S&P Global
Ratings

# RatingsDirect®

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

**Primary Credit Analyst:**
Gauri Gupta, Chicago + 1 (312) 233 7010; gauri.gupta@spglobal.com

**Secondary Contact:**
Jessica L Wood, Chicago (1) 312-233-7004; jessica.wood@spglobal.com

## Table Of Contents

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

| Credit Profile | | |
|---|---|---|
| Loyola Univ of Chicago | | |
| *Long Term Rating* | A+/Stable | Upgraded |
| **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 | Upgraded |
| **Illinois Finance Authority, Illinois** | | |
| Loyola Univ of Chicago, Illinois | | |
| Illinois Finance Authority (Loyola University of Chicago) | | |
| *Long Term Rating* | A+/Stable | Upgraded |

## Rationale

S&P Global Ratings raised its long-term rating on Illinois Educational Facilities Authority's (now Illinois Finance Authority) revenue debt, issued for Loyola University of Chicago (LUC, or the University) to 'A+' from 'A'. At the same time, we raised our long-term rating on LUC's revenue debt to 'A+' from 'A'. The outlook is stable.

The upgrade reflects our view of LUC's sustained growth in enrollment over the past few years, which is expected to continue while maintaining strong student quality. LUC is planning on introducing several new academic programs in the health sciences, which we believe will help in their strategic plan to grow enrollment and supports our rating revision. At the same time, LUC has maintained robust operating performance with sustained operating surpluses including a surplus for fiscal 2019, which has led to growth in balance sheet resources while rapidly paying down debt. It is our view that strengthening of available resources along with surplus operating performance on a sustained basis supports our raising the rating.

We assessed LUC's enterprise profile as strong, characterized by growing enrollment, strong student quality, and diverse professional and graduate program offerings along with a proactive senior management team. We assessed LUC's financial profile as strong, characterized by robust operating performance and solid balance sheet resources. We also recognize that although the university has certain upcoming bullet payments, it has been rapidly paying down debt and has sufficient reserves to offset the large debt burden that includes upcoming bullet payments along with an internal bank that is growing resources to address the bullet payments. Combined, we believe these credit factors led to an indicative standalone credit profile of 'a' and a final rating of 'A'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'A+' long-term rating better reflects LUC's solid operating surpluses that it has sustained over the past few years leading to balance sheet resource ratios that are stronger relative to similarly rated peers and medians.

The rating reflects our opinion of LUC's:

- Growing full time equivalent (FTE) enrollment with 15,814 students for fall 2018 and expectation of growth to continue for fall 2019 and beyond;
- Robust operating performance with an operating margin of 6.4% for fiscal 2019 compared with 5.6% for fiscal 2018 and a budget that reflects another full-accrual surplus for fiscal 2020;
- Solid available resources, equal to 96.3% of expenses and 198% of total outstanding debt for fiscal 2019; and
- Rapid debt pay down planned with sufficient resources in internal reserve to pay the upcoming bullets and no new debt plans during the outlook period.

The rating also reflects our opinion of LUC's:

- Current maximum annual debt services (MADS) burden of 11.2% in fiscal 2019 with a bullet payment in 2038--we, however, recognize that the university plans to address the 2038 bullet payments before the maturity date and that smoothed MADS burden is more manageable at approximately 4.9%; and
- High student dependency of about 83% in fiscal 2019.

Securing the bonds is a general obligation of the University.

LUC, founded in 1870 by the Jesuit order, is a private, nonprofit, Catholic institution of higher education. LUC offers professional degrees in law, business, nursing, and medicine. It also offers 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 Lake Shore campus in the Rogers Park neighborhood on Chicago's North Side; and
- The Health Sciences Campus in Maywood, which houses the medical and nursing schools and various health science programs.

The University also owns a retreat and campus in Woodstock, Ill., the Cuneo Mansion and Gardens in Vernon Hills, Ill., and the Rome Center in Italy.

Total outstanding debt as of fiscal year-end 2019 is $384 million including $74 million outstanding in commercial paper that S&P Global Ratings does not rate. Most of LUC's debt is fixed-rate debt with only the commercial paper program providing a 19% variable component. Liquidity for any unremarked rollovers on the $95-million authorized commercial paper program, with $74 million outstanding, is provided by a bank liquidity facility from PNC Bank.

## Outlook

The stable outlook reflects S&P Global Ratings' opinion that during the two-year outlook period, LUC will continue to grow enrollment and maintain its current demand metrics, generate full-accrual operating surpluses that are sufficient to repay debt under the accelerated repayment plan, as well as maintain available resources at least at current levels. We do not expect any additional debt issuances during the outlook period.

### Upside scenario

While unlikely due to the level of balance sheet resources relative to higher rated peers we could raise the rating beyond the outlook period if LUC is able to grow enrollment as projected by management while maintaining healthy demand metrics and also generate operating surpluses such that there is growth in balance sheet resources to levels commensurate with higher rating.

### Downside scenario

We could consider a negative rating action if the university's enrollment growth was stagnated or if operating performance starts to weaken such that the university is generating operating deficits. We would also view additional debt issuance without commensurate increase in balance sheet resources negatively.

## Enterprise Profile

### Industry risk

Industry risk addresses the higher-education sector's overall cyclicality 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 compared with other industries and sectors.

### Economic fundamentals

In our view, LUC's geographic diversity is limited to Illinois because more than 50% of students come from the state as of fall 2018. Therefore, Illinois' GDP per capita anchors our assessment of LUC's economic fundamentals.

### Market position and demand

Enrollment at LUC can be characterized as growing year-over-year. For fall 2018, total FTE student enrollment was 15,814 compared with 15,446 for fall 2017, a modest 2.4% increase. Most of the growth occurred at the undergraduate level, approximately 4.3% in fall 2018. While the graduate enrollment declines still persist at about 6.5% lower than last year, professional enrollment FTE have increased consistently for the last four years, including a 4.8% increase in fall 2018. Management partially attributes growth in undergraduate students to the new health sciences offering such as neurosciences and in its nursing program. Staring fall 2016, LUC suspended its continued improvement of the freshmen class' academic profile and reverted to admission criteria used in fall 2008, which it has maintained for fall 2018; however, it is management's intention to increase admission criteria beginning in fall 2019. Management expects enrollment to continue to increase, with another modest growth in FTE for fall 2019 of approximately 2%-3%. The primary drivers of this growth will be the new Parkinson School of Health Sciences and Public Health, which will add 16 new degree-granting programs during the next three years. We view this trend of growing enrollment positively.

ACT scores improved slightly to 27.3 in fall 2018 from 26.8 for fall 2017 remaining 20% above the national average. We continue to view student quality as above average. The retention rate also improved slightly for fall 2018 to 85% but management's goal is to increasing move towards 90%.

Over the last four years freshmen applications have steadily increased, with a moderate 6.6% increase in applications for fall 2018. For fall 2018, applicants totaled 25,122 up from 23,571 in fall 2017. Selectivity has varied during the same period, ranging from 63%-72%. However, it improved to 67.9% in fall 2018 after ranging from 70%-72% the preceding three years.

We consider LUC's matriculation rate weak compared with its peer institutions due to strong regional competition for high-quality students. For 2018, matriculation was stable at 16%. The university's geographical draw is very Midwest centric with about 52% of undergraduate students coming from Illinois.

### Management and governance

A 50-member board of trustees, elected for staggered three-year terms, governs LUC. University bylaws provide that the president is an ex-officio member with full voting rights; historically, the president has been a Jesuit. We understand that currently a minimum of eight positions on the board are reserved for Jesuits, and there is generally a limit of three consecutive terms.

In 2016, the university elected Dr. Jo Ann Rooney as its 24th president. We believe she comes with lifelong experience as an educator and an impressive and diverse array of experience that will benefit the university tremendously. She is the university's first lay president. Wayne Magdziarz remains senior vice president, chief financial officer and chief business officer and comes with a long tenure of serving the university. The university is moving from a dual-provost model to transition to a single provost model and Margaret Faut Callahan, who was acting provost and chief academic officer, will lead the effort to unite the offices of university provost and the health sciences division provost into an integrated unit that will guide the academic enterprise across all campuses. Dr. Callahan will assume the newly created role of senior vice president for strategy and innovation. Both Wayne and Margaret have been with the university in other positions. As such the university is actively looking to fill the Provost role. At the same time, it has hired a permanent vice president of development, who is expected to start in October 2019. We believe other than the changes highlighted above, the rest of the team remains stable and no other changes are expected.

LUC completed the 2015 strategic plan, which included a $750 million capital plan. The current strategic plan, 'Plan 2020', 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. The university is currently in the final review of its Plan 2020 and is developing its next planning effort, 'The Greater Good', which will likely carry forward many of the same themes of the current strategic plan.

## 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; and operates auxiliaries, such as housing, as self-supporting entities. It has also 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. LUC operates according to a multiyear strategic plan. In addition, it has a formal reserve liquidity policy, as well as an internal bank.

The university meets standard annual disclosure requirements.

The financial policies assessment reflects our opinion that while there could be areas of risk, the organization's overall financial policies are not likely to have a negative effect on 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; there is also a comparison of these policies with LUC's peers. We also view management's full funding of depreciation positively.

### Financial performance

LUC has demonstrated consistently sound operating performance. For fiscal year-end June 30, 2019, operating income on a full-accrual basis was $50.6 million, or a 6.4% operating margin, compared with $42.7 million, or a 5.6% margin, for fiscal 2018. Management attributed the robust operating results primarily to growth in enrollment leading to increased net tuition revenue and overall growth in revenues as well as solid expense management and a staff voluntary transition program that reduced workforce by approximately 30 by strategically consolidating positions. The university announced a one-time tenured faculty voluntary transition incentive program, and will be setting aside reserves for that from the surplus that was attained in fiscal 2019. The transition is expected to occur over fiscal 2020. With that, management expects another operating surplus for fiscal 2020, however, slightly more modest relative to fiscal 2019 results. We believe operating performance remains sound. Management also has a long-term financial planning forecast that shows sustained operating performance with operating surpluses expected for the next three fiscal years. The university, in our opinion, has a concentrated revenue base with 83% of adjusted operating revenue from student-generated fees. Net tuition revenue, an important metric, in our view, due to the university's dependence, has grown steadily each year since at least fiscal 2005; however, the university has seen good growth in net tuition revenue with 4.3% increase for fiscal 2019.

Although tuition-discount pressure exists, LUC manages it within the operating budget, in our view. The discount for the fall 2018 freshman class was 48.2%, relatively stable compared with prior years, and consistent with LUC's peer institutions. The overall tuition discount rate, however, was a modest 35.9% for fall 2018. Like many private universities, LUC has recently worked to reduce its rate of tuition increases.

For the 2018-2019 academic year, undergraduate tuition was $42,720, or $58,598 including room and board and fees, an increase of 2.5%, which is modest compared with historical increases. Management reports it intends to keep increases in-line with inflation. Management reports that it manages operating cash flow without external lines of credit and that it maintains liquid significant liquid reserves even during low-cash cycles. At June 30, 2019, the university maintained approximately $249 million of short-term operating funds and reserves.

### Available resources

Available resources for fiscal 2019 are solid for the rating category, in our view. Available resources, measured by expendable resources, were solid at $760.9 million as of fiscal year-end June 30, 2019, or 96.3% of adjusted operating expenses and 198% of total debt as of fiscal 2019-year end. We recognize that there has been solid growth in expendable resources and the university has sustained a strong balance sheet over the past few years, which supports our upgrade.

As of June 30, 2019, the market value of the long-term investment pool was $789.3 million, which includes $98.5

million of institutional reserves with the remainder in the university endowment. The long-term portfolio asset allocation currently is about 74.4% equities, including public and private, strategies; 10.8% in credit strategies; 10.1% in investment-grade fixed-income; and 4.8% in real assets. We consider the portfolio diverse and comparable with LUC's peer institutions. The portfolio's liquidity is strong, in our view. Management reports it could convert about 66% of investments into cash in less than a month.

We consider LUC's formal endowment-spending rate fairly standard, which is capped at 5% of market value as of the previous June 30. Management reports it has spent less (between 2.5%-3%) than that recently. The university has adopted a two-factor formula that combines a market value component and a spending-and-inflation component. The market value component is calculated by applying a spending rate that varies by type of fund to the market value as of June 30--12 months prior to the applicable fiscal period. The spending-and-inflation component is calculated by adjusting the prior year's spending budget by an inflation rate. The factors are weighted 50% each to arrive at the spending budget.

### Debt and contingent liabilities

Total outstanding debt as of fiscal year-end 2019 is $384 million including $74 million outstanding in commercial paper that S&P Global Ratings does not rate. Most of LUC's debt is fixed-rate debt with only the commercial paper program providing a 19% variable component. Liquidity for any un-remarketed rollovers on the $95-million authorized commercial paper program, with $74 million outstanding, is provided by a bank liquidity facility from PNC Bank.

Including bullet payments, the university has relatively high MADS at 11.2% of fiscal 2019; however, when we smooth the debt service, we believe MADS is more manageable at approximately 4.9%. The university has an internal bank to provide for strategic capital projects, as well as the repayment of upcoming bullet payments, which in our view mitigates the risk associated with large debt service burden. The plan calls for budgeted reserve deposits from the tuition budget, internal auxiliary operations (housing, etc.), and other designated operating surpluses into the internal bank. Management reports that as of fiscal 2019 year-end, the balance was $95 million and that funds are invested as both working capital and long-term investments. LUC does not currently plan to issue additional debt, but it plans to pay down current debt rapidly.

**Loyola University of Chicago, Illinois Enterprise And Financial Statistics**

| | --Fiscal year ended June 30-- | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| **Enrollment and demand** | | | | | |
| Headcount | 17,007 | 16,673 | 16,422 | 16,437 | 15,902 |
| Full-time equivalent | 15,814 | 15,446 | 15,185 | 14,845 | 14,613 |
| Freshman acceptance rate (%) | 67.9 | 70.6 | 72.6 | 71.3 | 63.3 |
| Freshman matriculation rate (%) | 16.2 | 16.0 | 15.9 | 14.3 | 17.7 |
| Undergraduates as a % of total enrollment (%) | 70.1 | 68.5 | 67.8 | 67.4 | 64.9 |
| Freshman retention (%) | 85.1 | 83.1 | 82.3 | 86.0 | 86.0 |
| Graduation rates (six years) (%) | 74.2 | 77.2 | 74.9 | 73.7 | 73.0 |

| Loyola University of Chicago, Illinois Enterprise And Financial Statistics (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year ended June 30-- | | | | |
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| **Income statement** | | | | | |
| Adjusted operating revenue ($000s) | 840,412 | 801,818 | 768,369 | 720,968 | 703,636 |
| Adjusted operating expense ($000s) | 789,766 | 759,106 | 725,077 | 691,216 | 672,551 |
| Net operating income ($000s) | 50,646 | 42,712 | 43,292 | 29,752 | 31,085 |
| Net operating margin (%) | 6.41 | 5.63 | 5.97 | 4.30 | 4.62 |
| Change in unrestricted net assets ($000s) | 59,551 | 74,752 | 79,012 | (1,470) | 21,340 |
| Tuition discount (%) | 35.9 | 34.9 | 32.8 | 31.1 | 30.1 |
| Tuition dependence (%) | 74.9 | 74.0 | 73.9 | 72.5 | 71.9 |
| Student dependence (%) | 83.5 | 83.0 | 83.0 | 81.7 | 81.2 |
| Research dependence (%) | 5.4 | 5.6 | 5.8 | 6.4 | 8.2 |
| Endowment and investment income dependence (%) | 1.8 | 1.4 | 1.4 | 1.3 | 1.3 |
| **Debt** | | | | | |
| Outstanding debt ($000s) | 384,112 | 399,182 | 440,324 | 475,135 | 510,523 |
| Total pro forma debt ($000s) | 384,112 | N.A. | N.A. | N.A. | N.A. |
| Current debt service burden (%) | 3.75 | 7.60 | 7.47 | 7.86 | 7.94 |
| Current MADS burden (%) | 4.88 | 5.07 | 5.45 | 5.88 | 8.54 |
| **Financial resource ratios** | | | | | |
| Endowment market value ($000s) | 690,328 | 640,303 | 593,450 | 533,614 | 541,667 |
| Cash and investments ($000s) | 1,064,894 | 998,814 | 907,160 | 797,834 | 805,619 |
| Unrestricted net assets ($000s) | 1,248,740 | 1,189,189 | 1,114,437 | 1,035,425 | 1,036,895 |
| Expendable resources ($000s) | 760,904 | 716,039 | 632,250 | 534,224 | 572,995 |
| Cash and investments to operations (%) | 134.8 | 131.6 | 125.1 | 115.4 | 119.8 |
| Cash and investments to debt (%) | 277.2 | 250.2 | 206.0 | 167.9 | 157.8 |
| Cash and investments to pro forma debt (%) | 277.2 | N.A. | N.A. | N.A. | N.A. |
| Expendable resources to operations (%) | 96.3 | 94.3 | 87.2 | 77.3 | 85.2 |
| Expendable resources to debt (%) | 198.1 | 179.4 | 143.6 | 112.4 | 112.2 |
| Expendable resources to pro forma debt (%) | 198.1 | N.A. | N.A. | N.A. | N.A. |
| Average age of plant (years) | 11.7 | 11.5 | 10.8 | 10.2 | 9.9 |

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 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 debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.