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## Illinois Educational Facilities Authority Loyola University Of Chicago; Private Coll/Univ - General Obligation

**Primary Credit Analyst:**

Bianca Gaytan-Burrell, Dallas (1) 214-871-1416; bianca.gaytan-burrell@standardandpoors.com

**Secondary Contact:**

Jessica L Wood, Chicago (1) 312-233-7004; jessica.wood@standardandpoors.com

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# Illinois Educational Facilities Authority Loyola University Of Chicago; Private Coll/Univ - General Obligation

## Credit Profile

### Illinois Educl Fac Auth, Illinois

Loyola Univ of Chicago, Illinois

### Illinois Ed Fac Auth (Loyola Univ of Chicago) ser A medium term notes, 2003ABC, & 2007

Long Term Rating

A/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' rating on various revenue bonds issued by the Illinois Educational Facilities Authority (or its predecessor, the Illinois Educational Facilities Authority) for Loyola University Of Chicago (LUC). The outlook is stable.

We assessed LUC's enterprise profile as strong characterized by stable enrollment, strong student quality, and diverse professional and graduate program offerings. We assessed LUC's financial profile as strong, with a trend of solid operating margins and balance sheet that offset the large debt burden. Combined, we believe these credit factors lead to an indicative standalone credit profile of 'a', which is also the final rating.

The rating reflects our assessment of LUC's strengths:

- Robust operating performance, with an operating margin of 5.8% for fiscal 2015;
- Solid available resources, equal to 85.2% of expenses and 112.2% of total debt; and
- No new debt planned, with debt proceeds, gifts, and internal funds expected to be sufficient to complete the 2011 through 2016 capital plan.

The rating reflects our assessment of LUC's weaknesses:

- Current maximum annual debt services (MADS) burden of 8.5% in fiscal 2015, which we consider high, and
- High student dependency of about 80% in fiscal 2015.

Securing the bonds is a general obligation of the university and there are no new debt plans.

Loyola was founded in 1870 by the Jesuit order and is a private, nonprofit, Catholic institution of higher education. LUC offers professional degrees in law, business, nursing, and medicine, as well as undergraduate majors, master's degrees, and doctoral programs. The institution has three campuses in the Chicago metropolitan area: the Water Tower campus near Chicago's "Loop" business district; the Lakeshore campus in the Rogers Park neighborhood on Chicago's North Side; and the Maywood campus, which houses the medical school, nursing school, and various health science programs. The university also owns a retreat and environmental facility in Woodstock, Ill.; the 98-acre Cuneo mansion and gardens in Vernon Hills, Ill.; and the Rome Center in Italy.

## Outlook

The stable outlook reflects our expectation that, in the two-year outlook period, LUC will maintain stable enrollment and generate operating and cash surpluses consistent with recent operating results and sufficient to repay debt under its accelerated repayment plan. We also expect that available resources will continue to improve moderately relative to the rating category.

### Upside scenario

We could consider a higher rating during the two-year outlook period if LUC improves its demand profile substantially, while producing increasing full accrual surpluses, or if available resources were to increase significantly.

### Downside scenario

We could consider a negative rating action in the next two years if the university were to generate a trend of full-accrual deficits, if available resources were to decrease substantially, if there was a trend of significant enrollment decline, or if the university were to issue additional debt without a commensurate increase in the balance sheet.

## Enterprise Profile

### Industry Risk

Industry risk addresses the higher education sector's overall cyclical 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 university's geographic diversity is limited to Illinois as over 50% of students come from the state. As such, our assessment of LUC's economic fundamentals is anchored by Illinois' GDP per capita.

### Market position and demand

Enrollment at LUC can be characterized as stable to growing. Most of the growth occurred at the undergraduate level as the graduate and law school enrollment declines are consistent with the national trend. The growth in undergraduate students is due to the new engineering program and because of management's decision to suspend the goal of continued improvement in the academic profile of the freshmen class and reverting to the admission criteria used in the fall of 2008. Although ACT scores did decline to 26.3 from a previous high of 27.2, we view student quality as above average. The retention rate has been improving and management's goal is to improve to 90%.

Freshman applicants over the past five years have been volatile—with large increases and sharp decreases largely as a result of the university's methodology for counting applications. For fall 2015, applicants totaled 21,555, an increase of 5.6% over the previous year. The selectivity has also been unstable during the same period, ranging from 60% to 85% to the most recent 71.3% in fall 2015. We consider LUC's matriculation rate weak when compared with peer institutions due to the strong regional competition for high-quality students. For 2015, matriculation decreased to 14%. The university's geographical draw is very Midwest centric, with about 60% of undergraduate students coming from

Illinois.

### **Management and governance**

The university is governed by a 50-member board of trustees, elected for staggered three-year terms. University bylaws provide that the president is an ex-officio member with full voting rights and historically has been a Jesuit. At this time, we understand that a minimum of eight positions on the board are reserved for Jesuits, and that there is generally a limit of three consecutive terms. Father Garanzini, who has been Loyola's president since 2001, is now the Chancellor for the university and Dr. John Pelissero is the interim president. A new president is expected to be in place by July 1, 2016, and we expect a seamless transition.

The university completed the 2015 strategic plan, which included a \$750 million capital plan. The new strategic plan runs through 2020 and focuses on student access and success, faculty development, programs for societal needs, and local and global partnerships. The strategic plan includes estimated costs and funding sources available for each goal, which we view as a good practice.

## **Financial Profile**

### **Financial management policies**

We consider LUC's financial practices conservative and a management strength. While not all practices are formal board-approved policies, the university fully funds depreciation, targets a large surplus annually, operates auxiliaries (e.g., housing, parking) as self-supporting entities, and has been building a capital reserve for many years for strategic capital purposes, as well as for debt repayment. LUC also has a formal investment policy.

It operates according to a multi-year strategic plan, and has a formal reserve liquidity policy, including an internal bank. The university meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be areas of risk, the organization's overall financial policies are not likely to negatively affect 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 to peers. We also view positively management's full funding of depreciation.

### **Financial performance**

LUC has demonstrated consistently sound operating performance. For the fiscal year ended June 30, 2015, operating income on a full-accrual basis was \$38.9 million or a 5.8% operating margin. This includes a \$7.8 million grant for the Mundelein Center, thus slightly inflating the surplus. Management expects another operating surplus for fiscal 2016, however, it will not include the one time revenues from the grants and will be closer to \$21 million, which we believe is still sound.

The university, in our opinion, has a concentrated revenue base with 80.3% of adjusted operating revenue from student generated fees. Net tuition revenue, an important metric, in our view, given the university's dependence, has grown steadily each year since at least fiscal 2005. Although tuition discount pressures exist, they are being managed within the operating budget, in our view. The discount for the fall 2015 freshman class was 43%, compared with 40%

in fall 2009, a trend we consider consistent with peer institutions.

Like many private universities, LUC has worked to moderate its rate of tuition increase in recent years. For the 2015-2016 academic year, undergraduate tuition was \$39,130 (\$53,732, including room and board) and increased by 5%, which is consistent with prior years. Management reports it intends to keep increases in line with inflation.

The university retains a \$20 million bank line, down from \$50 million, but reports it does not use it. Management reports that it manages operating cash flow without external lines of credit and maintains liquid reserves of about \$75 million even during low-cash cycles.

### **Available resources**

Available resources for fiscal 2015 remain consistent for the rating category, in our view. Available resources (as measured by expendable resources) were solid at \$573 million as of fiscal year-end 2015 (June 30), equal to 85.2% of adjusted operating expenses and 112.2% of total debt.

As of June 30, 2015, the market value of long-term investments was \$592 million, which includes \$56 million of institutional reserves with the remainder the university endowment. The long-term portfolio asset allocation is about 69% equities, including public, private, and real estate and related strategies; 15.0% in credit strategies, and 11% in cash and fixed-income investments. We consider the portfolio diverse and comparable with peer institutions. The portfolio's liquidity is strong, in our view. Management reports that about 70% of investments could be converted to cash in less than a month. We consider LUC's formal endowment spending rate fairly standard, based on 5% of market value at the previous Dec. 31. Management reports that it has spent less (about 2%) than that in recent years. However, a spending formula that uses a single date rather than an average over a period of time tends to be more volatile.

### **Debt and contingent liabilities**

Outstanding debt for the university was \$510.5 million as of June 30, 2015, and includes the \$94.7 million bank term loan and \$74 million in commercial paper (CP). Most of LUC's debt is fixed rate, with only the CP program providing a 14% variable component. Liquidity for any unremarketed rollovers on the \$95 million authorized CP program (\$74 million is outstanding), is provided by a bank liquidity facility from PNC Bank.

The university has an internal bank to provide for strategic capital projects, as well as the repayment of two bullet payments and the bank term loan (which matures by 2022). The plan calls for budgeted reserve deposits to be made from the tuition budget, internal auxiliary operations (housing, parking, the medical school, etc.), and other designated funds. Management reports that the balance is currently \$56 million and that the funds are invested as both working capital and long-term investments. As part of the repayment plan, the university plan calls for using budgeted depreciation expense for debt repayment, as well as other designated operating surpluses.

**Loyola University of Chicago Financial Statistics**

	Fiscal year ended June 30				Medians for 'A' rated private colleges and universities
	2016	2015	2014	2013	2014
<b>Enrollment and demand</b>					
Headcount	16,437	15,902	15,957	15,720	MNR
Full-time equivalent	14,845	14,613	14,649	14,333	3,434
Freshman acceptance rate (%)	71.3	63.3	85.0	58.0	64.5
Freshman matriculation rate (%)	14.3	17.7	19.1	17.6	21.2
Undergraduates as a % of total enrollment (%)	67.4	64.9	63.7	61.9	80.9
Freshman retention (%)	86.0	86.0	85.7	85.3	86.3
<b>Income statement</b>					
Adjusted operating revenue (\$000s)	N.A.	711,466	683,336	642,617	MNR
Adjusted operating expense (\$000s)	N.A.	672,551	648,577	611,684	MNR
Net operating income (\$000s)	N.A.	38,915	34,759	30,933	MNR
Net operating margin (%)	N.A.	5.79	5.36	5.06	MNR
Change in unrestricted net assets (\$000s)	N.A.	21,340	79,230	74,074	MNR
Tuition discount (%)	N.A.	30.1	29.5	29.0	35.4
Tuition dependence (%)	N.A.	71.1	71.1	71.5	MNR
Student dependence (%)	N.A.	80.3	80.1	79.2	MNR
Research dependence (%)	N.A.	8.1	8.5	8.3	MNR
Endowment and investment income dependence (%)	N.A.	1.3	1.2	1.1	MNR
<b>Debt</b>					
Outstanding debt (\$000s)	N.A.	510,523	546,432	572,644	90,765
Current debt service burden (%)	N.A.	7.94	7.54	3.76	4.00
Current MADS burden (%)	N.A.	8.54	8.86	9.32	MNR
<b>Financial resource ratios</b>					
Endowment market value (\$000s)	N.A.	541,667	538,523	461,949	218,129
Cash and investments (\$000s)	N.A.	805,619	842,548	781,208	MNR
Unrestricted net assets (\$000s)	N.A.	1,036,895	1,015,555	936,325	MNR
Expendable resources (\$000s)	N.A.	572,995	666,777	651,909	MNR
Cash and investments to operations (%)	N.A.	119.8	129.9	127.7	150.6
Cash and investments to debt (%)	N.A.	157.8	154.2	136.4	266.7
Expendable resources to operations (%)	N.A.	85.2	102.8	106.6	97.9
Expendable resources to debt (%)	N.A.	112.2	122.0	113.8	172.6
Average age of plant (years)	N.A.	9.9	9.3	9.4	13.3

N.A.--Not available. MNR--median not reported. 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 times (net adjusted operating income/adjusted operating expense). Tuition dependence = 100 times (gross tuition revenue/adjusted operating revenue). Current debt service burden = 100 times (current debt service expense/adjusted operating expenses). Current MADS burden = 100 times (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 Criteria And Research

### Related Criteria

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of January 15, 2016)		
Loyola Univ of Chicago		
<i>Long Term Rating</i>	A/Stable	Affirmed
<b>Illinois Fin Auth, Illinois</b>		
Loyola Univ of Chicago, Illinois		
Illinois Finance Authority (Loyola University of Chicago)		
<i>Long Term Rating</i>	A/Stable	Affirmed

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