S&P Global
Ratings

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

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Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'AA+' long-term rating on the University of Missouri Board of Curators' existing debt issued for the University of Missouri (UM). At the same time, S&P Global Ratings affirmed its 'A-1+' rating on the commercial paper (CP) notes and affirmed its 'AA+/A-1+' rating on the variable-rate demand bonds (VRDBs).

The outlook revision reflects the university's ability to stabilize enrollment, improve operations, and grow its available resource ratios with the expectation that each will remain stable or improve during the outlook period.

We based our 'A-1+' short-term rating on the university's provision of self-liquidity in the event of a tender and a failed remarketing of the VRDBs until they are called. It reflects both the ample liquidity and the sufficiency of the assets identified by the university to cover the $74.8 million in total debt supported by self-liquidity. UM has $631 million in discounted total assets with same-day liquidity as of Dec. 31, 2021. It also has the necessary procedures to access funds in a timely manner.

UM's total outstanding debt totaled about $1.8 billion as of June 30, 2021. Total debt includes about $1.6 billion in fixed-rate debt, $78 million in VRDBs, $53 million in capital leases, and $45 million in operating leases. All debt is secured by what we view as an unlimited student fee pledge. The university has moderate potential debt plans within the outlook period.

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. It currently does not have any outstanding CP notes.

The university returned to in-person classes in fall 2020 with safety precautions put in place for students after closing its campus in the spring, similar to most schools. It saw a slight decline in enrollment (about 1%) and occupancy on campus; however, it was able to generate a solid full-accrual surplus operations given federal funds, an increase in state appropriations, and expense cuts. While the hospital saw a large increase in deferrals of elective surgeries toward the end of fiscal 2020, it saw many fewer deferrals each month throughout fiscal 2021 and hospital operations improved through the year. The university received about $41 million in federal institutional aid in fiscal 2021 compared with $15 million in fiscal 2020. In addition, it received about $76 million in additional state and county funds.

For fiscal 2022, the university is anticipating another full-accrual surplus. Its enrollment was stable in fall 2021 after several years of declines. In addition, it plans to realize about $51 million in federal institutional funds. While the hospital did have to postpone some elective surgeries this winter as COVID-19 hospitalizations increased due to the highly contagious Omicron variant, management reports that it is already postponing many fewer such surgeries now.

Credit overview

We assessed UM's enterprise profile as very strong, characterized by solid full-time equivalent (FTE) enrollment, healthy retention, and above-average student quality, offset by moderate selectivity and several years of enrollment declines prior to having flat enrollment in fall 2021. We assessed UM's financial profile as very strong, with consistent positive operations on a full-accrual basis, excluding fiscal 2020, which was heavily affected by the pandemic and related state cuts, solid health care operations, growing available resources, and a low debt burden. Combined, we believe these credit factors lead to an indicative stand-alone profile of 'aa'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, our 'AA+' rating on the university's bonds better reflects the university's available resources relative to peers, especially cash and investments relative to debt.

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

- Position as Missouri's ('AAA/Stable' general obligation [GO] rating) flagship and land-grant institution;
- History of balanced-to-positive operations on a full-accrual basis for the system (excluding fiscal 2020), with expectations of positive operations given at least stable enrollment and increased state support;
- Healthy available resource ratios that grew substantially in fiscal 2021; and
- Very manageable maximum annual debt service (MADS) burden of 2.4% of fiscal 2021 adjusted operating expenses when smoothing.

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

- FTE enrollment declines the past six years, though fall 2021 was basically flat; and
- Limited geographic diversity with over 75% of students enrolled from Missouri, a state with unfavorable demographics for high school graduating seniors.

Established in 1839, the University of Missouri System has 45 colleges, schools, and divisions and approximately 70,000 students in fall 2019 on four campuses in Columbia (Missouri University [MU], its largest and oldest campus), St. Louis, Kansas City, and Rolla. MU is the state's flagship campus. UM is the state's research and land-grant university system.

Environmental, social, and governance

Vaccine progress in the U.S. has helped alleviate some of the health and safety social risks stemming from the pandemic; however, the higher education sector remains at greater risk from remaining uncertainties. UM has worked to mitigate this risk by encouraging vaccinations and social distancing. MU also faces increased social risks due to demographic trends within the state. While the system has a greater ability to mitigate this risk given its large presence and stature in the state, we still believe there is some risk given that about 76% of students come from in-state. We view the risks posed by COVID-19 and demographic challenges as a social risk under our environmental, social, and governance (ESG) factors. Despite the elevated social risk, we believe the university's environmental and governance risks are in line with our view of the sector.

Stable Outlook

Downside scenario

We could consider a negative rating action if enrollment were to decline substantially, the university established a trend of full-accrual deficits, or available resource ratios deteriorated substantially from current levels.

Upside scenario

We could consider a positive rating action if the university consistently grows enrollment, maintains solid operating margins, and continues to grow its available resource ratios.

Credit Opinion

Enterprise Profile

Market position and demand

After many years of enrollment declines, the university system was able to stabilize enrollment in fall 2021. It saw a slight decline in FTE undergraduate enrollment that was offset by increases for graduate and non-traditional students. Prior to fall 2021, the university had several years of declines, which likely reflected several different things, including the pandemic, declining demographics in the state, and racial unrest on campus that drew negative headlines and made the recruiting environment more difficult. Management believes the changes made in the aftermath to create a better student experience for minority student groups, has been one generator of the improved enrollment trend.

Other demand metrics were fairly in line with where they have been historically. The university's selectivity rate remained flat at 75%, though this includes all campuses, as the University of Missouri-Columbia is more selective. Matriculation was slightly down, as were the number of freshman students, which, if this continues, could be a concern as it would likely lead to additional enrollment declines. Retention and graduation rates both remained fairly stable and are at 84% and 68%, respectively. So far, the university has seen an increase in applications for fall 2022, and deposits are up as well. UM increased its tuition prices in fall 2021 and will do so again in fall 2022, in addition to differentiating its prices slightly more. Even after the increase, tuition and fees remain in line, if not slightly less, than competitors. In our view, the university has somewhat limited geographic diversity, with approximately 76% of students coming from Missouri. Therefore, our assessment of UM's economic fundamentals is anchored by the state GDP per capita.

The system offers both professional and doctoral degrees, including medicine, pharmacy, veterinary medicine, engineering, business, and nursing. While the university already has a large research presence, management is focused on further improving its research base, which could lead to further demand for prestigious programs. It saw an increase in graduate students and transfer matriculants in fall 2016 as well, but total graduate and transfer matriculants have been relatively stable since. Applications for graduate programs have increased significantly for fall 2022 at every university, which should help the university continue to grow its graduate enrollment.

In addition, the university took major strides to expand its online education courses in fall 2021. Non-traditional students increased 23%. The university remains proactive in looking for new opportunities to grow efficiently and effectively.

Management and governance

The university is governed by a nine-member board of curators appointed by the governor and confirmed by the state senate. The board recently approved a change to combine the role of UM system president with MU chancellor. Dr. Mun Choi, who has been the president of the system since March 1, 2017, filled this role. President Choi was already serving as the interim chancellor as well. Each university develops individual goals that are unique to its mission but fall under unifying principles that emphasize student success, research, community engagement, financial viability, and inclusivity. The board approves of these when complete.

Management has been stable as the university hired new chancellors at its Kansas City campus in June 2018, its Missouri S&T campus in August 2019, and more recently at UMSL in 2020. We view management's ability to stabilize enrollment, surpass fundraising goals, and continue to generate positive full-accrual surpluses favorably and anticipate its experience and depth should enable it to achieve most of its goals.

Financial Profile

Financial performance

UM has a long history of positive operations on a full-accrual basis, outside of fiscal 2020, which continued in fiscal 2021. It had its first full-accrual deficit in years in fiscal 2020 mainly due to the pandemic as auxiliary revenue decreased by about $30 million, elective surgeries were deferred, and state funds were cut to $364 million from $409 million the previous year. The university mitigated its losses, though, and the deficit was still just about 2% and positive on a cash basis.

For fiscal 2021, the university had an influx in federal and state funds, which helped it generate its largest surplus in the past five years. It realized $41 million in institutional HEERF funds and an additional $76 million in state and country support. The university also moderated expense increases and auxiliary revenue surpassed pre-pandemic levels. Health care revenue increased over $100 million from the prior year.

The university expects slightly weaker operations in fiscal 2022 compared with 2021, but will likely still have a solid full-accrual surplus. Although its expenses will likely increase, state appropriations rose again in fiscal 2022, with further increases expected; the university also anticipates another $51 million in institutional federal funds. It has revenue diversity, with student funds accounting for about 33% of adjusted operating revenue, state appropriations about 10%, research about 10%, and health care revenue about 40%. The health care portion has increased over the past several years.

University health system (MU Health)

MU Health is a fully integrated academic 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 389-bed, medical center that is a designated Level I trauma center;
- Women's and Children's Hospital, a 158-bed freestanding hospital;
- Missouri Orthopedic Institute, a 35-bed freestanding orthopedic center; and
- Missouri Psychiatric Center, a 61-bed facility (included in the 389-bed count of UHC).

The combined MUHC service area now consists of 25 counties, and market share within this area is 29%. Total inpatient volume has been climbing for the past few years due to increased medicine and surgery volumes. Patient utilization, as measured by adjusted patient days, increased 3.7% in fiscal 2021 compared with fiscal 2020 levels. Clinic visits were also up 7.3%. This led to an increase in net assets of $120.8 million, $77.3 million above budget. We view the surpluses the MU Health continues to generate favorably.

Available resources

The university system has above-average available resource ratios compared with debt for the rating. Adjusted unrestricted net assets increased to $3.3 billion as of June 30, 2021 from $2.5 billion on June 30, 2020, equal to 83.4% of operating expenses and 182.9% of total debt. Cash and investments also rose to $5.7 billion from $4.8 billion in fiscal 2020, reflecting investment returns, fundraising, and positive operations. This was equal to 142.9% of adjusted operating expenses and 313.4% of debt.

As of June 30, 2021, the university had $2.2 billion in endowment funds, with $306 million considered unrestricted. The investment allocation was as follows: 39% global public equity; 14% risk balanced; 11% private equity; 7% real estate; 17% public debt; and the rest a mix of bonds, commodities, and cash. The university has distributed approximately 4.5% of the endowment market value on average each year for the past four years.

Fundraising

The university has had outstanding success fundraising as it continues to meet campaign goals and raise funds annually outside of the campaign. It raised $1.4 billion recently, exceeding the $1.3 billion goal on its Columbia campus. In addition, Missouri S&T recently exceeded its $150 million goal, raising $423 million. It was able to raise this much mostly from a $300 million gift to establish the Kummer Institute Foundation, which will support the university's Kummer Institute for Student Success Research and Economic Development. We expect fundraising on all campuses to remain solid.

Debt and contingent liabilities

UM's total outstanding debt totals about $1.8 billion, which includes $1.6 billion in fixed-rate debt, $78 million in VRDBs, about $53 million in capital leases, and $46 million in operating leases. Much of the fixed-rate debt has bullet maturities and the unsmoothed MADS is in 2031 at about $275 million. However, when smoothing our MADS calculation is at about $98 million, equal to about 2.5% of adjusted operating expenses in fiscal 2021.

The university had three interest-rate swap contracts in the notional amount of $162.9 million as of June 30, 2021. As of the same date, the swaps had a mark-to-market value of negative $34.9 million. The university is only required to post collateral for two of its three swap agreements when the negative market value exceeds $30 million, based on the current long-term rating on the university. As of June 30, 2021, UM was not required to post 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.

The university sponsors a defined-benefit retirement plan for its employees and a hybrid plan for those hired after Oct. 1, 2012. As of fiscal 2021 year-end, UM's net pension liability on its balance sheet was $315 million. As of April 2019, the Board of Curators approved offering a defined-contribution plan only for all employees hired on or after Oct. 1, 2019. The plan's benefits were determined using the existing retirement plan, and the university does not anticipate the pension liability decreasing in the near term. However, this does give the university additional flexibility to modify benefits if needed. In our view, management remains very proactive in handling its pension plan, which is 94% funded, based on the new accounting standards. Other postemployment benefit (OPEB) liabilities declined in fiscal 2021. Management indicates it will continue to fund OPEBs on a pay-as-you-go basis. UM's pension and OPEB expenses relative to adjusted operating expense is 3.7%, which we view as manageable.

University of Missouri -- Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Enrollment and demand					
Headcount	69,834	68,752	70,478	71,260	72,814
Full-time equivalent	51,906	51,967	52,609	53,309	55,350
Freshman acceptance rate (%)	75.1	77.2	74.4	71.9	74.4
Freshman matriculation rate (%)	32.5	32.3	32.1	33.3	34.9
Undergraduates as a % of total enrollment (%)	75.1	74.9	75.7	75.9	76.7
Freshman retention (%)	84.0	86.0	84.0	83.0	83.0
Graduation rates (six years) (%)	68.0	69.0	67.0	65.0	65.0
Income statement					
Adjusted operating revenue ($000s)	N.A.	4,107,271	3,830,083	3,922,159	3,696,096
Adjusted operating expense ($000s)	N.A.	3,962,443	3,911,895	3,874,697	3,605,390
Net adjusted operating income ($000s)	N.A.	144,828	(81,812)	47,462	90,706
Net adjusted operating margin (%)	N.A.	3.66	(2.09)	1.22	2.52
Estimated operating gain/loss before depreciation ($000s)	N.A.	423,192	156,498	268,888	323,306
Change in unrestricted net assets (UNA; $000s)	N.A.	596,811	(147,539)	60,678	123,380
State operating appropriations ($000s)	N.A.	419,690	364,412	408,797	401,705
State appropriations to revenue (%)	N.A.	10.2	9.5	10.4	10.9
Student dependence (%)	N.A.	32.5	33.7	33.3	35.2
Health care operations dependence (%)	N.A.	40.0	39.3	38.5	37.9
Research dependence (%)	N.A.	9.1	9.2	8.7	7.9
Endowment and investment income dependence (%)	N.A.	2.0	1.7	1.6	1.5

University of Missouri -- Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Debt					
Outstanding debt ($000s)	N.A.	1,807,360	1,783,117	1,644,446	1,615,887
Total pro forma debt ($000s)	N.A.	1,807,360	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	2.57	2.49	2.83	3.21
Current MADS burden (%)	N.A.	2.48	3.58	3.06	3.29
Financial resource ratios					
Endowment market value ($000s)	N.A.	1,978,170	1,966,826	1,684,225	1,619,560
Related foundation market value ($000s)	N.A.	162,475	153,711	156,437	144,529
Cash and investments ($000s)	N.A.	5,664,107	4,786,476	4,530,999	4,291,262
UNA ($000s)	N.A.	1,888,310	1,291,499	1,439,038	1,378,360
Adjusted UNA ($000s)	N.A.	3,306,080	2,486,422	2,529,054	2,372,281
Cash and investments to operations (%)	N.A.	142.9	122.4	116.9	119.0
Cash and investments to debt (%)	N.A.	313.4	268.4	275.5	265.6
Adjusted UNA to operations (%)	N.A.	83.4	63.6	65.3	65.8
Adjusted UNA plus debt service reserve to debt (%)	N.A.	182.9	139.4	153.8	146.8
Average age of plant (years)	N.A.	15.3	15.0	14.5	13.8
OPEB liability to total liabilities (%)	N.A.	5.1	7.5	10.9	11.7

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of February 18, 2022)

The Curators of the University of Missouri, Missouri

University of Missouri, Missouri

The Curators of the University of Missouri (University of Missouri) Sys Fac Rev Bnds (University of Missouri) ser 2020A dtd 05/18/2020 due 11/01/2050

Long Term Rating	AA+/Stable	Outlook Revised

University of Missouri Brd of Curators (University of Missouri)

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

University of Missouri Brd of Curators (University of Missouri) CP nts

Short Term Rating	A-1+	Affirmed

University of Missouri Brd of Curators (University of Missouri) PCU_USF

Long Term Rating	AA+/Stable	Outlook Revised

Ratings Detail (As Of February 18, 2022) (cont.)		
University of Missouri Brd of Curators (University of Missouri) (BABs)		
Long Term Rating	AA+/Stable	Outlook Revised