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Worcester State University, Massachusetts Massachusetts Development Finance Agency; Public Coll/Univ - Unlimited Student Fees

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Worcester State University, Massachusetts Massachusetts Development Finance Agency; Public Coll/Univ - Unlimited Student Fees

Credit Profile

Massachusetts Development Finance Agency, Massachusetts

Worcester State University, Massachusetts

Massachusetts Dev Fin Agy (Worcester State Univ) rfdg bnds

Long Term Rating

A/Stable

Current

Rationale

S&P Global Ratings assessed its 'A' long-term rating on the Massachusetts Development Finance Agency's series 2012 bonds, issued for Worcester State University (WSU). The outlook is stable.

We assessed WSU's enterprise profile as strong, reflecting stable enrollment and reasonably good selectivity and retention for a school that largely has a regional draw in a competitive market. Also reflected in the enterprise profile are the region's weak demographics for high school age graduating seniors and satisfactory management and governance. We assessed the financial profile as very strong, characterized by healthy financial performance on a cash basis and available resource levels, with a low debt burden based on maximum annual debt service (MADS), because WSU benefits from its relationship with Massachusetts State College Building Authority (MSCBA), which finances auxiliary debt for state colleges and universities. The combined enterprise and financial profiles lead to an indicative stand-alone credit profile of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our view, the final 'A' long-term rating on the university's bonds better reflects WSU's largely regional draw in a competitive market and healthy, though somewhat modest, available resources, with an adjusted unrestricted net assets (UNA) to operating expenses ratio that, in our view, is low for the rating category compared with medians and peers'.

The 'A' rating also reflects our assessment of WSU's:

- Fairly stable enrollment over the past five years, with other demand indicators sufficient to support the rating;
- Recurring cash-based operating surpluses for each of the past five years with same for most years on a full accrual basis;
- Rising operating and fringe benefit appropriations from the Commonwealth of Massachusetts and limited capital support; and
- Low debt levels, with a 1.6% debt burden of fiscal 2017 operating expenses based on MADS.

Partially offsetting credit factors include our view of WSU's:

- Significant amount of off-balance-sheet debt, issued for WSU through the MSCBA;

- Strong competition for students from other state schools, including community colleges; and
- Somewhat low for the rating adjusted UNA to operating expenses.

WSU is a public, commonwealth-supported university located in Worcester, Mass. While the university is expanding its on-campus residential presence, it still caters to a large commuter population, which accounts for two-thirds of the student body, according to management.

Outlook

The stable outlook reflects our expectation that through the two-year outlook period enrollment will remain stable and possibly grow modestly, financial performance on a cash basis will remain positive, and available resources will likely increase slightly while no new additional debt is anticipated.

Downside scenario

We could consider a negative rating action during the outlook period if WSU experiences a substantial decline in enrollment, full-accrual deficits continue to grow, or if available resources decline relative to operating expenses and debt. Also, we would consider a significant increase in debt or a drop in commonwealth support a credit risk.

Upside scenario

Though not likely over the next two years, we would consider a positive rating action if WSU enrollment grows significantly while achieving positive financial performance on a full-accrual basis and builds its available resources up sufficiently to a level commensurate with a higher rating. In addition, consideration of a higher rating would be predicated on little, if any, additional debt needs.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicity and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the college has limited geographic diversity. About 94.4% of students are from Massachusetts, with the vast majority being from Worcester County, where the school is located. Therefore, our assessment of WSU's economic fundamentals is anchored by Massachusetts' GDP per capita.

Market position and demand

Enrollment remains similar to historical levels with a full-time equivalent (FTE) enrollment of 4,954 in fall 2017, up 2.0% from the prior year. In the past five years, FTE enrollment increased by about 2%, with most of that growth occurring in graduate FTE enrollment. Freshman applications decreased about 3.3% in fall 2017 to 3,747 from 3,876 from the prior year. WSU does not use the common application. The acceptance rate weakened to 76.6% in fall 2017

from the mid-60% area in recent prior years, but still is in line with that of other similarly rated regional universities. The matriculation rate improved to 31.2% in fall 2017 from 29% in fall 2016, at 909 students, the entering freshman class size was at its all-time high for fall 2017. Retention also improved to 80% from 77.5% for fall 2016, though it has generally remained in the range of 78% to 80%, which we consider favorable for a regional public university. We expect modest enrollment growth through the next several years, including some increase in out-of-state enrollment as result of targeted marketing and a greater capacity to house students on campus.

Management reports WSU has managed two large capital campaigns historically and that it exceeded its goal for each. Annual giving remains on track at \$500,000 to \$600,000 annually.

Management and governance

Barry Maloney, WSU's current president, came to the university in 2011. In our view, the management team is stable and the board has exercised adequate oversight over management. Management remains committed to improving four-year graduation rates and is five years into its "Succeed in 4" initiative that improves communication between students and advisors. Management notes it has improved its six-year graduation rate to 55.4% from a level that had been in the low 50% area.

Financial Profile

Financial policies

The university has formal policies for reserves, investment management, and debt. It operates according to a five-year strategic plan, and has a formal reserve liquidity policy. The university meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation, and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable providers.

Financial performance

The university posted a GAAP operating deficit of \$2.2 million in fiscal 2017; these results are largely due to the recording of a pension liability required by the state pursuant to Governmental Accounting Standards Board Statement 68 and an increase in depreciation expense. WSU is expecting to post a smaller full-accrual deficit for fiscal 2018. Given the university's history of break-even operations, we believe management's projections are achievable. The largest source of adjusted operating revenue is tuition revenue at 43% of the total, followed by state operating appropriation at 33.4%, auxiliary operations at 11.7%, and other at 11.3%. WSU's tuition is among the lowest for public colleges and universities in the commonwealth. Costs for the 2017-2018 school year for an in-state student, including tuition, room, and board total \$21,662, an increase of 3.3% from the prior year's cost.

The university received \$35.2 million (including fringe benefits and tuition remitted back to the state) in net state appropriation in fiscal 2017, up 4.4% for the 2017-2018 school year from the prior year's \$33.6 million.

Available resources

We believe WSU's available resources overall are healthy; however, the university's adjusted UNA-to-operating expense ratio is considered somewhat modest for the rating category in comparison with those of the rating medians and its peers. Adjusted UNA to operating expenses in fiscal 2017 were 28.4% and in comparison to debt are much higher at 117%. We also view the latter number as somewhat overstated because MSCBA is the conduit issuer for the majority of WSU's debt. The balance sheet also receives support from a small endowment, which had a fiscal 2017 market value of approximately \$18.7 million.

Debt and contingent liabilities

WSU has \$23.8 million in total debt, composed of MDFA-issued series 2007 bonds of \$103,000 and MDFA-issued series 2012 bonds of \$9.8 million and a \$14.2 million financing agreement with MSCBA to fund part of its wellness project that was completed in 2016.

The 2012 bonds are a general obligation of WSU and do not contain a debt service reserve (DSR). Other debt service obligations are not on WSU's balance sheet because they are separately secured and include debt service paid on dormitory bonds issued through the MSCBA (for more information on the security and pledge to pay debt service, see the full analysis on the MSCBA, published Jan. 16, 2018, on RatingsDirect). Project revenues, multi-tiered series of DSRs, and a state intercept exist if project revenues are insufficient to secure all MSCBA debt. Total debt outstanding issued through the MSCBA for WSU is \$133.04 million.

On Dec. 20, 2012, WSU entered into a memorandum of understanding with the commonwealth and the MSCBA to jointly finance a new wellness center at WSU (\$50.7 million project). Management indicates that the commonwealth used funds earmarked for the project in the amount of \$25.5 million and the university used \$15 million of MSBCA loan proceeds as well as approximately \$10 million of its reserves set aside for capital purposes. Although WSU's reserves have been reduced as a result of the drawdown for the wellness center, management indicates it intends to start building up reserves, and a potential source of reserves could be money collected from the fundraising campaign.

WSU's balance sheet does not include other postemployment employee benefit liabilities, as these liabilities are recorded at the state level. Its net pension liability at fiscal year-end 2017 totaled \$18.90 million, up from \$9.36 million in fiscal 2016.

Worcester State University, Massachusetts

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Enrollment and demand						
Headcount	6,434	6,471	6,306	6,350	6,447	MNR
Full-time equivalent	4,954	4,860	4,873	4,872	4,891	11,962
Freshman acceptance rate (%)	76.3	70.6	68.6	61.3	60.6	74.4
Freshman matriculation rate (%)	31.8	28.9	32.1	31.1	31.0	MNR
Undergraduates as a % of total enrollment (%)	85.4	83.2	87.4	87.6	86.2	84.5

Worcester State University, Massachusetts (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Freshman retention (%)	80.0	77.5	77.2	81.7	80.3	77.0
Graduation rates (six years) (%)	55.4	55.8	50.9	53.1	N.A.	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	106,001	103,794	97,758	91,757	MNR
Adjusted operating expense (\$000s)	N.A.	108,265	103,825	98,499	90,218	MNR
Net adjusted operating income (\$000s)	N.A.	(2,264)	(31)	(741)	1,539	MNR
Net adjusted operating margin (%)	N.A.	(2.09)	(0.03)	(0.75)	1.71	(0.72)
Estimated operating gain/loss before depreciation (\$000s)	N.A.	3,064	4,634	3,484	5,698	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	(200)	(10,512)	(9,947)	3,328	MNR
State operating appropriations (\$000s)	N.A.	35,170	33,606	31,841	30,056	MNR
State appropriations to revenue (%)	N.A.	33.2	32.4	32.6	32.8	22.6
Student dependence (%)	N.A.	54.1	55.4	55.0	54.8	53.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	8.0	8.1	9.1	9.0	MNR
Endowment and investment income dependence (%)	N.A.	0.5	0.6	0.5	0.5	0.4
Debt						
Outstanding debt (\$000s)	N.A.	23,866	24,893	25,433	26,084	164,127
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	23,866	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.28	1.33	1.41	N.A.	MNR
Current MADS burden (%)	N.A.	1.56	1.62	1.71	N.A.	4.40
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	18,706	15,697	15,774	15,777	81,992
Related foundation market value (\$000s)	N.A.	26,576	22,267	23,077	22,998	111,376
Cash and investments (\$000s)	N.A.	41,509	50,140	55,622	66,869	MNR
UNA (\$000s)	N.A.	13,392	13,592	24,104	34,051	MNR
Adjusted UNA (\$000s)	N.A.	30,394	29,130	37,820	37,770	MNR
Cash and investments to operations (%)	N.A.	38.3	48.3	56.5	74.1	45.2
Cash and investments to debt (%)	N.A.	173.9	201.4	218.7	256.4	96.3
Cash and investments to pro forma debt (%)	N.A.	173.9	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	28.1	28.1	38.4	41.9	26.8
Adjusted UNA plus debt service reserve to debt (%)	N.A.	127.4	117.0	148.7	144.8	52.0

Worcester State University, Massachusetts (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	127.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.4	13.1	13.5	12.8	14.0
OPEB liability to total liabilities (%)	N.A.	N.A.	0.0	0.0	N.A.	MNR

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

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