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Ratings

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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/Positive	Outlook Revised

Rationale

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

The outlook revision reflects our view of LUC's growth in enrollment, which is expected to continue while maintaining strong student quality. LUC has also maintained robust operating performance with sustained operating surpluses that have 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 could lead to an upgrade in the next two-years.

We assessed LUC's enterprise profile as strong, characterized by growing enrollment, strong student quality, and diverse professional and graduate program offerings. 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 bullet payments upcoming, it has been rapidly paying down debt and has sufficient reserves to offset the large debt burden that includes upcoming bullet payments.

Combined, we believe these credit factors led to an indicative standalone credit profile of 'a' and a final rating of 'A'.

The rating reflects our opinion of LUC's:

- Growing full time equivalent (FTE) enrollment with 15,446 students for fall 2017 and expectation of growth to continue for fall 2018;
- Robust operating performance with an operating margin of 6% for fiscal 2017 compared with 4.3% for fiscal 2016 and an expectation of another full-accrual surplus in fiscal 2018;
- Solid available resources, equal to 87% of expenses and 162.8% of total pro forma debt for fiscal 2017; 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 12.2% in fiscal 2017 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 5.4%; and
- High student dependency of about 83% in fiscal 2017.

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, IL, the Cuneo mansion and gardens in Vernon Hills, IL, and the Rome Center in Italy.

Total outstanding debt as of fiscal year end 2017 is $440 million including $74 million outstanding in commercial paper that S&P does not have a rating on. During fiscal 2018, LUC refinanced its series 2007 bonds with 2017-term loan and repaid its entire 1997 medium term notes ($21.1 million) and the 2012 term note with PNC ($18.9 million). In addition, the university repaid the remainder of its series 2003C taxable direct obligation bonds, $11.5 million during fiscal 2019 (current fiscal year). We have accounted for the full repayment of these bonds for the purposes of this analysis given that management was able to provide sufficient evidence of payment in full. Total pro-forma debt outstanding as of year-to-date is approximately $388 million.

Outlook

The positive 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 consistent with recent operating results that are sufficient to repay debt under the accelerated repayment plan, as well as grow available resources to levels commensurate with a higher rating. We do not expect any additional debt issuances during the outlook period.

Upside scenario

We could raise the rating during the two-year outlook period if LUC showed sustained enrollment growth while maintaining financial operations at current levels and increasing available resources ratios.

Downside scenario

We could revise the outlook to stable during the next two years if the university's enrollment growth was stagnated or if operating performance starts to weaken from current levels and if available resources do not improve further. 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. 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 2017, total FTE student enrollment was 15,446 compared with 15,185 for fall 2016, a modest 1.7% increase. Most of the growth occurred at the undergraduate level; graduate and law school enrollment declines are consistent with the national trend. 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 also made a decision to suspend the goal of continued improvement in the academic profile of the freshmen class and reverting to admission criteria used in fall 2008, which it has maintained for fall 2017 but 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 2018 of approximately 2%. We view this trend of growing enrollment positively.

As such, ACT scores remained stable at about 26.8 for fall 2017 compared with 26.5 for fall 2016, which remains 20% above the national average. We continue to view student quality as above average. The retention rate improved slightly for fall 2017 to 83% but management's goal is to improve it to 90%.

Over the last four years freshmen applications have steadily increased, with a modest 3.8% increase in applications for fall 2017. For fall 2017, applicants totaled 23,571, up from 22,712, in fall 2016. Selectivity has varied during the same period, ranging from 63%-85%. However, for the last three years it has been stable in the range of 70-72%.

We consider LUC's matriculation rate weak compared with its peer institutions due to strong regional competition for high-quality students. For 2017, matriculation was stable at 16%. The university's geographical draw is very Midwest centric with about 55% 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.

The university has elected Dr. Jo Ann Rooney as its 24th president, who assumed the role as of Aug. 1, 2016. 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. The university has recently made certain changes to its senior level cabinet positions with appointing Wayne Magdziarz as the senior vice president, chief financial officer and chief business officer and Margaret Faut Callahan as the acting provost and chief academic officer. Both Wayne and Margaret have been with the university in other positions and come with a long tenure of serving the university. The university is currently looking to fill the senior vice president of development position. 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 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; 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 to 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, 2017, operating income on a full-accrual basis was $43.3 million, or a 6% operating margin, compared with $29.7 million, or a 4.3% margin, for fiscal 2016. Management attributed the robust operating results primarily to growth in enrollment leading to increased net tuition revenue and overall growth in revenues. LUC expects another operating surplus for fiscal 2018, consistent with fiscal 2017 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.

Although tuition-discount pressure exists, LUC manages it within the operating budget, in our view. The discount for the fall 2017 freshman class was 48.3% compared with 47% in fall 2016, a trend we consider consistent with LUC's peer institutions. The overall tuition discount rate, however, was a modest 32.8% for fall 2017. Like many private universities, LUC is working to reduce its rate of tuition increase recently.

For the 2017-2018 academic year, undergraduate tuition was $41,720, or $57,158 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 reserves of about $75 million even during low-cash cycles.

Available resources

Available resources for fiscal 2017 are solid for the rating category, in our view. Available resources, measured by expendable resources, were solid at $631 million as of fiscal year-end June 30, 2017, or 87% of adjusted operating expenses and 143.7% of total debt as of fiscal 2017-year end; however, on a pro forma basis they are much stronger at 162.8%.

As of June 30, 2017, the market value of the investment pool was $664 million, which includes $69 million of institutional reserves with the remainder in the university endowment. The long-term portfolio asset allocation currently is about 71% equities, including public and private, strategies; 9% in credit strategies; 11% in investment-grade fixed-income; and 9% 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 2017 is $440 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 unremarketed rollovers on the $95-million authorized commercial paper program, with $74 million outstanding, is provided by a bank liquidity facility from PNC Bank. In fiscal 2018, LUC refinanced its series 2007 bonds with 2017-term loan and repaid their entire 1997 medium term notes ($21.1 million) and the 2012 term note with PNC ($18.9 million). In addition, the university repaid the remainder of its series 2003C taxable direct obligation bonds, $11.5 million during fiscal 2019 (current fiscal year). We have accounted for the full repayment of these bonds for the purposes of this analysis given that management was able to provide sufficient evidence of payment in full. Total pro forma debt outstanding as of year-to-date is approximately $388 million.

Including bullet payments, the university has relatively high MADS at 12.2% of fiscal 2017; however, when we smooth the debt service, we believe MADS is more manageable at approximately 5.4%. 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 funds into the internal bank. Management reports that the balance is currently $80 million and that funds are invested as both working capital and long-term investments. As part of the repayment plan, the university plan calls for using a portion of budgeted depreciation expenses for debt repayment, as well as other designated operating surpluses. 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--				
	2018	**2017**	**2016**	**2015**	**2014**
Enrollment and demand					
Headcount	16,673	16,422	16,437	15,902	15,957
Full-time equivalent	15,446	15,185	14,845	14,613	14,649
Freshman acceptance rate (%)	70.6	72.6	71.3	63.3	85.0
Freshman matriculation rate (%)	16.0	15.9	14.3	17.7	19.1
Undergraduates as a % of total enrollment (%)	68.5	67.8	67.4	64.9	63.7
Freshman retention (%)	83.1	82.3	86.0	86.0	85.7
Graduation rates (six years) (%)	77.2	74.9	73.7	73.0	N.A.
Income statement					
Adjusted operating revenue ($000s)	N.A.	768,369	720,968	703,636	677,396
Adjusted operating expense ($000s)	N.A.	725,077	691,216	672,551	648,577
Net operating income ($000s)	N.A.	43,292	29,752	31,085	28,819
Net operating margin (%)	N.A.	5.97	4.30	4.62	4.44
Change in unrestricted net assets ($000s)	N.A.	79,012	(1,470)	21,340	79,230
Tuition discount (%)	N.A.	32.8	31.1	30.1	29.5
Tuition dependence (%)	N.A.	73.9	72.5	71.9	71.7
Student dependence (%)	N.A.	83.0	81.7	81.2	80.8
Research dependence (%)	N.A.	5.8	6.4	8.2	8.6
Endowment and investment income dependence (%)	N.A.	1.4	1.3	1.3	1.2
Debt					
Outstanding debt ($000s)	N.A.	439,528	475,135	510,523	546,432
Proposed debt ($000s)	N.A.	22,390	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	387,950	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	39,506	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	7.47	7.86	7.94	7.54
Current MADS burden (%)	N.A.	5.45	5.88	8.54	8.86

Loyola University of Chicago, Illinois Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--				
	2018	**2017**	**2016**	**2015**	**2014**
Pro forma MADS burden (%)	N.A.	5.45	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	593,450	533,614	541,667	538,523
Cash and investments ($000s)	N.A.	907,160	797,834	805,619	842,548
Unrestricted net assets ($000s)	N.A.	1,114,437	1,035,425	1,036,895	1,015,555
Expendable resources ($000s)	N.A.	631,454	534,224	572,995	666,777
Cash and investments to operations (%)	N.A.	125.1	115.4	119.8	129.9
Cash and investments to debt (%)	N.A.	206.4	167.9	157.8	154.2
Cash and investments to pro forma debt (%)	N.A.	233.8	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	87.1	77.3	85.2	102.8
Expendable resources to debt (%)	N.A.	143.7	112.4	112.2	122.0
Expendable resources to pro forma debt (%)	N.A.	162.8	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	10.8	10.2	9.9	9.3

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.

Ratings Detail (As Of July 12, 2018)

Loyola Univ of Chicago		
Long Term Rating	A/Positive	Outlook Revised
Illinois Finance Authority, Illinois		
Loyola Univ of Chicago, Illinois		
Illinois Finance Authority (Loyola University of Chicago)		
Long Term Rating	A/Positive	Outlook Revised