

University Of Missouri Board Of Curators, University Of Missouri; CP; Public Coll/Univ - Unlimited Student Fees

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Credit Profile		
US\$130. mil sys facs rev bnds (University of Missouri) ser 2012 due 11/01/2037		
<i>Long Term Rating</i>	AA+/Stable	New
University of Missouri Brd of Curators, Missouri		
University of Missouri, Missouri		
University of Missouri Board of Curators (University of Missouri) various sys fac rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Missouri Board of Curators (University of Missouri) various VRDB sys fac rev bnds		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to University of Missouri Board of Curators' nearly \$130 million series 2012 system facilities revenue bonds (issued on behalf of the University of Missouri (UM)). At the same time, Standard & Poor's affirmed its 'AA+' long-term rating on UM's existing system facilities revenue bonds. Standard & Poor's also affirmed its 'A-1+' short-term rating on UM's \$375 million (authorized, with \$160.9 million outstanding) series A&B commercial paper (CP) notes. Finally, Standard & Poor's affirmed its 'AA+/A-1+' dual rating on the university's variable-rate debt bonds (VRDBs) outstanding. The outlook on all long-term ratings is stable.

The short-term rating on the CP notes and VRDBs reflects UM's provision of self-liquidity in the event of an investor redemption or put, or CP rollovers. Cash and investments with same-day liquidity as of March 31, 2012, totaled about \$815.2 million (cash and equivalents plus U.S. agencies), providing 3.1x coverage of CP and variable rate bonds outstanding and 1.7x coverage of CP authorized and variable rate bonds outstanding, both of which we consider solid.

The 'AA+' long-term rating reflects our view of UM's:

- Position as Missouri's ('AAA/Stable' general obligation rating) flagship and land-grant institution;
- History of state operational support, which represents approximately 17% of 2011 operating revenue;
- Stable enrollment and solid demand, as measured by growing freshman applications and matriculations as well as above-average student quality;
- History of operating surpluses on a full-accrual basis for the system;
- Moderate pro forma maximum annual debt service (MADS) burden of less than 4.0% of fiscal 2011 operating expenses; and
- Financial resource ratios that are consistent with the rating category, with unrestricted net assets in 2011 equal to 55% of expenses and 106% of pro forma debt.

Offsetting factors, in our opinion, include UM's:

- Significant execution risk on continued capital plans;
- Uncertainty from potential health-care reform, given the system's significant clinical revenues from health-care operations (about 29% of total consolidated revenues);
- Challenging state funding environment; and
- Expected flattening of high-school graduate demographics for the state.

Management indicates it will use the proceeds from the approximately \$130.0 million series 2012 system facilities revenue refunding bonds to refund certain revenue bonds -- potentially, a portion of the series 2003A and 2003B, a portion of the series 2006A and a portion of the series 2007A -- to realize interest-cost savings. The series 2012 bonds will be issued on parity with about \$1.22 billion existing system facilities revenue bonds and are secured by a pledge of gross revenues generated from auxiliary system operations and the collection of general student fees. Although a portion of the fees are pledged to the bonds, we understand that the university has not, and does not, expect to draw on these funds to pay debt service. Management reports potential new debt issuances during the next two years for various capital projects, including student housing and improvements to athletics facilities, although the amounts have not yet been determined.

UM's debt will remain around \$1.384 billion, post-issuance. Approximately \$261.9 million of this total (16%) is variable-rate debt, with \$160.9 million in CP and \$101 million in a weekly reset variable mode. The security for the CP program is a pledge of the university's unrestricted revenues, including state operating appropriations, student fee revenues, and all other operating revenues of the university (except for system facilities revenues in that year plus any unencumbered balances from previous years).

Outlook

The stable outlook reflects our expectation that during the next two years the university system, including the university medical alliance, will continue to produce positive operating results on a full-accrual basis, and that unrestricted net assets relative to debt and expenses will likely remain consistent with the rating category. The stable outlook also reflects our expectation that enrollment will remain steady, that the institution will weather what we consider to be a constrained state-appropriation environment, and that health care operations and margins will remain sound.

A positive rating action during the outlook period is unlikely, given a difficult national economic environment and the uncertainty surrounding health-care reform, which is a significant component of UM's revenues. We also believe that it is unlikely that UM could improve its financial resource ratios to the degree necessary for us to consider a positive rating action during the outlook period.

We would consider a negative rating action if the university experienced significant operating deficits or margin declines in the UHS or academic operations, or if it issued debt at levels that were significant enough to pressure the MADS burden.

Enterprise Profile

The university system

Established in 1839, the University of Missouri System, with its 45 colleges, schools, and divisions, serves approximately 73,000 students on four campuses in Columbia (MU, its largest and oldest campus), St. Louis, Kansas City, and Rolla. MU is the state's flagship campus. UM (which includes all four campuses) includes the state's flagship institution and is the state's research and land-grant university system. Its four campuses offer both professional and doctoral degrees, including medicine, pharmacy, veterinary medicine, engineering, business, and nursing. Professional and graduate-level students represent roughly one-fourth of the system's total enrollment.

Management

The university is governed by a nine-member board of curators appointed by the governor and confirmed by the state senate. Effective Feb. 15, 2012, Timothy Wolfe became the 53rd president of the University of Missouri, assuming the responsibilities held by general counsel Stephen Owens, who served as interim president while a national search was conducted. The university's prior president, Gary Forsee, had resigned for personal reasons. Also, the Missouri Science and Technology (S&T) chancellor, John Carney, retired in August 2011; his replacement -- Dr. Cheryl Schrader -- was appointed by UM's new president. Her term began April 2, 2012.

Enrollment and demand

Demand characteristics are strong across all campuses, in our view, and fall 2011 enrollment was up at all campuses (with total enrollment at 73,565, up 2.8% from fall 2010). Columbia is the flagship campus, with comprehensive academic programs, a teaching hospital, and nearly 50% of the system's full-time equivalent (FTE) enrollment. This campus accepted approximately 82.3% of its freshmen applicants for fall 2011, of which a solid 41.1% matriculated. Student quality at Columbia is well above the national average as well, with ACT scores averaging 25.7 for the fall 2011 incoming freshman class (the national average is about 21.1). The acceptance rate is not highly selective in our view, but neither is it unusual compared to peer flagship institutions. Total freshmen applications grew 2.6% in fall 2011, following 11.3% growth in fall 2009 and 7.7% growth in fall 2010. Freshmen enrollment of about 8,908 in fall 2011 was flat from fall 2010. Management reports that applications for fall 2012 continue to be strong and that it is projecting additional growth in total enrollment. Consistent with a strategic initiative of the Columbia campus, fall 2012 applications from out-of-state students have exceeded applications from in-state students for the first time ever.

Government-related entities (GRE)

In accordance with our criteria for government-related entities (GREs), our view of a "moderate" likelihood of extraordinary government support is based on our assessment of the university's "limited" link with Missouri and reflects the state's history of ongoing operating support, its ability to appoint the university system's governing board, and its ability to provide additional funding as needed (subject to legislative approval). In addition, the university plays what we consider to be an important role in the state's economy as compared with other GREs, given its position as a flagship provider of higher education services and the related economic development benefits that it provides to the state. The university is an independent component of the state.

Financial Profile

State appropriations

State operating appropriations remain an important component of UM's operating revenue, comprising nearly 17% of the consolidated total. The university's operating appropriation fell 5.2% in fiscal 2011 to \$428.9 million (including stimulus funds) and in fiscal 2012 fell another 8.1% (inclusive of the governor's normal 3.0% withholding) to \$383.6 million. The governor did release additional funding to higher education in fiscal 2012, of which UM received \$1.1 million; management reports that the university plans to use these funds for one-time strategic initiatives. Fiscal 2013 state funding remains uncertain at this time; while the governor has recommended an additional cut, the legislature is working to keep the funding flat relative to fiscal 2012.

UM's undergraduate tuition rate and required fees are governed by Missouri Senate Bill 389 (SB389), which imposes an institutional penalty on annual tuition and required fee increases that exceed the consumer price index (CPI) unless a waiver is granted by the commissioner of higher education. Management reported that for fiscal 2012, UM requested, and was granted permission (without penalty) to raise its undergraduate tuition an average of 5.5%, which exceeds the rate of inflation.

Financial operations

UM has a history of positive bottom-line results before capital on a full-accrual basis with the exception of fiscal 2009, when the university posted a \$173.4 million investment loss, thus driving the negative change in net assets for the fiscal year. Net income (before capital and extraordinary items) rebounded in fiscal 2010 and again in fiscal 2011, which had a surplus of \$285.6 million; this compares to \$263.8 million in fiscal 2010 (before capital and extraordinary items), which had been the highest level since at least fiscal 2005 and was largely the result of improved investment returns. Since UM holds sizeable investments at the university level, Standard & Poor's adjusts for this by excluding long-term investment gains and losses in the calculation of operating results. When we adjust audited results for investment income to provide a picture of recurring operational performance, operating results were consistently positive on a full-accrual basis since at least fiscal 2005, with our estimate of surpluses of \$22.3 million in fiscal 2011 and \$92.6 million in fiscal 2010.

In response to the current economic environment, the university has taken several measures to manage expenses, including implementing a hiring freeze, making changes to benefit programs, and reducing the budget run rate, which also contributed to better operating performance. Major revenue sources in 2011 include tuition (19%), state appropriations (17%), health care-related income (29%), and grants and contracts (10%). To help offset the 8.1% decline in state funding for fiscal 2012, the university increased tuition by a 5.5% average; the remaining budget gap was addressed through continuing cost-control measures. The fiscal 2012 budget included a 2% increase in salaries and wages for employee merit increases, many of whom have not had salary increases in several years. Management reports that it expects fiscal 2012 to have similar operating results to fiscal 2011.

University Health System (UHS)

University Hospital and Clinics revenue represented approximately 29% of the university's consolidated 2011 revenues. The University Health System (UHS) is a fully integrated system of hospitals and faculty practice clinics serving the health-care needs of the 25 counties in central Missouri surrounding Columbia. The system includes:

- University Hospital and Clinics (UHC), a 328-bed, academic medical center that also houses the Ellis Fischel Cancer Center and is a designated Level I trauma center;

- Women's and Children's Hospital, a 148-bed hospital formerly known as Columbia Regional Hospital;
- Missouri Rehabilitation Center, a 79-bed facility in Mt. Vernon that specializes in brain injuries; and
- Missouri Psychiatric Center, a 58-bed facility of which the system assumed control in 2009 from the State Department of Mental Health.

Total inpatient volume has been trending higher for the past two years (with 22,011 admissions in fiscal 2011, up from 21,601 admissions in fiscal 2010) due to increased orthopedic and psychiatric volumes; the Missouri Orthopedic Institute opened in May 2010. Financial performance in fiscal 2011 remained stable, although slightly down from fiscal 2010, with adequate profitability and liquidity ratios, in our view. For fiscal 2012, inpatient admissions are below budget, but above fiscal 2011 by 2%. Patient days are below budget and below 2011 to date by 4%, while outpatient visits are above 2011 to date by 2%. The \$203 million University Hospital patient care tower, which will allow for the expansion of surgery services and includes the new Ellis Fischel Cancer Center, is scheduled to open in spring 2013. Management anticipates this will increase admissions significantly.

Financial resources

We view financial resource ratios as consistent with the rating category for a flagship public university. Adjusted unrestricted net assets as of June 30, 2011 were \$1.42 billion, including the unrestricted net assets of University of Missouri-Columbia Medical Alliance, which equaled 55% of operating expenses and 106% of pro forma debt. As of Dec. 31, 2011, the university had \$999.7 million in endowment funds. Investment targets are allocated 51% to equities, 32% to fixed income, and 18% to alternative products. The university traditionally distributes approximately 5% of the endowment market value each year. Fund raising is done at the campus level, with campaigns in progress or in the planning phase on all campuses.

The university has two floating-to-fixed rate swap contracts in the notional amount of \$140.75 million as of March 31, 2012, with JPMorgan Chase Bank N.A. (AA-/Negative) as the counterparty. Under the first swap agreement, University of Missouri pays a net fixed rate of 3.95% and receives SIFMA on a notional amount of \$40.0 million. The swap contract terminates on Nov. 1, 2032. Under the second swap contract, the university pays a net fixed rate of 3.798% and receives 68% of LIBOR on a notional amount of \$100.75 million. This swap agreement terminates on Nov. 1, 2031. As of March 31, 2012, the swaps had a mark-to-market value of negative \$39.9 million. The university is required to post collateral with the counterparty when the negative market value exceeds \$30 million, based on the current long-term rating of the university.

In addition, the system acquired a floating-to-fixed rate swap agreement on the notional amount of \$51.57 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 21, 2012 was negative \$9.8 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.

Retirement plans

The university participates in a defined-benefit retirement plan for its employees. For fiscal 2011, the university had an annual required contribution of \$57.5 million. As of Oct. 1, 2010, the plan was funded 96.3% on an actuarial basis.

Funding liabilities for other post-retirement employee benefit (OPEB) obligations, however, are growing. For fiscal 2011, the required annual OPEB contribution was \$60.5 million, up from a required contribution of \$52.6 million

in fiscal 2010. The university contributed \$30.2 million to the plan in 2011, or 50.0%, and management indicates they will continue to fund it on a pay-as-you-go basis. Administrative officials report, however, that they have made a commitment to fund the plan annually at 5% of covered payroll up to a maximum 50% of the actuarial liability. Due to the size and growth of this obligation, we will continue to monitor the situation.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007

Ratings Detail (As Of April 13, 2012)		
University of Missouri Brd of Curators, Missouri		
University of Missouri, Missouri		
University of Missouri Brd of Curators (University of Missouri) CP nts (University of Missouri) ser A&B due 12/05/2012		
<i>Short Term Rating</i>	A-1+	Affirmed
University of Missouri Brd of Curators (University of Missouri) taxable sys facs rev bnds (University Of Missouri Sys) (BABs)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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