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

Primary Credit Analyst:
Jessica Wood, Chicago (1) 312-233-7004; jessica.wood@standardandpoors.com

Secondary Contact:
Chris A Littlewood, Chicago (1) 312-233-7072; chris.littlewood@standardandpoors.com

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

Credit Profile		
US$108.835 mil sys facs rev bnds (University of Missouri) ser 2013A due 06/30/2044		
Long Term Rating	AA+/Stable	New
US$59.87 mil taxable sys facs rev bnds (University of Missouri) ser 2013B due 06/30/2044		
Long Term Rating	AA+/Stable	New
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		
Short Term Rating	A-1+	Affirmed
University of Missouri Board of Curators (University of Missouri) various sys fac rev bnds		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the University of Missouri's Board of Curators' approximately $170 million series 2013A and 2013B 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 series A&B commercial paper (CP) notes. Finally, Standard & Poor's affirmed its 'AA+/A-1+' dual rating on the university's existing variable-rate debt bonds (VRDBs). 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 Sept. 30, 2013, totaled about $779.8 million (cash and equivalents plus U.S. agencies), providing 2.8x coverage of CP and variable rate bonds outstanding ($277.6 million) and 1.6x coverage of CP authorized and variable rate bonds outstanding, both of which we consider solid.

The 'AA+' long-term rating is supported by UM's strong balance sheet ratios relative to the rating category, its demand position as the flagship university and land-grant institution in Missouri, stable enrollment, manageable debt burden, solid operating performance, sound fiscal management, and tradition of strong fundraising. To date, UM's new debt issuance plans remain manageable.

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 14% of 2013 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 3.5% of fiscal 2013 adjusted operating expenses; and
- Solid financial resource ratios for the rating category, with unrestricted net assets in 2013 equal to 53.5% of expenses and 95.6% of pro forma debt ($1.55 billion).

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

- Execution risk on continued capital plans;
- Uncertainty from potential health-care reform, given the system's significant clinical revenues from health-care operations (about 30% of total consolidated revenues); and
- Expected flattening of high school graduate demographics for the state.

Management indicates it will use the proceeds from the approximately $170 million series 2013 system facilities revenue bonds for various capital projects across all four campuses and potentially to refund certain outstanding bonds. The series 2013 bonds will be issued on parity with about $1.18 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 student 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 that the university has board approval to issue up to $200 million in additional debt during the next two years for various other capital projects. While we will review this debt at the time of issuance, in our opinion, the system has capacity for this additional debt at the current rating.

Post issuance for the series 2013 bonds, UM's pro forma debt will be about $1.55 billion. Approximately $277.6 million of this total (18%) is variable-rate debt, with $177.3 million in CP and $100 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 and that health care operations and margins will remain sound.

We would consider a negative rating action if the university experiences significant operating deficits or margin declines in the University Health System (UHS) or academic operations, or if it issues debt beyond the anticipated additional $200 million during the two-year outlook period.

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 believe that, given the university's expected new debt issuances, 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.

Enterprise Profile

The university system

Established in 1839, the University of Missouri System, with its 45 colleges, schools, and divisions, serves approximately 75,000 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 a quarter 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 23rd president of the University of Missouri. We view UM as having strong institutional policies in place, including solid financial policies related to debt, investments and working cash -- we view these policies as a best practice. Historically, the system has effectively managed through operating and capital appropriation cuts, and we consider UM's budgeting to be both conservative and proactive.

Enrollment and demand

Demand characteristics are strong across all campuses, in our view, and fall 2013 enrollment was up at all campuses (with total enrollment at 75,272, up 0.3% from fall 2012). Columbia is the flagship campus, with comprehensive academic programs, a teaching hospital, and has more than 50% of the system's full-time equivalent (FTE) enrollment. This campus accepted approximately 79% of its freshmen applicants for fall 2013, of which a solid 38% matriculated. Student quality at Columbia is well above the national average, with ACT scores averaging 25.7 for the fall 2013 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 1.6% in fall 2013, following 10.4% growth in fall 2012 and 2.6% growth in fall 2011. Freshmen enrollment in fall 2013 was about 9,044,down by about 250 students from fall 2012. Consistent with a strategic initiative of the Columbia campus, fall 2012 applications from out-of-state students exceeded applications from in-state students for the first time, and this trend continued in fall 2013.

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 14% of the consolidated total in 2013. The university's operating appropriation fell 7.3% in fiscal 2012 to $385 million. Fiscal 2013 state funding was up 0.8% at $388 million, and for fiscal 2014, management anticipates receiving $406 million in state operating appropriations. This amount includes about $12 million in performance-based funding and about $10 million in recurring funding for the School of Medicine (SOM).

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 in-state tuition an average of 5.5%, which exceeded the rate of inflation. In fiscal 2013, the university did not request a waiver, and raised its in-state tuition by only 3.0%, followed by a 1.7% increase in fiscal 2014. Total resident tuition at MU, the flagship campus, is $9,415 for the fiscal 2014 year.

Financial operations

UM has a history of positive bottom-line results before capital on a full-accrual basis. 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 gains and losses, and include endowment distributions of about $42 million to 48 million per annum to provide a picture of recurring operational performance, operating results were consistently positive on a full-accrual basis since at least fiscal 2005. Our estimates indicate surpluses of $136.2 million in fiscal 2013, $83.0 million in fiscal 2012, and $181.2 million in fiscal 2011.

During the past few years, in response to the current economic environment, the university has taken several measures to manage its expenses, including implementing a hiring freeze, making changes to its benefit programs, and reducing the budget run rate, which also contributed to better operating performance. Major revenue sources in 2013 include tuition (20%), state appropriations (14%), health care-related income (29%), and grants and contracts (11%). The budgets in fiscals 2012 and 2013 each included a 2% increase in salaries and wages for employee merit increases.

University Health System (UHS)

University Hospital and Clinics revenue represented approximately 29.7% of the university's consolidated 2013 revenues. 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 349-bed, academic medical center that is a designated Level I trauma center;
- Women's and Children's Hospital, a 136-bed hospital formerly known as Columbia Regional Hospital;
- Missouri Rehabilitation Center, a 63-bed facility in Mt. Vernon that specializes in brain injuries; and

- Missouri Psychiatric Center, a 61-bed facility (included in the 349-bed count of University Hospital and Clinics) of which the system assumed control in 2009 from the State Department of Mental Health.

The combined service area of the UHS consists of 25 counties, and market share within this area has grown to 23.3% in fiscal 2013, from 19.9% in fiscal 2011. Total inpatient volume has been trending higher for the past two years (with 24,028 discharges in fiscal 2013, up from 19,202 discharges in fiscal 2009) due to increased orthopedic and psychiatric volumes; the Missouri Orthopedic Institute opened in May 2010. Financial performance in fiscal 2013 improved from fiscal 2012, with a 6.4% operating margin -- which we believe demonstrates solid profitability. This compares to a 3.8% operating margin in 2012, and a 6.5% margin in 2011. For fiscal 2013, patient days were 126,142, which was higher than fiscal 2012's 120,985 days. Outpatient visits were up at 829,947 from 779,683 in fiscal 2012. The $190 million University Hospital patient care tower, which allowed for the expansion of surgery services and includes the new $50 million Ellis Fischel Cancer Center, opened in March 2013, on time and on budget.

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, 2013 were $1.49 billion (including the unrestricted net assets of University of Missouri-Columbia Medical Alliance), which equaled 53.5% of operating expenses and 95.6% of pro forma debt.

As of June 30, 2013, the university had $1.13 billion in endowment funds. Investments are allocated 56.8% to equities, 19.4% to fixed income, with the remainder to alternative products. Management reports an annual investment return of 12.6% for the 2013 fiscal year, which is consistent with market returns. The university historically distributed approximately 5% of the endowment market value each year, but changed its spending policy in June 2012 -- lowering its distribution to 4.5% from 5.0%. Fund raising is done at the campus level, with campaigns in progress or in the planning phase on all campuses.

The university has three interest-rate swap contracts in the notional amount of $191.46 million as of June 30, 2013. As of the same date, the swaps had a mark-to-market value of negative $39.9 million. Under its $100.3 million and $40 million swap agreements, 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. As of June 30, 2013, the university was posting collateral with the counterparty in accordance with this obligation. Under its third swap agreement 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 sponsors a defined-benefit retirement plan for its employees and a hybrid plan for employees hired after Oct. 1, 2012. For fiscal 2013, the university fully funded (on an actuarial basis) the annual required contribution which was $94.2 million.

Funding liabilities for other post-retirement employee benefit (OPEB) obligations, however, are growing. For fiscal 2013, the required annual OPEB contribution was $50.9 million, flat from the required contribution of $50.9 million in fiscal 2012. The university contributed $19.2 million to the plan in 2013 or 38%, and management indicates they will continue to fund it on a pay-as-you-go basis. In fiscal 2012, the university contributed 50% to the plan. Due to the size and growth of this obligation, we will continue to monitor the situation.

Table 1

University of Missouri System: Financials

	Fiscal Year Ended				'AA' Rated Public College and University Medians
Enrollment and Demand	**2014**	**2013**	**2012**	**2011**	**2012**
Headcount (HC)	75,272	75,044	73,565	71,596	33,548
Full time equivalent (FTE)	58,163	57,806	56,843	55,272	29,024
Freshman acceptance rate (%)	75.7	77.8	78.8	79.6	67.8
Freshman matriculation rate (%)	38.6	39.3	41.2	41.7	38.8
Undergraduates as a % of total enrollment (%)	75.6	75.6	74.7	74.5	76.6
Freshman retention (%)	N.A.	N.A.	82.0	83.0	85.0
Graduation rates (5 years) (%)	N.A.	N.A.	60.0	59.0	60.5
Income Statement					
Adjusted operating revenue ($000s)	N.A.	2,946,835	2,714,924	2,868,912	MNR
Adjusted operating expense ($000s)	N.A.	2,781,793	2,715,862	2,580,010	MNR
Change in Net Income before Capital ($000s)	N.A.	160,220	(11,152)	285,623	MNR
Estimated Operating Gain/Loss Before Depreciation ($000s)	N.A.	303,976	243,937	336,590	MNR
Change in unrestricted net assets ($000s)	N.A.	11,442	28,285	173,447	MNR
State operating Appropriations ($000s)	N.A.	401,400	397,629	437,631	MNR
State Appropriations to revenue (%)	N.A.	13.6	14.6	15.3	21.1
Tuition dependence (%)	N.A.	20.1	21.8	20.7	24.6
Debt					
Outstanding debt ($000s) (1)	1,556,194	1,406,194	1,405,868	1,390,926	669,329
Current debt service burden (%)	N.A.	2.9	2.9	3.0	4.0
Pro forma MADS burden (%) (2)	3.5	N.A.	N.A.	N.A.	N.A.
Financial Resource Ratios					
Endowment market value ($000s)	N.A.	1,131,181	1,062,814	1,040,019	495,400
Related Foundation MV ($000s)	N.A.	127,163	121,493	113,870	538,842
Cash and investments ($000s)	N.A.	3,041,316	2,983,700	3,041,770	MNR
Unrestricted Net Assets (UNA) ($000s)	N.A.	1,390,657	1,379,215	1,350,930	MNR
Adjusted UNA ($000s)	N.A.	1,487,565	1,467,842	1,428,906	MNR
Cash and investments to operations (%)	N.A.	109.3	109.9	117.9	68.8
Cash and investments to debt (%)	195.4	216.3	212.2	218.7	172.2
Unrestricted net assets to operations (%)	N.A.	50.0	50.8	52.4	31.0
Adjusted UNA to operations (%)	N.A.	53.5	54.0	55.4	
Adjusted UNA to debt (%)	95.6	105.8	104.4	102.7	91.8

N.A.: not available; MNR: median not reported; 1) Total pro forma debt shown in 2014 column; pro forma for the $150 new debt; 2) Pro forma MADS calculated using $96.75 in 2016 / adj. operating expenses; Current debt service burden = 100*(current debt service expense/adjusted operating expenses); Cash and investments = cash + short-term & long-term investments; Adjusted UNA = Unrestricted net assets + unrestrticted net assets of the foundation.

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 October 17, 2013)		
University of Missouri Brd of Curators, Missouri		
University of Missouri, Missouri		
University of Missouri Board of Curators (University of Missouri) various VRDB sys fac rev bnds		
Long Term Rating	AA+/A-1+/Stable	Affirmed
University of Missouri Brd of Curators (University of Missouri) taxable sys facs rev bnds (University Of Missouri Sys) (BABs)		
Long Term Rating	AA+/Stable	Affirmed