

Global Credit Portal

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

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Credit Profile		
Massachusetts Development Finance Agency, Massachusetts		
WORCESTER STATE UNIVERSITY, Massachusetts		
Massachusetts Health & Educational Facilities Authority (Worcester State College) Ser 2002		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has raised its rating to 'A' from 'A-' on Massachusetts Development Finance Agency's bonds, issued for Worcester State University (WSU). The outlook is stable.

The higher rating reflects our view of WSU's solid enrollment growth, surplus operations on a full accrual basis, and low levels of debt and financial resources that are in line with the 'A' rating and its peer institutions.

WCU is characterized by solid net tuition revenue growth, which has helped drive net income to consistent and ongoing surpluses and adequate revenue diversity with revenues balanced between tuition and state appropriations. The enrollment remains good, in our opinion, with continued growth expected; however, enrollment is geographically concentrated with the majority of students from Massachusetts and more specifically Worcester County. Financial resource ratios benefit from the university's low debt level. Additional strength is provided by the role that the Massachusetts State Building Authority (MSCBA; AA/Stable) plays in financing auxiliary debt for the state colleges and universities including WSU.

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

- Good student enrollment levels showing growth, despite weak demographic trends across the state;
- Strong financial resources, with fiscal 2011 adjusted unrestricted net assets equal to 40.7% of operating expenses and 238.5% of outstanding debt;
- Consistent generation of operational surpluses;
- State appropriations from the Commonwealth of Massachusetts; and
- Low debt level, with annual debt service a low 1.3% of fiscal 2011 operating expenses.

Partially offsetting credit factors include a significant amount of off-balance-sheet debt, issued for WSU through the MSCBA, and strong competition for students from other state schools, including community colleges.

WSU's only direct outstanding debt on the balance sheet are the series 2002 bonds, which, as of June 30, 2011, were outstanding in the amount of \$12.2 million, and a small amount, \$227,334, was part of a clean renewable energy bond. The series 2002 bonds are fixed rate with a final maturity in 2032. Other debt service obligations that are not on the balance sheet 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 published Dec. 1, 2011, on RatingsDirect on the Global Credit Portal). However, it includes all project revenues of the obligated facility, an operating reserve fund, a capital improvement fee reserve fund, a multipurpose reserve fund, debt service reserve fund, and a state intercept if project revenues are insufficient. Total outstanding debt issued through the MSCBA for WSU is \$78 million. The project revenues and offsetting debt service and reserve fund expenses attributed to the debt held at MSCBA is included on the income statement. However, the debt issued by MSCBA is not included on WSU's balance sheet, but is included on the balance sheet of MSCBA. The reason the debt is not on WSU's balance sheet is due to the security provisions of the debt including the state intercept.

Management has identified potential new debt obligations include approximately \$20 million to partially fund a Health Science & Athletic Center, which has just received approval from the commonwealth of Massachusetts (AA+/Stable), and is expected to open in 2015. Management indicates the debt service for the debt, if issued, will be paid through an existing net revenue stream to the capital improvement trust fund. The university is also working with the MSCBA on a new 300-bed dormitory project, which would open in 2015 as well.

Worcester State University is a public, state-supported university located in Worcester, Mass. While the university is growing 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. The university is governed by a local board of trustees. In addition, an appointed board of governors provides oversight for the entire state university system. As one of nine, four-year, state-supported university's in Massachusetts, the university awards baccalaureate and master's degrees in education, liberal arts and sciences, and a variety of professional programs. Programs with the highest enrollments include business administration, criminal justice, nursing, and psychology. The university also offers continuing education.

Outlook

The stable outlook reflects our expectation that over the next two years financial performance will likely remain consistent with recent historical trends, enrollment levels will likely remain stable or to increase, and financial resources will likely remain commensurate with debt levels.

We could consider a negative rating action during the two-year outlook period if WSU experiences substantial declines in financial performance or resource levels, or enrollment. While we recently raised the rating on Massachusetts' general obligation debt and the commonwealth appears to be managing the difficult economy well, we would consider a significant drop in state support a credit risk. We do not believe a positive rating action is likely during the outlook period.

Enterprise Profile

Enrollment

Total headcount continues to show solid growth with a fall 2011 preliminary headcount of 6,155 students, resulting from above-average growth in the undergraduate cohort. For fall 2011, applications were 5,542, which is level with the prior year. The acceptance rate remains adequate for the rating category at 58% for fall 2011 compared with 57.7% for fall 2010. Management indicates it is focusing on transfer students to fill in its upper division levels and has seen some growth in this cohort. In addition, management is enhancing its graduate and continuing education

programs, which it believes is a needed niche in the region and will provide greater revenue diversity across its tuition revenue streams. Tuition and fees for in-state students is \$7,653. Total cost for in-state students remains low compared with the university's competitors. The latest freshman to sophomore retention rate is 75.2%, which management would like to bring up to 80%. The graduation rate remains low, in our view, with a six-year graduation rate of 45%. The university is close to capacity for freshman students and management plans to increase enrollment at the junior and senior level.

Financial Profile

WSU has consistently generated full accrual operating surpluses for the past five years. After accounting for state operating support, the university had a \$4.5 million surplus in fiscal 2011 and management expects surplus operations for fiscal 2012. The surplus operations are due to a 5% to 7% increase in student fees for each of the past five years, while keeping financial aid costs reasonable, resulting in solid net tuition revenue generation. In addition, WSU has managed expenses such that they do not grow faster than revenues. The university's revenue diversity since fiscal 2009 has shifted and a majority of revenues now comes from tuition and fees. Fiscal 2011 adjusted operating revenues currently consist of 48.2% tuition and fees, 33.5% state appropriations; and 15.3% grants and contracts, which have grown the most. Total net assets have grown to \$87.2 million from \$57 million five years ago.

State appropriations in Massachusetts have declined slightly in fiscal 2011 to \$25.6 from the high in fiscal 2008 of \$29 million, which we consider a positive credit factor when compared with many of WSU's out-of-state peers, which have seen significant state operating support declines. Fiscal 2012 is budgeted for a similar level of state operating support.

Financial resources

Financial resources remain robust for WSU with both cash and investments and adjusted unrestricted net assets stronger than the medians for the rating category. Fiscal 2011 adjusted unrestricted net assets of \$29.6 million represented 40.7% of adjusted operating expenses and 238.5% of outstanding debt. If the new debt issuance for the Health Science and Athletic Center is on WSU's balance sheet, and remains at approximately \$20 million, we believe the university would retain an adequate balance sheet, given current debt levels.

Development and endowment

Worcester State University recently successfully completed a \$10 million capital campaign and maintains annual giving of \$1.5 million. The university's last campaign, which ended in 2001, raised \$5.2 million, exceeding the \$5 million goal. The university's endowment is valued at \$12.6 million. The spending draw is 5% of the previous 12-quarter value.

Worcester State University -- Financial and Demand Statistics

	--Fiscal year ended June 30--				
	2011	2010	2009	2008	2007
Enrollment and demand					
Headcount (HC)	5,708	5,473	5,378	5,358	5,440
Full-time equivalent	4,350	4,120	4,005	3,938	N.A.
Freshman selectivity (%)	57.7	63.7	54.0	54.9	56.3
Freshman matriculation (%)	43.9	42.2	41.4	43.8	44.8

Worcester State University -- Financial and Demand Statistics (cont.)					
Undergraduate HC to total HC (%)	84.6	85.9	86.3	85.9	85.0
Income statement					
Adjusted operating revenue (\$000s)	77,342	67,194	65,621	67,552	63,456
Adjusted operating expense (\$000s)	72,802	64,932	61,384	66,161	62,308
Estimated operating income (\$000s)	4,540	2,262	4,237	1,391	1,148
Estimated operating margin (%)	6.2	3.5	6.9	2.1	1.8
Change, UNA (\$000s)	5,369	5,296	2,753	2,269	1,807
Change, UNA to expenses (%)	7.4	8.2	4.5	3.4	2.9
Change, total net assets (\$000s)	4,646.0	2,753.0	17,210.0	4,884.0	2,500.0
Change, total net assets to expenses (%)	6.4	4.2	28.0	7.4	2,500.0
Depreciation expense (\$000s)	4,297	3,389	3,150	3,173	3,160
State operating appropriations (\$000s)	25,931	21,428	25,909	29,810	27,466
State operating appropriations to Revenues (%)	33.5	31.9	39.5	44.1	43.3
Debt					
Outstanding debt (\$000s)	12,417	12,763	13,247	13,424	23,430
Liquidity ratios					
Related endowment/foundation TNA (\$000s)	14,642	12,646	10,976	12,999	N.A.
University cash and investments (\$000s)	35,293	27,290	27,458	23,397	19,587
Total net assets (TNA; \$000s)	87,164	82,518	79,765	62,555	57,671
Unrestricted net assets (UNA; \$000s)	27,807	22,438	17,142	14,389	12,120
Adjusted UNA (\$000s) - debt calculation	29,611	23,547	17,901	16,297	13,998
Adjusted UNA to debt (%)	238.5	184.5	135.1	121.4	59.7
Adjusted UNA to expenses (%)	40.7	36.3	29.2	24.6	22.5

MADS--Maximum annual debt service. N.A--Not available.

Government-Related Entity

In accordance with our criteria for government-related entities (GREs), we based our view of a "low" likelihood of extraordinary support on our assessment of WSU's "limited" link with the Commonwealth of Massachusetts (AA+/Stable), reflecting the state's limited involvement with the university's day-to-day operations, history of annual operating appropriation, but no history of extraordinary support. We also based our assessment on WSU's "limited importance" role in the state's economy.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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