S&P Global Ratings

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

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Long Term Rating	A+/Negative	Affirmed
Missouri Hlth & Educl Facs Auth (University of Central Missouri) ed fac rev & rfdg bnds (University of Central Missouri) ser 2018B due 10/01/2034		
Long Term Rating	A+/Negative	Affirmed

Rating Action

S&P Global Ratings affirmed its 'A+' long-term rating on the Missouri Health & Educational Facilities Authority's series 2013C-2, 2018A, and 2018B educational facilities revenue bonds, issued for the University of Central Missouri (UCM). The outlook is negative.

As of fiscal-year-end 2020, UCM's total debt outstanding equaled about $77.9 million, including $59.9 million of revenue bonds and a $15.6 million energy savings capital lease issued in April 2009 for deferred maintenance to buildings on the main campus. We view the security on the university's revenue bonds 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. The university has a front-loaded debt structure that amortizes over 20 years, which, in our view, somewhat mitigates its moderate debt burden. Management reports no other additional debt plans during our outlook period.

While there is a high level of uncertainty regarding the duration and extent of the COVID-19 pandemic, we believe UCM has taken the steps necessary to ensure the safety of its students, faculty, and staff while also remaining financially responsible. In mid-March, UCM transitioned to an online format and required all students, with the exception of those with extenuating circumstances, to move out of the residence halls. For students living on campus prior to the outbreak, UCM issued prorated refunds totaling roughly $2.3 million, pressuring auxiliary revenues which historically account for around 17% of total revenues. To offset some of this lost revenue, UCM received $6.9 million from the Coronavirus Aid, Relief, an Economic Security (CARES) Act, half of which went directly to aid students with emergency funding, while the remainder was used for certain institutional costs resulting from the pandemic. The university also received $1.5 million from the State of Missouri Coronavirus Relief Fund (CRF). Management also implemented a salary and hiring freeze, reduced the institutional retirement contribution, and cut discretionary expenditures, all while avoiding furloughs and layoffs.

For fall 2020, instruction is following a hybrid model. To ensure the safety of the community, UCM is requiring face coverings on campus, providing frequent testing for the community, and assigning only one person per residence hall room. With housing occupancy limited due to dedensification and fewer students on campus, management budgeted for a roughly 15% decline in auxiliary revenues from fiscal 2019 levels. While this decline could pressure operations, management has made expense cuts to balance the lost revenue. In fall 2020, the university recorded a 10.3% decline in full time equivalent (FTE) enrollment to 7,550 from 8,420. As a percent of total enrollment, UCM has historically had a relatively high level of international students, with an international headcount enrollment of 2,786 in fall 2015. In fall 2020, international FTE enrollment fell 25% to 421 from 560 in fall 2019. Management is taking steps to keep all students engaged with UCM and the community, regardless of where they are geographically located. Management indicated that many of the international students who were not able to return to campus in fall 2020 do intend to return when possible. The university has taken proactive steps to cut expenses and budget conservatively but, due to the challenges brought on by COVID-19, is expecting operations to see pressure, with the potential for a slight full accrual deficit in fiscal 2021.

Credit overview

We assessed UCM's enterprise profile as strong, characterized by a historically respectable demand profile with improving selectivity and, while pressured in fall 2020, relatively stable matriculation, offset by several years of declining enrollment due primarily to weakening demographics. We assessed its financial profile as very strong, with positive operations over the past two years, good available resources for the rating compared with operating expenses and debt, and a reasonable debt burden. We believe these combined credit factors lead to an indicative stand-alone credit profile of 'a+' and a long-term rating of 'A+'.

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

- Healthy available resources, with adjusted unrestricted net assets (UNA) equal to 56.4% of adjusted operating expenses and 146.1% of debt outstanding;
- Historically sound financial operations, with surpluses over the last two years despite pressured enrollment and, in fiscal 2020, challenges relating to COVID-19; and
- Lack of additional debt plans during the outlook period.

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

- Material full time equivalent (FTE) enrollment declines over the past five years;
- Modest fundraising history and the small endowment relative to the rating category;
- Challenging state funding environment; and
- Competition from other Missouri public colleges and universities, as well as future challenges from projected declines in the number of high school graduates in the region and significant downward pressure on international student enrollment.

The negative outlook reflects our expectation that, over the next year, enrollment could continue to decline and potentially affect operations, though management has shown its ability to curb expenses as necessary. We do not anticipate any additional debt issuances during the outlook period; however, we would expect any additional debt issuance to be commensurate with maintenance or growth of financial resource ratios.

Environment, social, and governance (ESG) factors

UCM's leadership team has implemented a hybrid learning model for the fall 2020 semester in order to protect student health and safety and limit COVID-19-associated social risks. We view COVID-19 health and safety issues as a social risk under our ESG factors because of the uncertainty surrounding the duration of COVID-19 and its unknown effect on enrollment. Despite elevated social risks, we consider UCM's environmental and governance risks in line with our view of the sector standard.

Negative Outlook

Downside scenario

We could lower the rating within the next year if UCM's enrollment declines continue, the university experiences significant full accrual operating losses, or it issues debt without a commensurate increase in financial resources relative to the rating category. Although we believe UCM has taken proactive steps to address COVID-19, we could lower the rating if pressure related to the pandemic were to result in continued declines in enrollment or materially affect operations.

Return-to-stable scenario

We could revise the outlook to stable during the next year if enrollment stabilizes, breakeven to surplus operations are maintained on a full accrual basis in fiscal 2021, and the university maintains its available resource levels.

Credit Profile

Enterprise Profile

Economic fundamentals

In our view, UCM's geographic diversity is somewhat limited because approximately 80.8% of total enrollment is from Missouri. Therefore, our assessment of the university's economic fundamentals is anchored by Missouri's GDP per capita.

Market position and demand

UCM is a state-supported, comprehensive university offering bachelor's 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, the university 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.

Over the past five years, total FTE enrollment at the university has softened significantly, from 10,965 in fall 2015 to

7,550 in fall 2020. This fall, FTE enrollment fell 10.3% due, in part, to the outbreak of COVID-19. Because undergraduates constitute around 83% of total FTE enrollment, the 12% decline in fall 2020 pressured total enrollment down, despite a 2.9% increase in graduate FTE enrollment. In addition to challenging regional demographics, management attributes the recent enrollment decline to a drop in international student enrollment, which, in fall 2015, totaled 2,786 students before sliding to 421 students in fall 2020. While UCM did see a nearly 25% decline in international FTE enrollment this fall, there are signs that many of those students will return to campus either in spring or fall 2021. Management reports that, while it is still early, it expects total FTE enrollment to be flat for fall 2021. We understand that management has implemented a data driven strategy to recruiting which it hopes will translate into increased applications and, in turn, matriculants. UCM has also begun working with both the local community and national organizations to expand workforce training and adult education.

UCM's mission as a moderately selective institution has resulted in a fall 2020 acceptance rate of 71.5% for entering first-time freshmen which, in part due to a 23.8% increase in applications, was down from 84.6% in fall 2019. Freshman matriculation softened to 30.1%, from 36.3%, with a first-year class of 1,084. The average ACT score of 22 for the entering class was slightly higher than the national average of 21 in fall 2020.

UCM has a modest fundraising history, but management reported gifts and pledges of $6.3 million in each of the last two fiscal years. Initially, fundraising was expected to be lower in fiscal 2021 but, through the first quarter, management received $2.2 million. With a relatively debt-averse management team, UCM has historically funded capital projects almost entirely with fundraising dollars, which we view positively. Although UCM is not planning a significant capital campaign in the near term, the foundation is currently engaged in several smaller campaigns to enhance need based aid to students, improve academic resources, and address capital needs.

Management and governance

UCM is governed by an eight-member board of governors (BOG), appointed by 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 university's activities. Its duties and responsibilities include setting tuition and fees, developing an institutional plan, determining academic programs, establishing administrative policies, approving debt issuances, and granting degrees.

Senior leadership at UCM has remained stable over the past two years and has showed its ability to guide the university through rough water effectively. In November 2018, Dr. Roger Best, who had been serving as interim president since August 2018, was named president of UCM. The university also appointed Dr. Philip Bridgmon as the new provost and vice president for academic affairs. In our opinion, UCM's senior management team is highly experienced, which provides stability to overall operations. We understand UCM has implemented a new strategic plan which focuses on critical priorities related to enrollment, academic programs, and operational success.

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 with those of similar providers.

Financial performance

Historically, UCM has produced positive full accrual operating results in part due to the university's ability to adapt to changing environments, budget conservatively, and make expense cuts when necessary. After enrollment pressures led the university to operating deficits in fiscal 2017 and 2018, UCM has bounced back with 3.59% and 1.72% surpluses in fiscal 2019 and fiscal 2020, respectively. Following a successful Voluntary Retirement Incentive Plan in fiscal 2017, compensation expense fell by $9.2 million, or 8.8%, from fiscal 2018 to fiscal 2019. In fiscal 2020, total adjusted operating expense remained flat due to offsetting decreases and increases in contractual services and compensation expenses, respectively. This overall lower level of expenses benefitted UCM in fiscal 2020, which saw total adjusted operating revenue fall by 1.3%, due primarily to a 19.7% dip in auxiliary revenue. Support from state and local governments also helped balance operations as the university received around $6.9 million through the CARES Act and another $1.5 million from the State of Missouri CRF.

UCM remains highly reliant on two major revenue streams to provide most of its adjusted operating revenues. Net tuition, fees, and auxiliary revenues represented 53.9% of the fiscal 2020 adjusted operating revenue base, followed by state operating appropriations, at 22.7%. 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. In April 2020, Missouri Governor Mike Parson announced nearly $176 million in expenditure reductions for fiscal 2020, $61.3 of which was cut from higher education. Then, in June, another $209.8 million in expenditure restrictions were announced, with higher education seeing $34.2 million restricted. These decisions resulted in the withholding of nearly $7 million in the final quarter and an 11.4% decline to $46.7 million in fiscal 2020. On June 30, Governor Parson announced that over $450 million would be cut from the fiscal 2021 state budget due to the economic impacts of COVID-19. Management indicated that, at this point in time, fiscal 2021 appropriations will likely be in line with fiscal 2020 actuals though management seems optimistic that those cuts could be restored in late fiscal 2021 or fiscal 2022.

State mandates limit tuition and fee increases to the consumer price index (CPI), or the cost of living for Missouri public higher education institutions, thus restraining one avenue of revenue generation for the university. For fall 2020, tuition was held relatively flat, in accordance with the CPI. We view UCM's in-state tuition and fees as average relative to those of Missouri public universities. When factoring in room and board fees, the total cost for an in-state resident was $17,502 in fall 2020 (i.e., the 2020–2021 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. As part of its overall pricing strategy, UCM has also been investing more in providing institutional scholarships to students as evidenced by its ongoing, scholarship-focused fundraising campaigns. The tuition discount rate gradually increased from 17.4% to 22.4% between fiscal 2016 and fiscal 2018, but has since come down to 21% in fiscal 2020.

Available resources

Due to steady growth over the past three years, available resource ratios are strong, in our opinion. In fiscal 2020, adjusted unrestricted net assets (UNA) grew from 7.4% from $106.1 million to $113.9 million. Included our adjusted UNA calculation is $8.0 million of UNA from the UCM Foundation, net pension adjustments of $131.9 million, and net long-term other postemployment benefit (OPEB) adjustments of $3.6 million. As a percentage of total operating expenses, adjusted UNA improved from 52.8% to 56.4% while, as a percentage of total debt, adjusted UNA grew from 124.8% to 146.1%. The university's cash and investments (including restricted assets, which we view as a less conservative measure of balance sheet strength) are slightly stronger at $117.5 million, equal to 58.2% of fiscal 2020 adjusted operating expenses and 150.8% of debt.

Debt and contingent liabilities

UCM has $77.9 million of debt outstanding, including $10.6 million in series 2018A and 2018B fixed-rate general revenue bonds, $32.6 million of series 2013C-2 fixed-rate bonds secured by general revenues and net revenues of the housing system, and $15.6 million in capital leases. The university also maintains series 2013A (secured by general revenues and a pledge of a $7-per-credit-hour student recreation center fee), 2013B-1 (secured by general revenues), and 2013C-1 fixed-rate (secured by general revenues and net revenues of the housing system), 10-year revenue bonds (totaling about $16.7 million) which 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 2013C-2 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-1, 2013C, 2018A, and 2018B bonds are on parity. We view these bonds 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. Management reports that each year's net housing surpluses are retained in the housing system and not transferred to the university. Per the 2013C-2 loan agreement, the housing system must maintain a debt service coverage (DSC) ratio of at least 1.1x. In fiscal 2020, the UCM housing system maintained a DSC ratio of 2.4x. Debt service is relatively front-loaded, with over 70% of debt amortizing over the next ten years. MADS of $9.7 million occurs in fiscal 2021 and, as a percentage of fiscal 2020 total adjusted operating expenses, is a moderate 4.8%.

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 fiscal year end 2020, the plan's funded status was 55.5%, with university-required actuarial contributions for fiscal 2020 at about 20.21% of annual covered payroll. 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.

University of Central Missouri, Mo. -- Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Enrollment and demand						
Headcount	9,959	11,229	11,487	12,333	13,988	MNR
Full-time equivalent	7,550	8,420	8,837	9,450	10,508	14,995
Freshman acceptance rate (%)	71.6	84.6	86.0	83.6	74.6	77.2
Freshman matriculation rate (%)	30.1	36.3	35.7	41.8	42.0	MNR
Undergraduates as a % of total enrollment (%)	76.6	79.3	81.0	79.5	70.0	82.9
Freshman retention (%)	74.8	73.8	69.9	71.9	70.8	77.1
Graduation rates (six years) (%)	51.0	50.9	49.4	49.1	52.8	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	205,406	208,208	208,851	217,666	MNR
Adjusted operating expense ($000s)	N.A.	201,925	200,999	214,146	230,672	MNR
Net adjusted operating income ($000s)	N.A.	3,481	7,209	(5,295)	(13,006)	MNR
Net adjusted operating margin (%)	N.A.	1.72	3.59	(2.47)	(5.64)	(0.30)
Estimated operating gain/loss before depreciation ($000s)	N.A.	20,248	24,434	10,868	3,491	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	(5,550)	(6,355)	(14,646)	(26,470)	MNR
State operating appropriations ($000s)	N.A.	46,712	52,708	52,708	53,770	MNR
State appropriations to revenue (%)	N.A.	22.7	25.3	25.2	24.7	22.7
Student dependence (%)	N.A.	53.9	56.5	58.1	59.9	54.1
Research dependence (%)	N.A.	2.7	1.7	1.0	0.9	MNR
Endowment and investment income dependence (%)	N.A.	2.1	1.9	0.6	0.3	1.2
Debt						
Outstanding debt ($000s)	N.A.	77,946	84,990	84,649	91,870	224,613
Current MADS burden (%)	N.A.	4.81	4.83	4.53	4.58	4.50
Financial resource ratios						
Endowment market value ($000s)	N.A.	44,291	43,217	39,259	37,166	131,376
Related foundation market value ($000s)	N.A.	65,277	62,043	57,106	54,261	159,566
Cash and investments ($000s)	N.A.	117,509	114,924	95,693	99,479	MNR
UNA ($000s)	N.A.	(29,066)	(23,516)	(17,161)	(2,515)	MNR
Adjusted UNA ($000s)	N.A.	113,914	106,059	96,144	92,305	MNR
Cash and investments to operations (%)	N.A.	58.2	57.2	44.7	43.1	46.0
Cash and investments to debt (%)	N.A.	150.8	135.2	113.0	108.3	88.4
Adjusted UNA to operations (%)	N.A.	56.4	52.8	44.9	40.0	33.5

University of Central Missouri, Mo. -- Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Adjusted UNA plus debt service reserve to debt (%)	N.A.	146.1	124.8	113.6	100.5	57.2
Average age of plant (years)	N.A.	17.1	15.7	15.8	14.7	15.3
OPEB liability to total liabilities (%)	N.A.	1.5	1.3	1.5	1.0	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.

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