MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to University of Missouri System's up to $300M of Series 2014A bonds; outlook stable

Global Credit Research - 02 May 2014

$1.8B of rated debt, including CP at the full authorized amount

CURATORS OF THE UNIVERSITY OF MISSOURI
Public Colleges & Universities
MO

Moody's Rating

ISSUE	RATING
System Facilities Revenue Bonds, Series 2014A	Aa1
Sale Amount $300,000,000	
Expected Sale Date 05/13/14	
Rating Description Revenue: Public University Broad Pledge	

Moody's Outlook STA

Opinion

NEW YORK, May 02, 2014 --Moody's Investors Service has assigned a Aa1 rating to The University of Missouri System's planned issuance of approximately $300 million of fixed rate System Facilities Revenue Bonds Series 2014A to be issued by The Curators of the University of Missouri. The system's outlook is stable.

SUMMARY RATING RATIONALE:

The system's Aa1 rating and stable outlook reflect its importance in providing educational and health services in the Aaa-rated State of Missouri, with four campuses located throughout the state. The system is well managed with consistently positive operations, diverse revenues, and growing financial resources, which provide adequate coverage of operations and debt, but limited additional capacity at this rating level. The rating also incorporates recent volatility in state funding and the likely tempering of enrollment growth given projections for declining in-state high school graduates. The system's short-term ratings (P-1 on the commercial paper program and Aa1/ VMIG 1 rating on the variable-rate demand bonds) reflect the system's ample daily liquidity coverage in its self-liquidity program.

STRENGTHS

*The university's strong market position as a large public university system serving the Aaa-rated State of Missouri is reflected in its increased ability to attract students from a broad geographic area (29% enrollment from outside of Missouri in fall 2013), growing net tuition per student and overall enrollment growth each of the past five years.

*Growing resources and flexible reserves ($1.8 billion of monthly liquidity) are particularly important given the university's rapidly increasing debt, self-liquidity supported variable-rate demand bonds, healthcare exposure (29% of operating revenue), and a research profile that consists largely of federal funding.

*Prudent fiscal management with a focus on cost containment enabled the university to continue to produce consistently positive operations (5.5% operating margin in FY13) despite declining state appropriations. Projections for FY 2014 are in line with FY 2013.

*A well diversified revenue base helps insulate the university from sharp declines in any one revenue source.

CHALLENGES

*The university has limited additional debt capacity beyond the $350 million total contemplated for the next three years. Debt has grown faster than financial resources over the last five years, resulting in a more leveraged balance sheet; expendable financial resources of $1.8 billion cover pro-forma debt just one time (with $375 million of fully authorized commercial paper).

*The university's exposure to the potentially more volatile health care market is expected to grow as the health care enterprise seeks to expand collaborations to ensure statewide coverage. The university manages a complex health care system including multiple hospitals, clinic affiliations and a large faculty practice plan of over 500 employees.

*The ability to grow enrollment at the pace of the last decade will depend upon recruitment of out of state students from an already highly competitive Midwest market. Demographic projections show a decline in high school graduates in Missouri over the next several years.

*The university's growing pension liability (Moody's adjusted net pension liability of $2.2 billion for FY 2013) adds additional risk, but is mitigated by a proactive plan to manage and contain the liability.

DETAILED CREDIT DISCUSSION:

USE OF PROCEEDS: The proceeds from the Series 2014A bonds will be used to advance refund certain maturities of the Series 2007A Bonds, repay approximately $129 million of outstanding principal of Commercial Paper, and to pay costs of issuance.

LEGAL SECURITY: The System Facilities Revenue Bonds are secured by a first lien on System Revenues, which includes gross income from auxiliary activities as well as from the Health System, and various mandatory student fees, including a portion of Tuition and Fees equal to maximum annual debt service on System Facilities Revenue Bonds. In FY 2013, System Revenues pledged to bondholders were $1.07 billion.

DEBT STRUCTURE: With this issuance, the university will have approximately 9% of variable rate demand debt, including $100 million of Series 2007B bonds and $26 million of commercial paper, both backed by self-liquidity. The Series 2014A bonds will amortize over 23 years, with relatively level amortization. We expect the university to continue to use CP to fund capital projects, with a projected maximum CP outstanding of $100 million over the next 12 months.

DEBT-RELATED DERIVATIVES: The system has three debt related interest rate swap agreements. Two of the swaps are with JPMorgan Chase and have a combined notional amount of $139.9 million. The market valuation of these two swaps as of March 31, 2014 was negative $30.3 million to the system. The system must post collateral to the swap counterparty if the combined valuation of the swaps exceeds a threshold of negative $30 million. In addition, the system acquired a floating to fixed rate swap agreement on the notional amount of $50.615 million with Bank of America Merrill Lynch when it purchased a residential facility near the University of Missouri at Kansas City campus in March 2012. The market valuation on that swap as of March 31, 2014 was negative $7.5 million. For this swap, the counterparty is required to post collateral with the university if the market value calculated on each valuation date exceeds a ratings-dependent threshold. The university is not required to post collateral with the swap counterparty. Given the system's strong financial reserves, this level of swap exposure is manageable and any risks associated with the swaps are incorporated into the system's Aa1 long-term rating.

RECENT DEVELOPMENTS:

Based on interim results, we expect the system to have another year of strong operating results, though slightly thinner than FY 2013, due a decline in state and federal research funding and one-time expenses. Additionally, expenses have increased with one of the larger items being a $12 million one-time transition of benefit premium payment timing from the first of the month to the end of the month, effectively eliminating one month of employee paid benefit premiums in FY 2014. Net tuition revenue, state appropriations and patient medical services have all shown strong growth, but have not outpaced overall year-to-date expense growth of 4% (half of which was the health holiday). The university continues to focus on cost controls, with a careful hiring process and a rigorous evaluation of benefit expenses, and therefore expects expense growth to moderate in FY 2015. The hospitals expect to have another profitable year in FY 2014.

The enrollment forecast for the system remains stable; all four campuses are projecting slight enrollment growth, amounting to approximately 1% growth across the system for fall 2014.

Liquidity is closely managed by the system to ensure adequate funds for operations, debt service, and unanticipated events including failed remarketings and tenders for the university's approximately $255 million of demand debt outstanding as of March 31, 2014 which is supported by self-liquidity. Monthly liquidity was good at $1.79 billion providing 649 percent coverage of demand debt and 259 days cash on hand. The university provides its own liquidity for its demand debt, which includes $100 million of variable rate demand bonds in weekly mode, and $155 million of commercial paper, of which approximately $129 million will be refunded with the current issuance. Daily liquidity, excluding the largest deposit in a money market fund, totaled $577 million after applying Moody's standard discounts as of March 31, 2014, providing almost three times coverage of self-liquidity supported debt that can come due within one week. The university has another discounted $91 million available, if needed, within one week.

For a more detailed credit discussion, please see our report dated October 17, 2013.

Outlook

The stable outlook reflects our expectation that the University of Missouri System will continue to grow financial resources to offset the expectations of near-term additional debt, and that it will continue to produce positive operations through careful fiscal management and strategic enrollment initiatives.

WHAT COULD MAKE THE RATING GO UP

Positive rating action would likely result from significant growth of the system's financial resource base, especially relative to debt, and continued improvement of market position through enrollment and research growth.

WHAT COULD MAKE THE RATING GO DOWN

A material decline of financial resource coverage of debt, sustained weakening of student demand, or deterioration of the state's rating or support for the system could pressure the rating.

KEY INDICATORS (FY 2013 financial data, fall 2013 enrollment data)

Full-Time Equivalent Enrollment: 58,163 students

Primary Selectivity: 79.7%

Primary Matriculation: 38.6%

Net Tuition per Student: $10,211

Educational Expenses per Student: $24,252

Average Gifts per Student: $1,951

Total Expendable Financial Resources: $1.79 billion

Total Cash and Investments: $3.0 billion

Total Pro-Forma Direct Debt: $1.58 billion ($1.78 billion with CP at full authorization)

Total Pro-Forma Comprehensive Debt*: $2.23 billion

Expendable Financial Resources to Pro-Forma Direct Debt: 1.13 times (1 time with CP at full authorization)

Expendable Financial Resources to Operations: 0.66 times

Monthly Days Cash on Hand: 259 times

Monthly Liquidity to Demand Debt: 645% (377% with CP at full authorization)

Operating Revenue: $2.88 billion

Operating Cash Flow Margin: 14.4%

Three-Year Average Debt Service Coverage: 4.65 times (4.2 times when adding back Build America Bonds federal interest subsidy)

Reliance on Tuition & Auxiliary Fee Revenue (% of Moody's Adjusted Operating Revenue): 34.9%

Reliance on State Appropriation Revenue (% of Moody's Adjusted Operating Revenue): 29.5%

State of Missouri Issuer Rating: Aaa, stable outlook

* Comprehensive Debt includes direct debt, operating leases, and pension obligation, if applicable.

RATED DEBT

System Facilities Revenue Bonds: 2006A, 2007A, 2009A (Build America Bonds), 2009B, 2010A (Build America Bonds), 2011, 2012A, , 2013A, 2013B and 2014A: Aa1

System Facilities Revenue Bonds: 2007B: Aa1/VMIG1 (self liquidity)

Commercial Paper Notes Series A and Series B: P-1

RATING METHODOLOGY:

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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