable	Affirmed
Missouri Hlth & Educl Facs Auth PCU_USF		
Long Term Rating	A+/Stable	Affirmed
Series 2012A		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' long-term rating on the Missouri Health & Educational Facilities Authority's series 2013B-2, 2013C-2, and 2012A educational facilities revenue bonds, issued for the University of Central Missouri (UCM). The outlook on the rating is stable.

We view the security for the series 2013B-2, 2013C-2, and 2012A as an unlimited student-fee equivalent pledge of the university, since pledged revenues exclude only state operating appropriations and funds pledged for the payment of certain housing system revenue bonds.

We assessed UCM's enterprise profile as strong, characterized by historically stable enrollment growth which softened slightly in fall 2016, a respectable demand profile with improved selectivity, and reasonable matriculation. We assessed its financial profile as very strong, with consistently positive operations, healthy available resources, and a reasonable debt burden. Combined, we believe these credit factors lead to an indicative stand-alone profile of 'a+' and final rating of 'A+'.

The rating on UCM's educational facilities revenue bonds reflects our view of UCM's:

- Historical growth in enrollment offset by a 3% decline in total headcount for fall 2016 and solid demand metrics over the past several years;
- Sound financial operations on a full-accrual basis, with the university typically producing operating surpluses on a generally accepted accounting principles (GAAP) basis, and management's expectation of at least balanced operations on a GAAP basis for fiscal 2017;
- Healthy available resources, with adjusted unrestricted net assets (UNA) equal to 56.6% of adjusted operating expenses and 124.6% of debt; and
- Limited debt plans during the outlook period.

In our opinion, partially offsetting credit factors include UCM's:

- Limited revenue flexibility due to state-imposed tuition and fee rate limitations that are tied to the consumer price index (CPI);
- Modest fundraising history and the small size of the university's endowment relative to the rating category; and
- Competition from other Missouri public colleges and universities, as well as future challenges from projected declines in the number of state high school graduates in the region and significant downward pressure on international student enrollment.

UCM is a state-supported, comprehensive university offering bachelor and selected master's degrees. It is in Warrensburg, about 50 miles southeast of Kansas City, and has an academic site, UCM-Lee's Summit. Established in 1871 as the State Normal School for the Second Normal District, it changed its name to the University of Central Missouri in 2006. In 1996, the Missouri Coordinating Board for Higher Education established the university's mission as "a master's-level institution" with moderately selective admissions and a statewide mission in applied sciences and technology programs. The university's competition includes other public state colleges and universities.

Outlook

The stable outlook reflects our expectation that during the two-year outlook period, UCM's operating results will remain at minimum, breakeven on a full-accrual basis, enrollment will remain at or near current levels, and financial resources will continue to increase. We do not anticipate any additional debt issuances during the outlook period; however, we expect any additional debt issuance to be commensurate with maintenance or growth of financial resource ratios.

Upside scenario

A positive rating action is not likely during the two-year outlook period given potential enrollment challenges that could result in weakened operations, but one could occur should the university strengthen its enterprise profile and available resources to reflect levels commensurate with a higher rating.

Downside scenario

A negative rating action could occur within the outlook period if, UCM's enrollment and financial operations materially deteriorate, or if the university issues debt without a commensurate increase in financial resources relative to the rating category. Moreover, we could revise the outlook on the housing system revenue bonds if housing debt service coverage (DSC) falls below 2x over the outlook period.

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 observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, UCM's geographic diversity is somewhat limited because approximately 72% of its total students are from Missouri. As such, our assessment of UCM's economic fundamentals is anchored by Missouri's GDP per capita of $43,106.

Market position and demand

In the past several years, total headcount enrollment at the university has steadily increased at an average annual rate of 4.3% from fall 2010 to fall 2015. However, fall 2016 headcount softened slightly, with total headcount reaching 13,988 (a 2.8% decline). The university headcount is primarily comprised of undergraduate full-time equivalents (FTEs) with 8,222 students (78% of total enrollment) and 2,285 graduate FTEs (22%).

Management reports that it anticipates continued decreases in enrollment due to declining demographics and pressure on international student enrollment. However, we understand that management has implemented various modifications to its recruiting cycle, has plans to further diversify international student recruiting, and will expand workforce training and adult education to mitigate these challenges.

UCM's mission as a moderately selective institution has resulted in an average 79% acceptance rate for entering first-time freshmen over the past five years, with marked improvement in acceptance rate for fall 2016 to 74.6%, compared with a high of 82% in fall 2012. In our view, UCM's solid matriculation rate of 42% in fall 2016 reflects its regional niche. The average ACT score of 22 for entering freshman was slightly higher than the national average of 21 in fall 2016.

UCM has a modest fundraising history, but management reports that it anticipates generating approximately $6 million in gifts in fiscal 2017. Management also reports that it anticipates continuing to strengthen its annual fundraising.

Housing

The university owns and operates the housing system, which currently consists of 16 residence halls and Greek units, and six apartment buildings that in aggregate can house 3,986 students. In addition, the system includes three residential dining facilities, six retail dining facilities, and a student union. Approximately 34% of the university's undergraduates live in on-campus housing. For fall 2016, average occupancy for the residence halls and apartments was 88% and 95%, respectively. UCM has a first- and second-year housing requirement, which management indicates is designed to maximize student success.

Management and governance

UCM is governed by an eight-member Board of Governors (BOG) appointed by the state of Missouri's governor with the advice and consent of the Missouri senate. Seven of these board members are voting members and the eighth is a student governor. The BOG has administrative and financial oversight over the activities of the university. Its duties and responsibilities include the setting of tuition and fees, developing an institutional plan, determining academic programs, establishing administrative policies, approving debt issuances, and granting of degrees.

The university had a few senior management changes over the past year. We understand that senior leadership has restructured some roles, however, and that the associate vice president for finance and administration is now operating as the chief financial officer.

The current president, Dr. Charles Ambrose, was appointed Aug. 1, 2010. University management does not expect additional senior management changes at this time. In our opinion, UCM's senior management team is highly experienced which provides stability to overall operations. We understand UCM is implementing its current strategic plan, which is anticipated to span fiscals 2016 through 2018 and will focus on critical priorities related to enrollment and academic programs.

Financial Profile

Financial management policies

UCM has formal policies for endowment, investment management, and debt. It operates according to a five-year strategic and master plan, a capital plan that is updated annually, and an informal reserve liquidity policy. The system meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies to comparable providers.

In line with our Dec. 15, 2015 publication "Assessing The Impact Of GASB 68 On U.S. Public Universities And Charter Schools," we have made adjustments to our financial assessment of public colleges and universities and certain public charter schools, beginning with fiscal year-end June 30, 2015, to enhance analytical clarity regarding the economic substance of the funding of liabilities, expenses, and deferred inflows and outflows of resources associated with pension plan obligations, and a change in accounting principle as detailed in GASB 68. We believe these adjustments enhance analytical clarity from a credit perspective and result in more comparable financial metrics as long as states continue to be able and willing to fund these pension liabilities.

Financial performance

The university typically generates positive operating results and healthy operating margins on a full-accrual basis, which we view as a key credit strength.

Table 1

University of Central Missouri		
Fiscal year	**Operating surplus (Mil. $)**	**Operating margin (%)**
2016	13.3	6.1
2015	13.9	6.7
2014	11.9	6.0
2013	8.4	4.4

Operating results for the university have been solidly positive on a cash basis, before depreciation expense of about $15 million each year over the past five fiscal years. Management indicates the university's operations are supported by specific revenue growth and expense management strategies, as well as a culture of fiscal management, largely developed in response to fluctuations in state operating appropriations over the past few years. Management indicated that the university anticipates breakeven to slightly positive operations on a full accrual basis in fiscal 2017.

UCM remains highly reliant on two major revenue streams to provide the majority of its adjusted operating revenues in fiscal 2016. Net tuition, fees, and auxiliary revenues represented 61.6% of the 2016 adjusted operating revenue base, followed by state operating appropriations at 24%. The university's reliance on state operating appropriations as an operating revenue stream has modestly decreased since fiscal 2009 because the state has cut back on funding levels. For fiscal 2016, state operating appropriations were relatively flat at $55.7 million compared with $55 million in fiscal 2015.

For fiscal 2016, state appropriations included approximately $676,000 for UCM in performance-based funding based on specific measures, including student retention, graduation rates, student achievement, and efficiency. UCM has received periodic state capital support in the past. The university reports receipt of $12.2 million capital appropriation in fiscal 2016 for renovations to the W.C. Morris Science Building. Management further reports that the construction is underway and expects it to continue through summer 2017. We understand that the university also plans to spend an additional $6 million in reserves to fund a new roof, structural repairs, restroom upgrades, and furniture for the Science Building.

UCM officials report a current fiscal 2017 appropriation withhold and anticipate that state funding levels will likely decline during the outlook period.

The state mandates limit tuition and fee increases to the CPI, or the cost of living for Missouri public higher education institutions, thus restraining one avenue of revenue generation for the university. For fiscals 2015 and 2016, tuition increases were held relatively flat, in accordance with the CPI index. We view UCM's in-state tuition and fees as average relative to Missouri public universities. When factoring in room and board fees, the total cost for an in-state resident was held flat at $14,764 in fall 2016 (the 2016-2017 academic year). Management indicates that affordability for students remains a key area of focus for UCM and the university's goal is to keep tuition rates as affordable as possible, anticipating that fall 2017 tuition will be held flat over fiscal 2016. As part of its overall pricing strategy, UCM has also been investing more in providing institutional scholarships to students, and its tuition discount rate has averaged roughly 20% since fiscal 2009, with marginal decreases in recent years and a lower discount rate of 17.4% in fiscal 2016 compared with 18.9% in fiscal 2015.

Available resources

Available resources have grown each year since fiscal 2009 and are consistent with the 'A+' rating with respect to operations and debt. As of June 30, 2016, total net assets were $173.4 million of which $23.96 million of funds were unrestricted. A foundation supports the university, and on June 30, 2016, the university had total net assets of $50.3 million, the bulk of which was restricted. When including $6.4 million of foundation UNA and also including approximately $2 million in long-term other postemployment benefits (OPEBs), total adjusted UNA equaled $106.9 million as of June 30, 2016. This equaled 48.9% of adjusted operating expenses and 107.5% of debt. The university's cash and investments (including restricted assets, which we view as a less conservative measure of balance-sheet strength), are stronger at $122.9 million, equal to 56.3% of fiscal 2015 adjusted operating expenses and 123.7% of debt.

Debt and contingent liabilities

As of June 30, 2016, UCM's total debt equaled roughly $99.4 million, which includes $70.9 million of revenue bonds and a $25.8 million energy savings capital lease issued in April 2009 for deferred maintenance to buildings on the main campus. The university has a front-loaded debt structure, which amortizes over 20 years, that, in our view, somewhat mitigates its above-average debt burden. All of UCM's debt is fixed-rate. Management reports no other additional debt plans without at least commensurate growth in available resources.

UCM's series 2013A, 2013B-1, and 2013C-1 fixed-rate 10-year revenue bonds (a total of roughly $35 million) are direct-purchase debt obligations held by Clayton Holdings, a subsidiary of Commerce Bank. S&P Global Ratings does not rate this debt but has included the figures in its debt and financial resource ratio calculations. The financial covenants match those of the series 2009A and 2012A bonds and if violated, could result in an event of default with immediate acceleration subject to a 30-day cure period. In addition, the loan documents include an adopted terms clause that would modify the covenants of these direct-purchase obligations if the university enters into any additional indebtedness with more restrictive financial covenants. In our view, UCM's historical and projected DSC levels provide sufficient cushion to partially mitigate the event-driven risk. Management indicates the university is in compliance with all debt covenants.

The directly placed and publicly offered series 2013A, 2013B, 2013C, and 2012A bonds are on parity and are viewed by us as an unlimited student-fee equivalent pledge of the university, since pledged revenues exclude only state operating appropriations and funds pledged to the payment of certain housing system revenue bonds. The series 2013A bonds are further secured by a pledge of a $7 per credit hour student recreation center fee and the series 2013C bonds are further secured by a pledge of net operating revenues of the housing system. The series 2009A housing revenue bonds are a special obligation of the university, payable solely from and secured by a pledge of the net operating revenues derived by the operation of the housing system, which the bond indenture defines as the housing and dining facilities, as well as social and recreational facilities (including the student union). Management reports net housing surpluses each year are retained in the housing system and not transferred to the university.

Finally, management reports that UCM has entered into a lease with Lee's Summit R-7 School District for construction of a new facility expected to be completed in summer 2017. The total construction cost is estimated to be $42 million. Management reports that the Lee's Summit R-7 School District will own the property and will be the lessor. UCM will use 60% of the space and thus will pay 60% of the projected debt service Lee's Summit will incur to construct the facility (an estimated $1.65 million per year plus operating costs of about $425,000). The capital lease will be for 20 years with an option to renew for another 20. Management reports that UCM will only pay its share of the operating costs during the second 20-year increment.

Pension plans and other postemployment benefits

The university provides retirement benefits through the Missouri State Employees' Retirement System (MOSERS), a single-employer, defined-benefit public employees' pension plan administered by the state. As of June 30, 2016, the plan's funded status was 77.6%, with university-required actuarial contributions for fiscal 2016 at roughly 16.9% of annual covered payroll ($9.4 million). We understand that UCM has made 100% of the required contributions in each of the past five fiscal years. All full-time faculty members not enrolled in MOSERS participate in a 401 (a) defined-contribution retirement plan, which, by definition, is fully funded. OPEBs, offered through a single-employer retiree benefit plan, are funded on a pay-as-you-go basis.

Table 2

University of Central Missouri						
	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2017	**2016**	**2015**	**2014**	**2013**	**2015**
Enrollment and demand						
Headcount	13,988	14,395	13,379	12,513	11,878	MNR
Full-time equivalent	10,508	10,965	10,389	9,850	9,442	11,127
Freshman acceptance rate (%)	74.6	79.5	77.9	80.8	81.8	74.6
Freshman matriculation rate (%)	42.0	43.3	47.5	47.5	46.5	MNR
Undergraduates as a % of total enrollment (%)	70.0	69.5	73.5	79.7	81.5	85.4
Freshman retention (%)	70.8	70.8	69.7	68.8	68.7	74.8
Income statement						
Adjusted operating revenue ($000s)	N.A.	232,115	223,007	209,327	198,553	MNR
Adjusted operating expense ($000s)	N.A.	218,417	209,031	197,397	190,124	MNR
Net adjusted operating income ($000s)	N.A.	13,698	13,976	11,930	8,429	MNR
Net adjusted operating margin (%)	N.A.	6.27	6.69	6.04	4.43	(0.49)
Estimated operating gain/loss before depreciation ($000s)	N.A.	29,194	28,777	26,747	23,366	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	4,412	(59,521)	6,740	8,049	MNR
State operating appropriations ($000s)	N.A.	55,677	55,021	51,317	51,596	MNR
State appropriations to revenue (%)	N.A.	24.0	24.7	24.5	26.0	22.7
Student dependence (%)	N.A.	61.6	59.3	59.1	56.1	51.6
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.6	0.7	0.9	0.5	MNR
Endowment and investment income dependence (%)	N.A.	0.4	0.2	0.1	0.1	0.3
Debt						
Outstanding debt ($000s)	N.A.	99,394	102,905	108,987	60,773	155,104
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	99,394	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.96	3.74	12.83	4.20	MNR
Current MADS burden (%)	N.A.	4.84	5.06	5.36	4.30	4.52
Financial resource ratios						
Endowment market value ($000s)	N.A.	38,954	39,342	36,960	34,065	85,533
Related foundation market value ($000s)	N.A.	50,335	49,546	47,712	41,438	182,492
Cash and investments ($000s)	N.A.	122,942	117,867	137,864	88,449	MNR
UNA ($000s)	N.A.	23,955	19,543	79,064	72,324	MNR
Adjusted UNA ($000s)	N.A.	106,863	101,533	85,812	77,288	MNR
Cash and investments to operations (%)	N.A.	56.3	56.4	69.8	46.5	43.5

Table 2

University of Central Missouri (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2017	**2016**	**2015**	**2014**	**2013**	**2015**
Cash and investments to debt (%)	N.A.	123.7	114.5	126.5	145.5	93.5
Cash and investments to pro forma debt (%)	N.A.	123.7	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	48.9	48.6	43.5	40.7	22.2
Adjusted UNA plus debt service reserve to debt (%)	N.A.	107.5	98.7	78.7	127.2	44.1
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	107.5	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.8	14.6	13.8	13.0	13.9
OPEB liability to total liabilities (%)	N.A.	1.0	0.9	1.0	1.3	MNR

N.A. not available. MNR median not reported. MADS maximum annual debt service. 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.