

University of Central Missouri Missouri Health & Education 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:

Sean M Wiley, Chicago + 1 (312) 233 7050; sean.wiley@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Enterprise Risk Profile -- Strong

Financial Risk Profile -- Very Strong

Related Research

University of Central Missouri

Missouri Health & Education Facilities Authority; Public Coll/Univ - Unlimited Student Fees

Credit Profile

US\$29.985 mil educl facs rev bnds (University of Central Missouri) ser 2023 due 10/01/2033

<i>Long Term Rating</i>	A+/Stable	New
-------------------------	-----------	-----

Missouri Health & Education Facilities Authority, Missouri

University of Central Missouri, Missouri

Missouri Hlth & Educl Facs Auth PCU_USF

<i>Long Term Rating</i>	A+/Stable	Affirmed
-------------------------	-----------	----------

Missouri Hlth & Educl Facs Auth (University of Central Missouri)

<i>Long Term Rating</i>	A+/Stable	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

<i>Long Term Rating</i>	A+/Stable	Affirmed
-------------------------	-----------	----------

Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to the Missouri Health & Educational Facilities Authority's approximately \$30 million series 2023 educational facilities revenue bonds, issued for the University of Central Missouri (UCM).
- At the same time, S&P Global Ratings affirmed its 'A+' long-term rating on the authority's series 2013C-2, 2018A, and 2018B educational facilities revenue bonds, issued for UCM.
- The outlook is stable.

Security

The series 2023 educational facilities revenue bonds, similar to the series 2013B-1 direct-placement revenue bonds and series 2018B education facilities revenue bonds, will be secured by general revenues of the university exclusive of state operating appropriations and funds pledged for the payment of certain revenue bonds. The university's series 2013C-1 direct-placement revenue bonds, series 2013C-2 educational facilities bonds, and series 2018A educational facilities bonds are secured by general revenues of UCM excluding state appropriations but including net revenues of the housing system. The series 2013A educational facilities bonds are secured by general revenues of UCM excluding state appropriations but including a student recreation center fee. We view the security on all of the university's debt as an unlimited-student-fee-equivalent pledge of the university. As of fiscal year-end 2022, UCM's debt outstanding totaled approximately \$83.6 million, including \$42.7 million of publicly issued revenue bonds, \$8.6 million of direct-placement revenue bonds, and \$30.6 million of leases. Further, the university maintains two notes with the UCM Foundation totaling \$1.7 million and one note with a financial institution totaling \$27,070. The approximately \$30 million series 2023 bonds will refund the existing series 2013C-2 educational facilities revenue bonds. Pro forma debt

totals approximately \$80.9 million. Management reports no other additional debt plans during our outlook period.

Credit overview

We assessed UCM's enterprise risk profile as strong, characterized by rapidly growing graduate full-time equivalent (FTE) enrollment, improving geographic diversity, and solid first-year matriculation relative to that of similarly rated peers and rating category medians. These strengths are offset by steadily declining undergraduate FTE enrollment and somewhat modest student success metrics. We assessed the university's financial risk profile as very strong, with positive operations over the past four years, healthy and growing financial resources, and a reasonable debt burden. We believe these credit factors, combined, lead to an anchor of 'a+' and a long-term rating of 'A+'.

The rating reflects our view of the university's:

- Steadily rising graduate FTE enrollment due to enhanced recruiting efforts and growing international demand;
- Healthy financial resources relative to those of similarly rated peers and rating category medians;
- Sound financial operations over recent years, with continued success expected in fiscal 2023 due to, among other factors, steadily growing enrollment; and
- Expectation of improved state support in the near term.

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

- Consistent declines in undergraduate FTE enrollment since fall 2016;
- Adequate retention and graduation rates relative to those of similarly rated peers and rating category medians; and
- Modest fundraising history and relatively small endowment.

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

We analyzed the university's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider to be a social risk factor, have largely abated and are neutral in our credit rating analysis. We also view environmental and governance credit factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our favorable view of the university's continued operating success, which is fueled by the

rebound and continued growth in graduate enrollment and management's conservative approach to financial management. Furthermore, the outlook reflects the university's healthy financial resources, which, despite market volatility, increased in fiscal 2022 and continue to provide ample support to the university. Finally, the outlook reflects UCM's manageable debt burden, which, absent any additional debt, will materially decline over the next few years and the university continues to amortize debt.

Downside scenario

We could consider a negative rating action if a trend of total FTE enrollment declines materializes, the university experiences, due to declining enrollment or otherwise, a trend of full-accrual operating deficits, or it issues additional debt without a commensurate increase in financial resources.

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 financial resources such that, relative to operating expenses and debt, they are in line with those of a higher rating.

Credit Opinion

Enterprise Risk Profile -- Strong

Market position and demand

Between fall 2016 and fall 2020, total FTE enrollment at UCM softened by more than 30% to 7,550 from 10,965. 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. Over the past two years, however, international FTE enrollment rebounded because of UCM's return to pre-pandemic operating levels, and a generally more-favorable environment for international students seeking study visas. In fall 2021, international FTE enrollment increased to 982 and, in fiscal 2022, increased to 1,706. 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. Graduate FTE enrollment rose to 2,400 in fall 2022 from a low of 1,183 in fall 2018. While international enrollment is certainly leading the way for graduate enrollment, management indicates that they've also seen increased interest from domestic out-of-state students. With this increased graduate enrollment, the university student composition has shifted to just about 70% undergraduate in fall 2022 from around 80% undergraduate in the early 2010s. While this shift can certainly be attributed to rising graduate enrollment, it can also be attributed to declining undergraduate enrollment. We do note, however, that undergraduate FTE enrollment continues to face challenges. Since fall 2015, undergraduate FTE enrollment fell 33.6% to 5,632 from a high of 8,480. 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 generally received about 5,000 first-year applications annually for the past five years, but the university became more selective over the past two years, accepting between 60% and 70% of applications compared with 75% and 85% in years past. Some of the pressure might stem from the university's softening first-year matriculation rate; in the early 2010s, first

year matriculation hovered between 40.0% and 50.0% but, over the past five years, has consistently been below 40.0%, with fall 2022 reaching 28.9%. With generally flat applications and some decline in selectivity, UCM welcomes classes between 1,000 and 1,200 over the past four years, lower than the 1,600 or more matriculated in years past.

Management expects international and domestic demand for graduate programs will remain robust. For fall 2023, management indicates that international applications for graduate programs have more than doubled and domestic applications are up nearly 15%. On the undergraduate side, while applications are down slightly year over year, early figures suggest that first-year class sizes will be in line with recent years. Should first-year class sizes remain relatively stable over the outlook period, we expect that undergraduate enrollment will stabilize, albeit at a smaller size than recorded in the early 2010s. Management has enhanced its out-of-state recruiting and has generally enhanced its marketing and financial-aid strategies in an effort to increase demand and stabilize enrollment. Overall, we view these efforts and fall 2023 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. 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

Senior leadership at UCM remained stable over recent years and has showed its ability to guide the university through rough water. Dr. Roger Best has served as the university's president--first as an interim and now permanently--since August 2018. Dr. Best joined the university as an assistant professor of finance in 1995 and, before becoming president, 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. The university's financial operations have been led by Bill Hawley since August 2018. Dr. Best appointed Mr. Hawley as interim vice president for finance shortly after he became interim president, but then appointed Mr. Hawley to a permanent position in March 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 Risk Profile -- Very Strong

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 healthy full-accrual operating surpluses in each of the past four years. Some of this recent success can be attributed to the successful

implementation of a Voluntary Separation Incentive Plan (VSIP) in fiscal 2017 that lowered the university's expense base. Further, during the height of the pandemic, retrenchment procedures were enacted to adjust faculty staffing levels to reflect the generally lower enrollment, which, in turn, led to the reduction of some positions. Given that the university underwent a VSIP only a few years previous, management suggests that staffing is slim but efficient. In fiscal 2022, enrollment growth yielded a 19% increase in net tuition revenue, only the second increase since fiscal 2016 and the largest increase in more than a decade. Housing occupancy has been somewhat slow to recover from the pandemic and auxiliary revenue has not quite rebounded to pre-pandemic levels. However, the university benefitted from a roughly 3.5% increase in state operating appropriations and the recognition of some additional federal relief funding. On the expense side, UCM saw a modest increase as the university returned to full, on-campus operations, continued to enhance its recruitment strategies, and, to some degree, felt the effects of macroeconomic pressures. Despite this, the university recorded a \$6.7 million, or 3.1%, 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 53.6% of the fiscal 2022 adjusted operating revenue base, followed by state operating appropriations, at 25.5%. The university's reliance on state operating appropriations as an operating revenue stream decreased between fiscal years 2009 and 2022 due to a state cutback on funding levels. However, due to an injection of federal stimulus at the state level and stronger-than-anticipated economic recovery within Missouri, operating appropriations to UCM have increased in each of the past two years, with a 5.5% increase built into the fiscal 2023 budget and an approximately 7% increase recently announced for fiscal 2024. Management indicated the university will also benefit from state capital support for renovation of the Humphreys Building, one of UCM's academic hubs. Over recent years, the state has also provided capital support for the W.C. Morris Science Building and the Max B. Swisher Skyhaven Airport.

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 2023, management expects to see a healthy operating surplus as a result of a successful fall 2022 and increased state funding. Given positive expectations for fall 2023, we expect that fiscal 2024 will also yield positive results.

Financial resources

UCM's financial resources grew steadily between fiscal years 2018 and 2020 before recording healthy growth in fiscal 2021 due to favorable market returns. In fiscal 2022, despite market volatility, financial resources continued to grow, further solidifying the university's balance sheet as a credit strength. Despite being smaller on an absolute basis than many similarly rated peers and rating category medians, UCM's total cash and investments, including those of the foundation, are solid relative to operating expenses and debt. The university benefits from 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 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 cash and investments, which totaled \$69.4 million in fiscal 2022, to be healthy and believe they provide material support. While investments held at both the university level and the foundation level fell in fiscal 2022 due to market volatility, UCM's cash position grew during the fiscal year partially due to positive operations. UCM's cash and investments including the foundation are equal to 95.3% of adjusted operating expenses

and 248.9% of pro forma debt. Over the outlook period, we expect relative market stability and continued operating success will fuel continued growth in financial resources. We expect this growth could offset a modest increase in expenses propelled by macroeconomic pressures and enrollment growth. Further, relative to debt outstanding, we expect financial resources will strengthen as the university continues to amortize debt without any plans for additional debt.

Debt and contingent liabilities

The approximately \$30 million series 2023 educational facilities revenue bonds will be secured by general revenues of the university exclusive of state operating appropriations and funds pledged for the payment of certain revenue bonds. The bonds will current refund the existing series 2013C-2 educational facilities revenue bonds, which as of fiscal year-end 2022 had approximately \$32.7 million outstanding. Pro forma debt totals approximately \$80.9 million.

We view the security on all of the university's debt, including the proposed series 2023 bonds, as an unlimited-student-fee-equivalent pledge of the university. As of fiscal year-end 2022, UCM had \$83.6 million of debt outstanding, including \$42.7 million in fixed-rate, long-term debt between the series 2018A (secured by general revenues and net revenues of the housing system), 2018B (secured by general revenues), and 2013C-2 (secured by general revenues and net revenues of the housing system) revenue bonds. Total debt outstanding also includes \$30.6 million in leases and approximately \$1.7 million for various notes. 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 2022, these obligations totaled \$8.6 million. We do not rate this debt but have included the figures in debt outstanding 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 DSC levels provide sufficient cushion to partially mitigate the event-driven risk. Importantly, however, we expect these direct-placement obligations will mature and be paid in full by October 2023, at which point the university will no longer have any contingent liquidity risk. Management indicates the university is in compliance with all debt covenants.

The university has a front-loaded debt structure that amortizes over 20 years, a credit characteristic that we view positively. Importantly, the series 2023 bonds will mature in fiscal 2035, the same year the series 2013C-2 were set to mature. Pro forma MADS of \$11.4 million occurs in fiscal 2024, after which point annual debt service steadily declines before reaching approximately \$6 million in fiscal 2027. Pro forma MADS burden is a manageable 5.4%, in our view, but will likely decline beyond the outlook period.

Pension plans and other postemployment benefits (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 2022, the university's net pension liability on its balance sheet was \$128.6 million. We understand that UCM made 100% of the required contributions in each of the past five fiscal years. As of fiscal year-end 2022, the plan's funded status was

53.5%, with university-required actuarial contributions for fiscal 2022 at about 23.5% of annual covered payroll. We believe that the funding-status calculation uses conservative assumptions and that the State of Missouri remains in an adequate position to manage its pension liabilities. 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. The university maintains a minimal OPEB liability of \$2.7 million as of fiscal 2022, which we view positively.

University of Central Missouri, Mo.--Enterprise and financial statistics						
	--Fiscal year ended June 30--					--Medians reported for 'A' category rated public colleges and universities--
	2023	2022	2021	2020	2019	2022
Enrollment and demand						
Full-time equivalent enrollment	8,032	7,685	7,550	8,420	8,837	12,990
Undergraduates as a % of total enrollment	70.1	78.0	83.6	85.2	86.6	84.7
First-year acceptance rate (%)	71.4	58.3	71.6	84.6	86.0	81.5
First-year matriculation rate (%)	28.9	38.9	30.1	36.3	35.7	23.8
First-year retention rate (%)	72.5	71.2	74.8	73.8	69.9	76.0
Six-year graduation rate (%)	52.4	52.5	51.0	50.9	49.4	57.4
Income statement						
Adjusted operating revenue (\$000s)	N.A.	218,079	209,399	205,406	208,208	489,805
Adjusted operating expense (\$000s)	N.A.	211,404	192,294	200,591	199,809	486,926
Net adjusted operating margin (%)	N.A.	3.2	8.9	2.4	4.2	2.5
Estimated operating gain/loss before depreciation (\$000s)	N.A.	25,622	35,471	21,582	25,624	MNR
Tuition discount (%)	N.A.	19.4	22.3	21.0	22.1	26.4
Student dependence (%)	N.A.	53.5	49.6	53.9	56.5	47.7
State appropriations to revenue (%)	N.A.	25.5	23.4	22.7	25.3	20.7
Research dependence (%)	N.A.	1.1	1.2	2.7	1.7	8.6
Debt						
Debt outstanding (\$000s)	N.A.	83,567	92,299	77,946	84,990	231,363
Foundation debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total debt with foundation (\$000s)	N.A.	83,567	92,299	77,946	84,990	241,762
Proposed debt (\$000s)	N.A.	29,985	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	80,902	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	5.4	5.9	4.8	4.9	4.0
Pro forma MADS burden (%)	N.A.	5.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.4	16.5	17.1	15.7	15.9
Financial resource ratios						
Endowment market value (\$000s)	N.A.	54,326	57,544	44,291	43,217	164,766
Related foundation market value (\$000s)	N.A.	76,564	80,261	65,277	62,043	178,684

University of Central Missouri, Mo.--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					--Medians reported for 'A' category rated public colleges and universities--
	2023	2022	2021	2020	2019	2022
Cash and investments (\$000s)	N.A.	131,954	118,760	117,509	114,924	257,181
Cash and investments including foundation (\$000s)	N.A.	201,387	195,526	179,573	173,014	457,156
Cash and investments including foundation to operations (%)	N.A.	95.3	101.7	89.5	86.6	96.5
Cash and investments including foundation to debt (%)	N.A.	241.0	211.8	230.4	203.6	208.7
Cash and investments including foundation to pro forma debt (%)	N.A.	248.9	N.A.	N.A.	N.A.	MNR

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. Note: We revised our calculation of UCM's adjusted operating expense for last five audited years, the impact of which can be seen across other financial metrics.

Related Research

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

