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

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

Credit Profile

Curators of University of Missouri (The), Missouri

University of Missouri, Missouri

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)

Long Term Rating AA+/Stable Affirmed

Credit Highlights

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

Security

UM had total debt outstanding of about \$1.8 billion as of June 30, 2023, including about \$70 million in VRDBs and a modest amount of capital and 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, which we have not included at this time. In our opinion, the university has debt capacity at the current rating.

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 VRDB. The rating reflects both ample liquidity and the sufficiency of the assets identified by the university to cover the total debt supported by self-liquidity. The university does not have any CP notes outstanding. UM has \$1.2 billion in discounted total assets with same-day liquidity as of Sept. 30, 2023, and has the necessary procedures to access funds in a timely manner.

Credit overview

We assessed UM's enterprise risk profile as extremely strong, characterized by solid full-time equivalent enrollment, healthy retention, and above-average student quality, offset by moderate selectivity. We assessed UM's financial risk profile as very strong, with consistent and positive operations on a full-accrual basis, solid and improving health care operations, growing financial resources, and a low debt burden. Combined, we believe these credit factors lead to an indicative stand-alone profile of 'aa+'.

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

- Position as Missouri's flagship and land-grant institution;
- History of balanced-to-positive operations on a full-accrual basis for the system, with positive operations expected in fiscal 2024;
- Healthy financial resource ratios; and
- Very manageable maximum annual debt service (MADS) burden of 3.0% of fiscal 2023 adjusted operating expenses when smoothing.

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

- Limited geographic diversity with about 76% of students enrolled from Missouri, a state with unfavorable demographics for high school graduating seniors; and
- Overall stable enrollment, although regional campuses have faced declines.

Established in 1963, the University of Missouri System has 45 colleges, schools, and divisions, and approximately 70,000 students in fall 2023 on four campuses in Columbia (University of Missouri [MU], its largest and oldest campus), St. Louis, Kansas City, and Rolla. UM is the state's research and land-grant university system, and the Columbia campus is the state's flagship campus.

Environmental, social, and governance

We think Missouri institutions are affected by changing demographic and population trends, which we view as a social risk, with the potential for further enrollment pressure at regional campuses during the next few years. However, the Columbia campus, which makes up the majority of UM's enrollment, maintains strong demand. Despite elevated social risk, we view UM's environmental and governance risks as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our belief that the university will sustain its strong demand characteristics, diversified revenues, and solid operations and financial resource ratios relative to the rating category during the next two years.

Downside scenario

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

Upside scenario

We could consider a positive rating action if the university improves demand metrics while maintaining stable enrollment, generates consistent solid operating margins, and continues to improve its financial resource ratios to levels consistent with a higher rating.

Credit Opinion

Enterprise Risk Profile--Extremely Strong

Market position and demand

The university's geographic diversity is more limited, with about 24% of total students on the Columbia campus coming from outside the state. Approximately 75% of students are undergraduates, and most attend fulltime. Demand remains strong, in our view, and headcount is stable. The university will continue to focus on student quality, retention, and graduation rates, which have been improving over the past few years. We consider UM selective compared with peer public flagship universities.

Prior to fall 2021, the university had several years of declines, which likely reflected factors such as declining demographics in the state, and racial unrest on campus in 2014 that drew negative headlines and made recruiting more difficult. However, management believes the changes made to create a better student experience for minority student groups have helped improve the enrollment trend.

Other demand metrics are fairly in line with where they have been historically. The university's selectivity rate improved in fall 2023 to 73%, although this includes all campuses, as the University of Missouri-Columbia is more selective. Retention and graduation rates both remained fairly stable and are 86% and 68.5%, respectively. So far, applications have increased for fall 2024, and deposits are up as well. UM recently increased its tuition prices, in addition to differentiating its prices slightly more. Even after the increase, tuition and fees remain in line, if not slightly lower than, those of 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 increasing its research base, which could lead to further demand for prestigious programs. Applications for graduate programs have increased significantly, which should help the university continue to increase its graduate enrollment. The university has taken major strides to expand its online education courses and nontraditional students have increased significantly, which provides flexibility given the impending demographic cliff.

The university has had outstanding fundraising success, as it continues to meet campaign goals and raise funds annually outside of the campaign. UM 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.

Management and governance

The university is governed by a nine-member board of curators appointed by the governor and confirmed by the state senate. President Mun Choi, who has been the president of the system since March 2017, is also the MU chancellor. Each university campus chancellor 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 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 Risk Profile--Very Strong

Financial performance

UM has a long history of positive operations on a full-accrual basis, aside from fiscal 2020; 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 in the previous year. The university mitigated its losses, however, and the deficit was still just about 2% and positive on a cash basis. UM generated positive operations in fiscal 2023, with expectations for similar results in fiscal 2024. State appropriations rose in fiscal years 2022 and 2023, with a 7% increase in core operating appropriations in fiscal 2024. UM has excellent 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%.

University health system (MU Health Care)

MU Health Care 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;
- Missouri Psychiatric Center, a 61-bed facility (included in the 389-bed count of UHC);
- Ellis Fischel Cancer Center; and
- Capital Region Medical Center (CRMC)

The combined MU Health Care service area now consists of 25 counties, and market share within this area is 30.7%. Management reports that total inpatient volume has been climbing for the past few years due to increased medicine and surgery volumes, while clinic visits have increased for the past three years, to 846,276 in fiscal 2023 from 741,090 in fiscal 2021, with 861,748 budgeted for fiscal 2024. Discharges have also increased to 27,333 in fiscal 2023 from 26,302 in fiscal 2021; the fiscal 2024 budget is for 28,565 discharges. Operating room cases and emergency room visits have also increased over the same time period. This growing activity has led to an increase in net assets of \$22.7 million in fiscal 2023, and operating income of \$60.7 million, compared with \$28.8 million in fiscal 2022 and \$90.6 million in fiscal 2021. MU Health Care maintained a positive operating income even in fiscal 2022, while many health systems struggled to break even, and management reports that it is moving toward pre-pandemic margins and that obtaining control of Capital Region (CRMC) will allow for this turnaround to accelerate over the next few years.

Management reports that while it has improved, MU Health Care continues to experience cost pressure with staffing shortages and wage pressure. Contract labor pricing continues to decline, and MU Health Care has demonstrated an ability to use that contract labor toward growth in higher-margin services like neurosurgery. Salaries and benefits made up 41.9% of fiscal 2023 costs, while supplies made up 26.4% of costs. Management said that UM has made strategic investments in faculty recruitment and has increased physicians and advanced practice providers by 86 net providers from fiscal 2021 to fiscal 2023, with a plan to add 90 providers during the next four years.

Financial resources

The university system has solid financial resource ratios compared with debt for the rating. Cash and investments rose to \$5.8 billion in fiscal 2023, reflecting investment returns, fundraising, and positive operations. This is equal to 125% of adjusted operating expenses and 318% of total debt.

As of June 30, 2023, the university had \$2.2 billion in endowment funds, with \$270.5 million considered unrestricted. The university has distributed approximately 4.36% of the endowment market value on average each year for the past few years (based on a 28-quarter market value average); in fiscal 2023, the policy was updated to be 4.0%.

Debt and contingent liabilities

UM's total debt outstanding is primarily fixed-rate debt, has bullet maturities, and the unsmoothed MADS is in 2031 is about \$275 million. However, when smoothing debt service, our MADS calculation is at about \$139.5 million, equal to about 3.0% of adjusted operating expenses in fiscal 2023.

The university had three interest-rate swap contracts in the notional amount of \$151.9 million as of June 30, 2023. 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, 2023, 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 2023 year-end, UM's net pension liability on its balance sheet was \$1.3 billion. 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 77% funded. Management indicates it will continue to fund other postemployment benefits (OPEBs) on a pay-as-you-go basis.

University of Missouri, Missouri--Enterprise and financial statistics						
	--Fiscal year ended June 30--					--Medians for 'AA' category rated public colleges and universities--
	2024	2023	2022	2021	2020	2022
Enrollment and demand						
Full-time-equivalent enrollment	51,767	51,627	51,906	51,967	52,609	41,783

University of Missouri, Missouri--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					--Medians for 'AA' category rated public colleges and universities--
	2024	2023	2022	2021	2020	2022
Undergraduates as a % of total enrollment	75.3	74.8	75.1	74.9	75.7	80.2
First-year acceptance rate (%)	73.6	75.1	76.1	76.3	76.6	73.2
First-year matriculation rate (%)	27.3	28.9	29.3	29.3	32.3	27.0
First-year retention rate (%)	86.6	85.2	84.5	85.8	83.8	86.8
Six-year graduation rate (%)	68.5	68.4	68.4	69.0	66.9	71.0
Income statement						
Adjusted operating revenue (\$000s)	4,752,537	4,322,031	4,107,023	3,830,083		2,148,374
Adjusted operating expense (\$000s)	4,666,111	4,349,872	3,961,707	3,911,895		2,030,534
Net adjusted operating margin (%)	1.9	(0.6)	3.7	(2.1)		3.2
Estimated operating gain/loss before depreciation (\$000s)	363,933	240,679	385,199	136,617		MNR
Tuition discount (%)	35.6	35.9	34.0	32.7		28.2
Student dependence (%)	31.4	32.5	32.5	33.7		37.0
State appropriations to revenue (%)	9.5	9.8	10.2	9.5		17.3
Health care operations dependence (%)	40.1	40.1	40.0	39.3		MNR
Research dependence (%)	10.7	10.0	9.1	9.2		13.4
Debt						
Outstanding debt (\$000s)	1,836,775	1,798,741	1,807,360	1,783,117		1,142,825
Foundation debt (\$000s)	N.A.	N.A.	N.A.	N.A.		MNR
Total debt with foundation (\$000s)	1,836,775	1,798,741	1,807,360	1,783,117		1,142,825
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.		MNR
Current debt service burden (%)	2.7	2.8	2.6	2.5		MNR
Current MADS burden (%)	3.0	3.2	2.5	3.6		3.4
Average age of plant (years)	13.3	13.0	14.1	15.0		13.5
Financial resource ratios						
Endowment market value (\$000s)	2,234,828	2,220,996	2,316,025	1,966,826		1,102,535
Related foundation market value (\$000s)	104,185	131,325	162,475	153,711		945,352
Cash and investments (\$000s)	5,848,814	5,853,581	6,021,577	4,791,175		2,837,567
Cash and investments including foundation (\$000s)	5,848,814	5,853,581	6,021,577	4,791,175		2,837,567
Cash and investments including foundation to operations (%)	125.3	134.6	152.0	122.5		115.3
Cash and investments including foundation to debt (%)	318.4	325.4	333.2	268.7		278.4

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of November 30, 2023)

Curators of University of Missouri (The), Missouri

University of Missouri, Missouri

The Curators of the University of Missouri (University of Missouri) Sys Fac Rev Bnds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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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

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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University of Missouri Brd of Curators (University of Missouri) CP nts

<i>Short Term Rating</i>	A-1+	Affirmed
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University of Missouri Brd of Curators (University of Missouri) PCU_USF

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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University of Missouri Brd of Curators (University of Missouri) (BABs)

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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