

**Rating Action: Moody's revises University of Missouri's outlook to negative; affirms Aa1 & P-1**

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Global Credit Research - 29 Jun 2017

New York, June 29, 2017 -- Summary Rating Rationale

Moody's Investors Service has affirmed the University of Missouri System's Aa1, Aa1/VMIG 1, and P-1 ratings on approximately \$1.6 billion of rated debt. We have revised the rating outlook to negative from stable.

The negative outlook reflects expected thinner operating performance for FY 2017 through FY 2019 as the system takes steps to adjust to enrollment declines and reduced state funding. While the system has identified material cost reductions, some alternative revenue growth prospects, and internal reallocations, management's ability to successfully execute on plans and meet financial targets is yet to be proven. The Aa1 rating reflects the system's role as an essential provider of education and health care services for the State of Missouri (Aaa stable) across multiple campuses. The system's scope of operations, \$3.2 billion of revenue, and absolute wealth, \$3.6 billion of total cash and investments, provide it with material flexibility to cope with multi-year budgetary challenges. The health system continues to perform well and fundraising remains sound. Total debt levels are manageable and future borrowing plans are moderate. Offsetting considerations include expectations of weaker operating performance over the next two to three years, enrollment declines at system's largest campus in Columbia, and a large and growing Adjusted Net Pension Liability which materially increases adjusted leverage. The system's ample internal liquidity supports the highest short term ratings on its variable rate demand bonds and commercial paper.

Rating Outlook

The negative outlook reflects potential credit pressure should identified initiatives to reduce expenses and grow revenues fail to result in sustained at least break-even operating performance.

Factors that Could Lead to an Upgrade

Material strengthening of student demand and research profile

Further growth in total and spendable wealth levels

Sustained stronger operating performance

Factors that Could Lead to a Downgrade

Inability to effectuate identified strategic initiatives

Sustained weakening of operating performance, either at the academic or health enterprise

Reduction in liquidity, a key stabilizing element

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.

Use of Proceeds

Not applicable.

Obligor Profile

The University of Missouri System is a four-campus public university system, including the state's flagship and

land grant university, and a health system. The four campuses include Columbia (which enrolls approximately 45% of headcount enrollment and conducts the largest amount of research activity), Kansas City, St. Louis, and the Missouri Science and Technology campus (formerly Rolla). The system also operates a statewide cooperative extension program located in each county in the state.

#### Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. The additional methodology used in the variable rate demand bonds and commercial paper debt was Rating Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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