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ISSUER COMMENT

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RATING

Seniormost Rating¹
A2 Stable

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Worcester State University, MA

Annual comment on Worcester State

Issuer profile

Worcester State University (WSU) is a four-year regional public university located in Worcester, MA. WSU is one of nine institutions with debt issued through the Massachusetts State College Building Authority (MSCBA). For fiscal year 2019, WSU recorded \$107 million in operating revenue and in fall 2019 enrolled 4,850 full-time equivalent (FTE) students.

Credit overview

[Worcester State University](#)'s good credit quality is supported by strong support and oversight from the [Commonwealth of Massachusetts](#) (Aa1 stable) and [Massachusetts State College Building Authority](#). WSU's very good strategic positioning and disciplined fiscal management underpin the recent favorable growth in net tuition revenue. Sound operating cash flow provides ample debt service coverage. Higher financial leverage and debt affordability are cushioned by growth in cash and investments. Offsetting challenges include exposure to operational and financial uncertainty tied to the coronavirus pandemic, a social risk under our ESG taxonomy given the substantial implications for public health and safety. Favorably, actions taken by the university to address potential impacts of the pandemic help mitigate associated risks.

Exhibit 1

Worcester State University, MA²

	2015	2016	2017	2018	2019	Median: A2 Rated Public Universities
Total FTE Enrollment	4,873	4,863	4,954	4,929	4,850	7,297
Operating Revenue (\$000)	90,552	94,367	96,915	100,228	107,026	145,911
Annual Change in Operating Revenue (%)	6.7	4.2	2.7	3.4	6.8	0.4
Total Cash & Investments (\$000)	72,122	70,662	64,637	72,411	83,688	118,294
Total Debt (\$000)	153,731	150,719	146,741	143,398	140,433	149,198
Spendable Cash & Investments to Total Debt (x)	0.4	0.4	0.4	0.4	0.5	0.5
Spendable Cash & Investments to Operating Expenses (x)	0.7	0.6	0.5	0.6	0.6	0.6
Monthly Days Cash on Hand (x)	221	208	165	173	192	163
Operating Cash Flow Margin (%)	11.4	12.6	10.7	13.5	10.0	10.5
Total Debt to Cash Flow (x)	14.9	12.7	14.1	10.6	13.2	9.1
Annual Debt Service Coverage (x)	1.2	1.3	1.2	1.6	1.3	1.6

Source: Moody's Investors Service

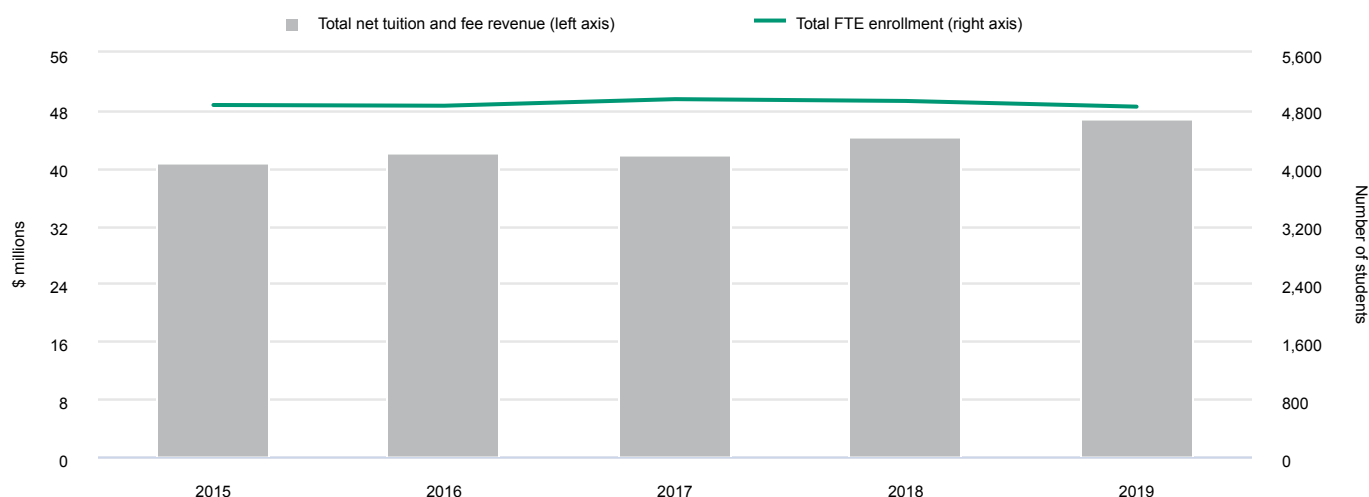
Market profile: WSU will benefit from its role as a medium-sized regional university, with nearly 95% of the student body drawn from Massachusetts. Given the ease of access to its location within Massachusetts, WSU may benefit as students and families make choices about where to attend college in fall 2020 following the coronavirus outbreak. Additionally, the university's strategic investments in capital and student services will continue to translate to steady enrollment, notably as WSU is recording increased freshman registrations for fall 2020. The student body is primarily undergraduate (92%), but management has placed a

greater focus in recent years on its graduate programs, which include new online masters programs in nursing and education.

- » Worcester State's enrollment stability reflects strong recruitment strategies and sufficient resources to evolve with market conditions, aided by its location in central Massachusetts and ties to academic opportunities at nearby colleges.
- » Although enrollment has remained nearly flat at 4,850 students in fall 2019 compared with fall 2015, steady student demand is favorable given a highly competitive student market and weaker high school graduate demographics.
- » Net tuition and fee revenue increased a favorable 15% to \$47 million in fiscal 2019 compared with \$41 million in fiscal 2015.

Exhibit 2

Favorable growth in net tuition revenue despite stable enrollment



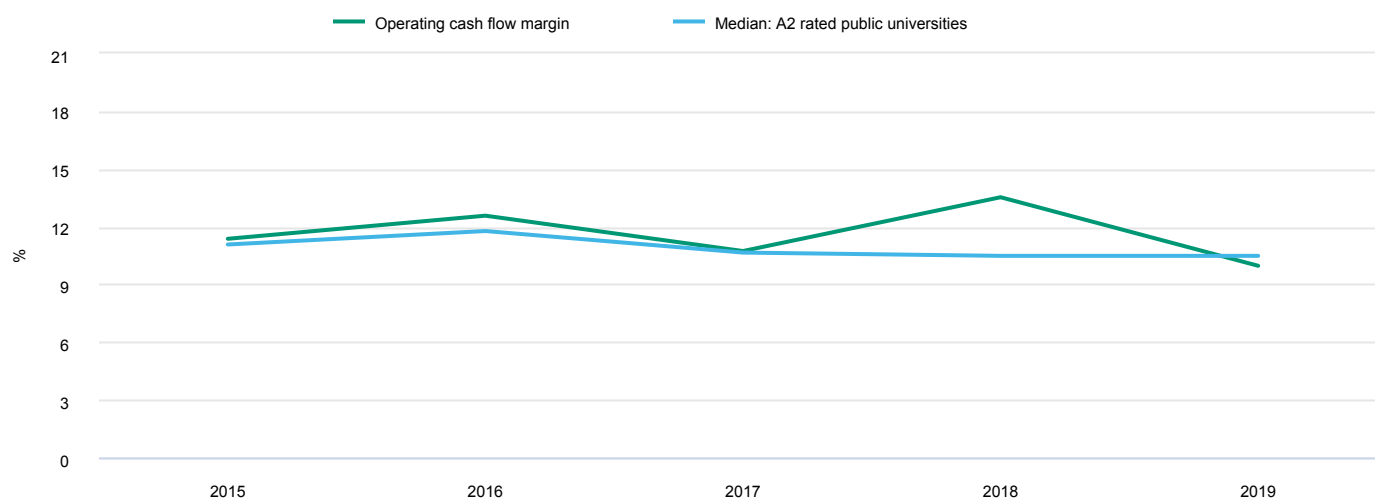
Source: Moody's Investors Service

Operating performance: Disciplined fiscal oversight, both internally and from the state and the MSCBA, will aid WSU as it addresses operational transitions and uncertainties stemming from the coronavirus outbreak. Fiscal year 2020 operating performance is on target to be nearly in line with fiscal 2019 despite closure of campus facilities in March and credits or refunds for a portion of room and board costs. Implemented expense efficiencies and the receipt of roughly \$4.2 million in CARES Act funds, of which \$2.1 million went to needy students, are expected to hold 2020 operating performance in line with prior years, though fiscal 2021 performance remains uncertain. WSU is planning multiple scenarios for students to transition to campus and budgeting around reduced student revenue and state appropriations. WSU's credit quality incorporates our base case assumption that classes will resume on campus this fall. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis.

- » The university has a moderate operating cash flow margin of 10.0% in fiscal 2019, which has declined modestly from 11.4% in fiscal 2015, reflecting WSU's focus on tuition affordability and recent investment in student focused services.
- » A modest operating base at \$107 million in fiscal 2019 provides some ability to manage through periods of operating volatility and has grown by 18% since fiscal 2015, mainly driven by a solid 16% increase in tuition and auxiliaries.
- » Historically strong and consistent state operating appropriations, comprising 37% of revenue, in addition to solid state capital support add to WSU's credit strength.
- » Annual coverage of debt service of 1.3x in fiscal 2019 is thin but adequate and has been flat over the past five years.

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Exhibit 3

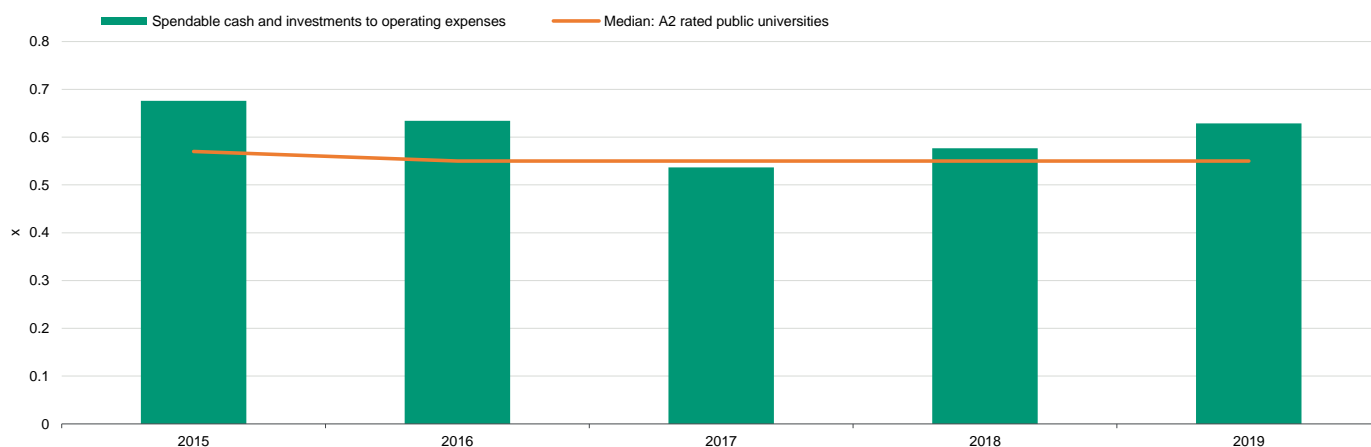
Operating cash flow margin is on par with the median for A2-rated public universities

Source: Moody's Investors Service

Wealth and liquidity: Sound wealth and liquidity will continue to provide flexibility to respond to business disruption tied to the coronavirus. Retained surpluses and donor support brought total cash and investments to nearly \$84 million in fiscal 2019, up 16% over the fiscal 2015-19 period. Periodic fluctuations in cash and investments occur as WSU uses available resources for planned projects, but then rebuilds reserves thereafter. A portion of WSU's financial resources are held in trust funds that support its MSCBA-issued debt.

- » Good spendable cash and investments to operating expenses of 0.6x in fiscal 2019 has remained stable compared with fiscal 2015 and is on par with the A2-rated public university median of 0.55x.
- » The university's \$53 million of monthly liquidity covers 192 days of expenses for fiscal 2019, which is above that of similarly rated peers.
- » Effective governance is illustrated by recent actions to bolster external liquidity amid a period of operational and financial uncertainty.

Exhibit 4

Spendable cash and investments to expenses are on par with rated peers

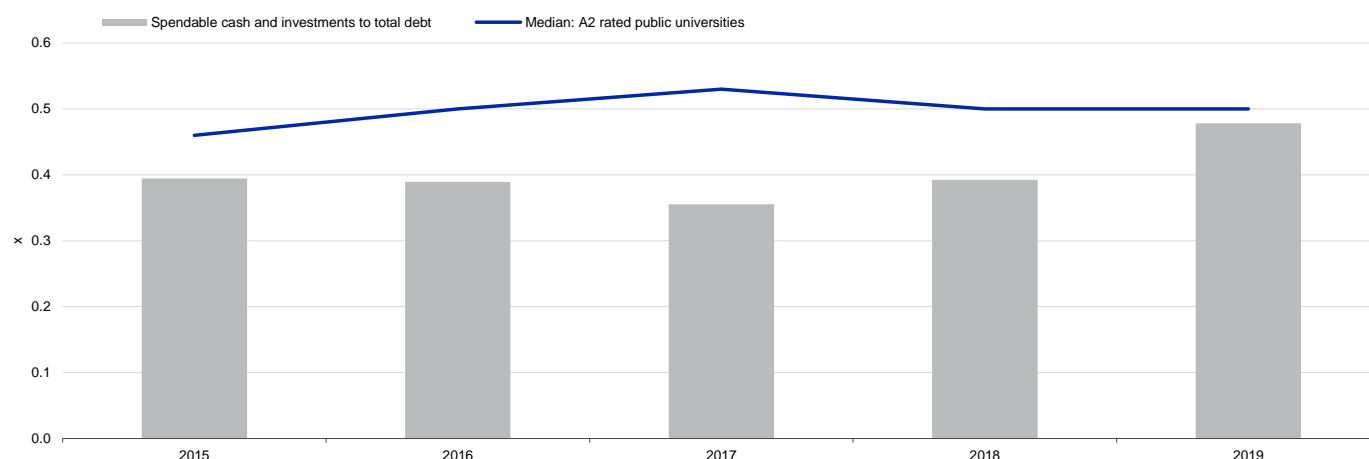
Source: Moody's Investors Service

Leverage: The university is highly leveraged due to its strategic capital investment in the campus over the last decade. There are no additional debt plans. Favorably, 91% of WSU's outstanding debt is issued through MSCBA and benefits from additional security features provided by the authority's structure. MSCBA is currently planning a refunding issue that is expected to benefit universities with MSCBA debt, including WSU, through reduced debt service for fiscal years 2021 and 2022. Near term debt service relief will assist WSU in dealing with the impacts of coronavirus and the related public health mitigation efforts. Debt service will be reallocated to longer term maturities.

- » Spendable cash and investments to total debt of 0.5x in fiscal 2019 illustrates thin coverage of debt from reserves. It strengthened from 0.4x in fiscal 2015 as a result of somewhat improving reserves.
- » High debt to cash flow has improved to 13.2x in fiscal 2019 from 14.9x in fiscal 2015, although the university is still highly leveraged.
- » Debt service to operating expenses of 7.8% in fiscal 2019 exceeds the A2-rated public university median of 6.3%.
- » Total adjusted debt of \$185 million in fiscal 2019 compared to total debt of \$140 million reflects a modest pension obligation.

Exhibit 5

Financial leverage is improving with growth in cash and investments and debt amortization



Source: Moody's Investors Service

Sector trends

We have a negative outlook for the US higher education sector through 2020. The negative outlook acknowledges rapidly evolving business conditions brought on by the coronavirus outbreak that have both short and long-term implications across the sector. We anticipate a near-term reduction in revenue for many, accompanied by rising costs as universities shift to online only delivery models. Downside risks escalate with a longer duration of the cycle, as balance sheets would be impaired along with operating challenges. Universities that rely heavily on student charges, lack national brand awareness and have limited financial resources will experience more credit stress. Public and private universities with large scope, diverse revenue sources and considerable wealth are better positioned to weather the crisis.

Endnotes

- 1 The rating referenced in this report is the college's or university's seniormost public rating.
- 2 Definitions of the metrics in the Key Indicators table are available in the appendices of our most recently published Higher Education medians reports, [public university](#) and [private university](#). The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication because of data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals. Median data represents the most recent published median data, which in some cases could be from the prior fiscal year.

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