

RatingsDirect®

Summary:

University of Missouri Board of Curators

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

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Credit Profile

US\$284.0 mil Sys Facs Rev Bnds (University of Missouri) ser 2014A due 11/01/2037

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

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

University of Missouri Board of Curators (University of Missouri) various VRDB sys fac rev bnds

Long Term Rating AA+/A-1+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the University of Missouri Board of Curators' approximately \$284 million series 2014A 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+' rating on the university's existing variable-rate debt bonds (VRDBs). The outlook, where applicable, 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 Dec. 31, 2013, totaled about \$742.5 million (cash and equivalents plus U.S. agencies), providing 2.7x coverage of current CP and variable rate bonds outstanding (\$273.9 million) and 1.6x coverage of CP authorized (\$375 million) 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, in our view.

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 represented 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; and
- Moderate pro forma maximum annual debt service (MADS) burden of 3.5% of fiscal 2013 adjusted operating expenses.

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

- Adequate financial resource ratios for the rating category, with unrestricted net assets in 2013 equal to 53.5% of expenses and 103% of pro forma debt (\$1.45 billion);
- 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 \$284 million series 2014A system facilities revenue bonds to advance refund a portion of the outstanding series 2007A bonds and to repay approximately \$125 million outstanding CP notes. The series 2014A bonds will be issued on parity with about \$1.3 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 capital projects. While we will review the additional debt at the time of issuance, in our opinion, the system has capacity for this additional debt at the current rating.

UM's pro forma debt is about \$1.45 billion. Of this amount, approximately \$126 million (9%) will be variable-rate debt, with \$26.0 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).

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. 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. Management reports that it expects fall 2014 enrollment to be up slightly from fall 2013.

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, our estimates indicate surpluses of \$136.2 million in fiscal 2013, \$83.0 million in fiscal 2012, and \$181.2 million in fiscal 2011. Management reports that fiscal 2014 operations are expected to be similar to fiscal 2013.

State operating appropriations remain an important component of UM's operating revenue, comprising nearly 14% of the consolidated total in 2013. Fiscal 2013 state funding was up 0.8% at \$388 million, and for fiscal 2014, management anticipates receiving \$405 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).

University Hospital and Clinics revenue represented approximately 29.7% of the university's consolidated 2013 revenues. The clinic is part of the University Health System (UHS), a fully integrated system of hospitals and faculty practice clinics serving the health-care needs of the 25 counties in central Missouri surrounding Columbia. UHS's financial performance in fiscal 2013 improved from fiscal 2012, with a 6.4% operating margin -- which we believe demonstrates solid profitability. 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.

As of Dec. 31, 2013, the university had \$1.25 billion in endowment funds. Fund raising is done at the campus level, with campaigns in progress or in the planning phase on all campuses.

For more information on the University of Missouri, please see the analysis published Oct. 17, 2013, on RatingsDirect.

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 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.

Related Criteria And Research

Related Criteria

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of May 2, 2014)

University of Missouri Brd of Curators, Missouri

University of Missouri, Missouri

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

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