S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
Nicholas K Fortin, Boston + 1 (312) 914 9629; Nicholas.Fortin@spglobal.com

Secondary Contact:
James Gallardo, Centennial + 1 (303) 721 4391; james.gallardo@spglobal.com

Table Of Contents

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

Credit Profile		
Missouri Hlth & Educl Facs Auth, Missouri		
University of Central Missouri, Missouri		
Missouri Hlth & Educl Facs Auth PCU_USF		
Long Term Rating	A+/Stable	Outlook Revised
Missouri Hlth & Educl Facs Auth (University of Central Missouri)		
Long Term Rating	A+/Stable	Outlook Revised
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+/Stable	Outlook Revised

Rating Action

S&P Global Ratings revised its outlook to stable from negative and 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 revision reflects our view of a third consecutive year of positive full-accrual operating performance due, in part, to management's proven ability to make material adjustments to its expense base as needed. Furthermore, the outlook revision reflects our view of the university's historically strong available resources, which, due to favorable market conditions through fiscal 2021, grew at the university and foundation level and provide ample support to the university. Finally, the revision reflects our view of a slowly improving enrollment picture thanks to what appears to be the return of what was once a healthy international enrollment.

As of fiscal year-end 2021, UCM's debt outstanding totaled approximately $94.6 million, including $55.6 million of revenue bonds, $23.9 million in operating leases, and approximately $13 million related to an energy savings capital lease issued in April 2009 for deferred maintenance to buildings on the main campus. Further, the university maintains two notes with the UCM Foundation totaling $1.9 million and three separate notes with a financial institution totaling $157,638. 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. Management reports no other additional debt plans during our outlook period.

While UCM welcomed students back to campus in fall 2020 for hybrid learning, management indicates that the university returned to near pre-pandemic levels of operation in fall 2021. With students fully back on campus, residence hall occupancy rebounded, which should help drive auxiliary revenue that, in fiscal 2021, was down about

26% from fiscal 2019 levels. At the same time, the university reversed a five-year trend of enrollment declines largely due to a 36% increase in graduate full time equivalent (FTE) enrollment. However, undergraduate FTE enrollment, which drove the declines over the past five years, remained pressured in fall 2021. As a percent of total enrollment, UCM has historically had a relatively high level of international students, with an international headcount of 2,786 in fall 2015. Due to visa challenges and, more recently, COVID-19, the university saw the total number of international students drop. However, as campus returned to near-normal operations and pandemic-related restrictions eased, international enrollment grew to nearly 1,000 from approximately 400 the previous year. This, coupled with the return of auxiliary revenues, additional Higher Education Emergency Relief Fund (HEERF) money, and improved state funding in fiscal 2022 is expected help the university to a modest surplus for fiscal 2022.

Credit overview

We assessed UCM's enterprise profile as strong, characterized by a historically respectable demand profile with improving selectivity and strong, relatively stable matriculation, offset by five consecutive years of enrollment decline prior to fall 2022. We assessed its financial profile as very strong, with positive operations over the past three years, good available resources for the rating compared with operating expenses and debt, and a reasonable debt burden. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'a+' and a long-term rating of 'A+'.

The rating reflects our view of the university's:

- Historically healthy available resources, which grew over the past year due to strong market returns;
- Sound financial operations over the past three years, with surpluses expected in fiscal 2022, despite pressured enrollment and challenges related to COVID-19;
- Expectation of improved state support in the near term; and
- Impressive student demand metrics despite regional demographic challenges.

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

- Material FTE enrollment declines between fall 2015 and fall 2020;
- Modest fundraising history and the small 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 high school graduates in the region.

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 the university 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.

Environment, social, and governance

In our view, UCM, like other higher education entities, faces elevated social risk due to the pandemic. Although vaccine progress has helped alleviate some of the health and safety social risks stemming from the pandemic, we believe the higher education sector remains at a greater risk than other sectors, given the importance of the resumption of pre-pandemic activities and the corresponding influence on operating revenues. We believe management took prudent action regarding the health and safety of its students, including implementing remote learning in spring 2020 and, after returning to campus in fall 2020, requiring community members to wear masks while indoors. In-person learning continued this academic year with mask mandates in place but, in mid-March, management removed its mask mandate for most campus buildings. We believe that uncertainty remains on the trajectory of the pandemic due to emerging COVID-19 variants. In our view, UCM also faces increased social risks due to demographic trends within the state. While the university is working to increase its reach across the country and internationally, we believe there is some risk given that about 75% of students come from in the state. We view the risks posed by COVID-19 and demographic challenges as social risks under our environmental, social, and governance framework. Despite the elevated social risks, we believe the university's environmental and governance risks are in line with our view of the sector.

Stable Outlook

Downside scenario

We could consider a negative rating action if UCM's enrollment challenges return, the university experiences a trend of full-accrual operating deficits, or it issues debt without a commensurate increase in financial resources relative to the rating category.

Upside scenario

We could consider a positive rating action if enrollment continues to grow, breakeven-to-surplus operations continue, and the university builds upon its available resource ratios such that they are in line with those of a higher rating.

Credit Profile

Enterprise Profile

Market position and demand

Between fall 2016 and fall 2020, total FTE enrollment at UCM softened by more than 30% from 10,965 to 7,550. In addition to challenging regional demographics, management attributes the 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. This past fall, however, international FTE enrollment rebounded because of UCM's return to near-prepandemic operating levels, and a generally more-favorable environment for international students seeking study visas. In fall 2021, international FTE enrollment increased to 982, which helped UCM stabilize total FTE enrollment. Management indicates that international students, in large part, enroll in one of UCM's several graduate-level engineering programs and that senior leaders are engaging partners in China and India to enhance UCM's exposure. We do note, however, that undergraduate FTE enrollment continues to face challenges as it slid approximately 5% in fall 2021. This continued decline is somewhat surprising, in our view, given the university's relatively steady first-year applications and its solid student demand metrics. UCM's has received about 5,000 first-year applications every year for the past five years, but the university became more selective over the past two years, accepting only 58.3% of fall 2021 applications compared with 86.0% in fall 2018. Of those students accepted to the university, an impressive 38.9% chose to attend in fall 2021.Furthermore, despite some softening this past fall, the university has historically done well retaining students and helping them through to graduation.

Management indicates that demand for UCM ballooned over the past year due to a resurgence of international students and changes to recruiting strategy which shifted some focus to social media and enhanced the level of connection between the recruiter and the prospective student. Management has made clear the importance of managing growth to ensure student quality, but also to help budget and plan for the future. Overall, we view these early projections favorably and we believe that enrollment growth and continued student demand metric strength could lead to operating stability and, in turn, continued balance-sheet growth in the future.

UCM has a modest fundraising history, with gifts and pledges of around $6 million annually. With a relatively debt-averse management team, UCM has historically funded capital projects almost entirely with fundraising dollars, which we view positively. Management indicates that there are several ongoing capital projects, including renovation of the Humphreys Building and construction of a new terminal at the university's Max B. Swisher Skyhaven Airport. The two projects will be paid for with operating funds, but also significant state and donor funds. Although UCM is not planning a significant capital campaign in the near term, the foundation is 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, appointed by Missouri's governor, with the advice and consent of the Missouri senate. Seven of these are voting members, and the eighth is a student governor. The board of governors 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 remained stable over the past two years and it showed its ability to guide the university through rough water. In November 2018, Dr. Roger Best, who had been serving as interim president since August 2018, was named president of UCM. Since joining the university as an assistance professor of finance in 1995, Dr. Best has served in a variety of roles including dean of the college of business administration, vice president for finance and administration, and chief operating officer. Dr. Philip Bridgmon has served as the university's provost and vice president for academic affairs since May 2019. In our opinion, UCM's senior management team is highly experienced, which provides stability to overall operations. UCM implemented a strategic plan in 2019, which, among other things, aims to improve student access and success, create an inclusive and diverse community, and increase academic excellence.

Financial Profile

Financial performance

Historically, UCM has produced positive full-accrual operating results partially 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 years 2017 and 2018, UCM bounced back with 3.59% and 1.72% surpluses in fiscal years 2019 and 2020 partially due to successful implementation of a Voluntary Separation Incentive Plan (VSIP) in fiscal 2017 that drove instruction expense down. In fiscal 2021, a 10% enrollment decline drove net tuition revenue down more than 7% while limited on-campus operations in fall 2020 hampered auxiliary revenues which had, historically, attributed for 17% to 20% of total adjusted operating revenue. In fiscal 2021, auxiliary revenue totaled $25.4 million, down more than 25% from fiscal 2019. To offset some of this lost revenue, UCM recognized approximately $16.3 million of institutional HEERF funds, nearly $7 million from the State of Missouri, and the university continued to reduce expenses when and where necessary. Management indicates that a furlough was put in place. Also during this time, retrenchment procedures were enacted to adjust faculty staffing levels to reflect the student credit hour produced which, in turn, led to the reduction of some positions. Given that the university underwent a VSIP only two years ago, management suggests that staffing is slim but efficient. With the help of institutional HEERF funds and a nearly 4% reduction in adjusted operating expenses, the university recorded a healthy $15.2 million, or 7.8%, full-accrual operating surplus.

UCM remains highly reliant on two major revenue streams to provide most of its adjusted operating revenues. Net tuition, fees, and auxiliary revenues represented 49.6% of the fiscal 2021 adjusted operating revenue base, followed by state operating appropriations, at 23.4%. The university's reliance on state operating appropriations as an operating revenue stream decreased modestly since fiscal 2009 because the state cut back on funding levels. With the initial impact of COVID-19, the Missouri governor announced a nearly $61.3 million reduction of higher education appropriations in April 2020 and a $34.2 million restriction on higher education funds in June 2020, resulting in the withholding of nearly $7 million in the final quarter and an 11.4% decline to $46.7 million in fiscal 2020. However, due to an injection of federal stimulus at the state level and stronger-than-anticipated economic recovery within the State of Missouri, operating appropriations to UCM increased to $48.9 million in fiscal 2021. Management anticipates a more favorable state funding environment for at least the next two years. For fiscal 2022, the governor approved a state budget which provided about a 3.5% operating appropriation increase, but also included capital funding for the W.C. Morris Science Building and the Max B. Swisher Skyhaven Airport, among other projects. For fiscal 2023, management expects to benefit from the nearly 5.4% increase for the State of Missouri's colleges and universities included in the fiscal 2023 budget.

UCM is optimistic that continued growth in enrollment coupled with the aforementioned improvements in state support will help lead the university to improved operations in the future. For fiscal 2022, management expects to see a healthy operating surplus as a result of a successful fall 2021, increased state funding, a return to near-prepandemic operations, and additional institutional HEERF funds.

Available resources

UCM's available resources grew steadily between fiscal years 2018 and 2020 before recording healthy growth in fiscal 2021 due to favorable market returns, further solidifying the university's balance sheet as a credit strength. The university benefits from the support of the University of Central Missouri Foundation (UCM Foundation), a component unit of UCM that primarily functions to raise and hold funds to support the university and its programs. While the UCM does not control the timing or amount of funds transferred from the foundation to the university, the majority of funds held at the foundation are for the benefit of the university. We view the foundation's support of the university, which totaled $3.1 million and $2.7 million in fiscal 2021 and fiscal 2020, respectively, positively and believe it to be a credit strength. In fiscal 2021, adjusted unrestricted net assets (UNA) grew 8.7% to $123.9 million from $113.9 million the previous year. Included in our adjusted UNA calculation is $9.5 million of UNA from the UCM Foundation in addition to net pension adjustments of $139.0 million, and net long-term other postemployment benefits (OPEB) adjustments of $19,000. Partially due to expense reductions over the past four years, adjusted UNA relative to adjusted operating expenses improved to 63.8% in fiscal 2021 from 44.9% in fiscal 2018. While the university continued to pay down its debt and it did not add additional debt, for fiscal 2021, we've included operating leases of $23.9 million in total debt outstanding, which pushed debt outstanding to $94.6 million from $77.9 million. With that increase, adjusted UNA to debt outstanding softened to 130.9% from 146.1% in fiscal 2020. The university's cash and investments, which we view as slightly less conservative due to their inclusion of restricted assets, grew in fiscal 2021, rising to $118.8 million from $117.8 million. UCM's cash and investments are equal to 61.1% of adjusted operating expenses and 125.5% of debt outstanding. When we consider the UCM Foundation cash and investments of $76.8 million, total cash and investments increased to $195.5 million, equal to 100.7% of adjusted operating expenses and 206.6% of debt outstanding.

Debt and contingent liabilities

As of fiscal year-end 2021, UCM had $94.6 million of debt outstanding, including $42.9 million in fixed-rate, long term debt secured by general revenues and net revenues of the housing system. This figure also includes approximately $2 million for various notes, $12.9 million related to capital leases, and $23.9 million in operating leases. In the past, we have not included operating leases in total debt outstanding or other debt-related figures and, therefore, some metrics might seem deflated starting in fiscal 2021. Lastly, the university also maintains the 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 (secured by general revenues and net revenues of the housing system) revenue bonds, which are direct-purchase obligations held by Clayton Holdings, a subsidiary of Commerce Bank. As of fiscal year-end 2021, these obligations totaled $12.7 million. S&P Global Ratings does not rate this debt, but it 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 takes on any additional indebtedness with more-restrictive financial covenants. In our view, UCM's historical and projected debt service coverage (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. As per the 2013C-2 loan agreement, the housing system must maintain a DSC ratio of at least 1.1x. In fiscal 2021, the UCM housing system maintained a DSC ratio of 2.4x. The university has a front-loaded debt structure that amortizes over 20 years, which, in our view, somewhat mitigates its moderate debt burden. MADS of $11.4 million, which includes annual capital and operating lease payments, occurs in fiscal 2023 and is a moderate 5.9% of fiscal 2021 total adjusted operating expenses.

Pension plans and OPEB

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 2021, the plan's funded status was 63%, with university-required actuarial contributions for fiscal 2021 at about 21.8% of annual covered payroll. We understand that UCM 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. OPEB, offered through a single-employer retiree benefit plan, are funded on a pay-as-you-go basis.

University of Central Missouri--Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Enrollment and demand					
Headcount	10,530	9,959	11,229	11,487	12,333
Full-time equivalent	7,685	7,550	8,420	8,837	9,450
Freshman acceptance rate (%)	58.3	71.6	84.6	86.0	83.6
Freshman matriculation rate (%)	38.9	30.1	36.3	35.7	41.8
Undergraduates as a % of total enrollment (%)	72.0	76.6	79.3	81.0	79.5
Freshman retention (%)	71.2	74.8	73.8	69.9	71.9
Graduation rates (six years) (%)	52.5	51.0	50.9	49.4	49.1
Income statement					
Adjusted operating revenue ($000s)	N.A.	209,399	205,406	208,208	208,851
Adjusted operating expense ($000s)	N.A.	194,218	201,925	200,999	214,146
Net adjusted operating income ($000s)	N.A.	15,181	3,481	7,209	(5,295)
Net adjusted operating margin (%)	N.A.	7.82	1.72	3.59	(2.47)
Estimated operating gain/loss before depreciation ($000s)	N.A.	32,854	20,248	24,434	10,868
Change in unrestricted net assets (UNA; $000s)	N.A.	876	(5,550)	(6,355)	(14,646)
State operating appropriations ($000s)	N.A.	48,897	46,712	52,708	52,708
State appropriations to revenue (%)	N.A.	23.4	22.7	25.3	25.2
Student dependence (%)	N.A.	49.6	53.9	56.5	58.1
Research dependence (%)	N.A.	1.2	2.7	1.7	1.0
Endowment and investment income dependence (%)	N.A.	0.2	2.1	1.9	0.6

University of Central Missouri--Enterprise And Financial Statistics (cont.)					
	--Fiscal year ended June 30--				
	2022	2021	2020	2019	2018
Debt					
Outstanding debt ($000s)	N.A.	94,635	77,946	84,990	84,649
Current MADS burden (%)	N.A.	5.87	4.81	4.83	4.53
Financial resource ratios					
Endowment market value ($000s)	N.A.	57,544	44,291	43,217	39,259
Related foundation market value ($000s)	N.A.	80,261	65,277	62,043	57,106
Cash and investments ($000s)	N.A.	118,760	117,509	114,924	95,693
UNA ($000s)	N.A.	(28,190)	(29,066)	(23,516)	(17,161)
Adjusted UNA ($000s)	N.A.	123,880	113,914	106,059	96,144
Cash and investments to operations (%)	N.A.	61.1	58.2	57.2	44.7
Cash and investments to debt (%)	N.A.	168.0	150.8	135.2	113.0
Cash and investments to debt including operating leases (%)	N.A.	125.5	N.A	N.A	N.A
Adjusted UNA to operations (%)	N.A.	63.8	56.4	52.8	44.9
Adjusted UNA plus debt service reserve to debt (%)	N.A.	175.2	146.1	124.8	113.6
Adjusted UNA plus debt service reserve to debt including operating leases (%)	N.A.	130.9	N.A	N.A	N.A
Average age of plant (years)	N.A.	17.1	17.1	15.7	15.8
OPEB liability to total liabilities (%)	N.A.	1.3	1.5	1.3	1.5

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*(MADS 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. N.A.--Not available.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022