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

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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 Finance Authority (or its predecessor, the Illinois Educational Facilities Authority) on behalf of Loyola University Chicago (LUC). The outlook is stable.

Strong operating margins that generate significant cash flow to support the university's extensive capital plan and adequate financial resources support the rating. These strengths help balance a very large debt burden that is above average for the 'A' medians. Partly mitigating the large debt burden is an intentionally rapid debt amortization schedule and a plan, which we consider reasonable, to repay debt quickly. We believe LUC has the cash flow capacity to meet this plan.

More specifically, the 'A' rating reflects our view of Loyola's:

- Very strong operating performance, with operating margins that averaged 8% from fiscal 2010 through2014;
- Stable enrollment, strong student quality, and diverse professional and graduate program offerings;
- Adequate financial resource ratios, with fiscal 2014 expendable resources (ER) equal to 102.8% of expenses and 122.0% 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.

Partly offsetting credit strengths, in our view, include the university's:

- Current maximum annual debt services (MADS) burden of 8.9% in fiscal 2014, which we consider high, and
- High student dependency of about 80% in fiscal 2014.

Loyola was founded in 1870 by the Jesuit order and is a private, nonprofit, Catholic institution of higher education. Enrollment was 15,902 (headcount) in fall 2014. 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 financial resource ratios will continue to improve moderately relative to the rating category.

Within the outlook period, credit factors that could lead to a negative rating action include operating margins below plan expectations to fund the debt retirement schedule, issuance of additional debt, or weakened financial resource ratios relative to the rating category.

We do not anticipate considering a positive rating action within the outlook period due to the high debt burden.

Enterprise Profile

Enrollment

Enrollment is stable overall with a fall 2014 headcount at 15,902 (14,613 full-time equivalents -- FTEs), which represents a slight, 0.2% decline from the previous year. The decline was mostly at the graduate level, where headcount for fall 2014 was 4,237 compared with 4,425. Management reports that this was mostly at the law school, a trend we have observed nationwide. Undergraduate enrollment has increased for fall 2013 and fall 2014 to 10,168 and 10,322, respectively. This was due to management's decision to increase the enrollment by suspending 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 26.8 from a previous high of 27.2, we view student quality as above average. The freshman class size did increase in both fall 2013 and fall 2014 to 2,512 and 2,292 respectively, compared with a previous class size of about 2,000.

Freshman applicants were 15,438 for fall 2013 and increased for fall 2014 to 20,414. The goal to increase the freshman class weakened the selectivity rate in fall 2013 to 85.0% but then rebounded to and 63.3%, which is comparable to historical averages. We consider LUC's matriculation rate weak when compared with peer institutions due to the strong regional competition for high-quality students. For 2014, matriculation decreased to 17.7% from 19.1% in 2013. The university's geographical draw is fairly diverse, with about 60% of undergraduate students coming from Illinois.

There are two new programs that will start fall 2015. The school of engineering is targeting about 100 new students. The university is also launching the Arrupe College at Loyola, which is a separate, two year degree program targeted at students that need more intensive educational program support. The first class is targeted at 100 students with a goal to grow to 400. Management reports that it will be funded through gifts and grants, and tuition for the program will be covered through state and federal grants (Pell). We believe that both programs add some diversity to the enrollment profile.

Management

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. Some changes have occurred at the management and board level since last year, including a new board chairman. At the university, there is a new Senior Vice President for Finance and CFO and will be a new Provost of the Health Science Division (announcement expected by next year), both a result of retirements. Father Garanzini has been Loyola's president since 2001, and other senior administrator positions are stable.

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.

The university is nearing the completion of the 2015 strategic plan, which included a $750 million capital plan. Management reports that everything on the strategic plan is complete and that they are in the process of developing the framework for the next one, which will likely not have a large capital plan.

Financial Profile

Financial performance

LUC has demonstrated consistently strong operating performance. For the fiscal year ended June 30, 2014, operating income on a full-accrual basis was $34.8 million or a 5.4% operating margin. Included in this surplus is a $6 million grant for the Mundelein Center, which was booked in operations, so this is slightly inflated. The university fully funds depreciation expense, which its financial plan partially allocates to repay debt and meet the rapid debt amortization structure. Management reports that for fiscal 2015, the operating income on a full-accrual basis will be slightly lower than the previous year and will include another $7.8 million grant for the Mundelein Center, thus slightly inflating the surplus, but operating income will improve as the enrollment grows.

The university remains tuition dependent, in our view. The largest sources of fiscal 2014 operating revenue were tuition and student-generated fees, at about 80.1% of adjusted operating revenues; followed by grants (8.5%); unrestricted gifts (0.3%); and endowment spending (1.2%). Net tuition revenue, an important metric, in our view, given the university's relative tuition dependence, has grown steadily each year since at least fiscal 2005. Net tuition revenue increased 1.7% in fiscal 2013 and 4.9% in fiscal 2014. Although tuition discount pressures exist, they are being managed within the operating budget, in our view. The discount for the fall 2014 freshman class was 41%, 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 2014-2015 academic year, undergraduate tuition was $37,270 ($51,646, 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 around $75 million even during low-cash cycles.

Financial resource ratios

At June 30, 2014, total net assets increased to $1.4 billion from $1.3 billion in 2013, $1.0 billion of which were unrestricted (UNA), $196.0 million of which were temporarily restricted, and $156.2 million of which were permanently restricted. We measure LUC's balance sheet strength using expendable resources. This value adjusts the audited UNA with long-term debt, net plant, and temporarily restricted net assets. Financial resource ratios are adequate for the 'A' rating category. As of June 30, 2014, expendable resources were $666.8 million, equal to 102.8% of operating expenses and 122.0% of debt (about $546.4 million). Cash and investments (including permanently restricted endowment) at June 30, 2014, totaled $842.5 million and equaled 129.9% of operating expenses and 154.2% of total debt.

Investments and endowment

At June 30, 2014, the market value of long-term investments was $595 million, which includes $57 million of institutional reserves with the remainder the university endowment. The long-term portfolio asset allocation is about 74% 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 to peer institutions. The portfolio's liquidity is strong, in our view: management reports that about 60% of investments could be converted to cash in five or fewer days. 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. We note, however, that a spending formula that uses a single date rather than an average over a period of time tends to be more volatile.

Debt, pensions, and contingent liabilities

Outstanding debt for the university was $546.4 million at June 30, 2014, 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 2018). 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 $43 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

	--Fiscal year ended June 30,--				Medians
	2015	2014	2013	2012	Private colleges and universities 'A' 2013
Enrollment and demand					
Headcount	15,902	15,957	15,720	16,040	MNR
Full-time equivalent	14,613	14,649	14,333	15,028	3,442
Freshman acceptance rate (%)	63.3	85.0	58.0	54.9	64.0
Freshman matriculation rate (%)	17.7	19.1	17.6	19.7	22.2
Undergraduates as a % of total enrollment	64.9	63.7	61.9	61.4	77.7
Freshman retention (%)	N.A.	85.7	85.3	87.3	86.5
Graduation rates (five years) (%)	72.3	70.0	68.4	67.1	74.8
Income statement					
Adjusted operating revenue ($000s)	N.A.	683,336	642,617	619,104	MNR
Adjusted operating expense ($000s)	N.A.	648,577	611,684	574,825	MNR
Net operating income ($000s)	N.A.	34,759	30,933	44,279	MNR
Net operating margin (%)	N.A.	5.36	5.06	7.70	1.60
Change in unrestricted net assets ($000s)	N.A.	79,230	74,074	39,363	MNR
Tuition discount (%)	N.A.	29.5	29.0	28.7	34.2
Tuition dependence (%)	N.A.	71.1	71.5	72.7	70.5
Student dependence (%)	N.A.	80.1	79.2	80.7	MNR
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	8.5	8.3	8.0	MNR
Endowment and investment income dependence (%)	N.A.	1.2	1.1	0.8	MNR
Debt					
Outstanding debt ($000s; including unamortized premium)	N.A.	557,429	584,666	593,865	89,201
Current debt service burden (%)	N.A.	7.54	3.76	1.90	3.93
Current MADS burden (%)	N.A.	8.86	9.32	9.92	MNR
Financial resource ratios					
Endowment market value ($000s)	N.A.	538,523	461,949	405,955	197,497
Cash and investments ($000s)	N.A.	842,548	781,208	814,853	MNR
Unrestricted net assets ($000s)	N.A.	1,015,555	936,325	862,251	MNR
Expendable resources ($000s)	N.A.	666,777	663,931	711,046	MNR
Cash and investments to operations (%)	N.A.	129.9	127.7	141.8	139.3
Cash and investments to debt (%)	N.A.	154.2	133.6	137.2	243.8
Expendable resources to operations (%)	N.A.	102.8	108.5	123.7	90.3
Expendable resources to debt (%)	N.A.	122.0	113.6	119.7	151.5
Average age of plant (years)	N.A.	9.3	9.4	9.8	12.5

Loyola University of Chicago

For fiscal 2012 and 2013, the acceptance rate includes completed applications. 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). 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- and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net PPE - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. MNR--Median not reported. N.A.--Not available.

Related Criteria And Research

Related Criteria

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of November 21, 2014)		
Loyola Univ of Chicago		
Long Term Rating	A/Stable	Affirmed
Illinois Fin Auth, Illinois		
Loyola Univ of Chicago, Illinois		
Illinois Finance Authority (Loyola University of Chicago)		
Long Term Rating	A/Stable	Affirmed