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Loyola University Of Chicago, Illinois; Private Coll/Univ - General Obligation

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Credit Profile		
US$156.705 mil taxable fixed rate bnds ser 2012A due 07/01/2042		
Long Term Rating	A/Stable	New
US$93.11 mil rev bnds (Loyola Univ of Chicago) ser 2012B due 07/01/2042		
Long Term Rating	A/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating to the approximately $155.92 million series 2012A taxable fixed rate bonds issued by and on behalf of Loyola University of Chicago (LUC or Loyola), Ill. We also assigned our 'A' long-term rating to the approximately $94.185 million series 2012B tax-exempt revenue bonds, issued by the Illinois Finance Authority (IFA) on behalf of LUC. We also affirmed our 'A' rating on various revenue bonds issued by the IFA (or its predecessor, the Illinois Educational Facilities Authority) on behalf of LUC. The outlook is stable.

Strong student demand and operating margins that generate significant cash flow to support the university's extensive capital plan support the rating. These strengths help balance significant new debt issuance, both from these series 2012A and 2012B bonds and the $113 million bank term loan that closed in November 2011. Post issuance, we believe Loyola is at its debt capacity for the current rating. We recognize the university has 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. Part of this capital and debt plan is supported by sale proceeds and pledges related to the Trinity Health sale. The sale also eliminated health care operating risk for the organization, which is another strength. Balance sheet ratios are based on the fiscal year ended June 30, 2011 but do incorporate receivables and discontinued operations related to the Trinity purchase of Loyola University Health System (LUHS). We still consider the university's financial resource ratios to be low for the rating category but believe they are not inconsistent with some peer institutions.

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

- Very strong operating performance, with operating margins ranging from 7% to 12% for the past six years, including 10% in fiscal 2011 and another surplus projected for fiscal 2012;
- Stable undergraduate and graduate enrollment, diverse professional and graduate program offerings, and strong student quality;
- Solid fundraising track record as a comprehensive capital campaign was concluded in 2010, exceeding a $500 million goal;
- Significant reduction in health care and debt risk upon the July 1, 2011 sale of the separately secured LUHS operations to Trinity Health (AA/Stable), as well as related cash payments and an agreement to co-fund a research building; and
- No new debt planned after this issuance, with debt proceeds, gifts, and internal funds expected to be sufficient to complete the 2011 through 2016 capital plan.

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

- Significant issuance of $313 million of new debt in fiscal 2012, including these 2012A and 2012B bonds;
- A high pro forma debt service burden of around 10.6% of fiscal 2011 operating expenses (excluding two bullet maturities) although the debt structure and funding plan is intentionally rapid;
- High student fee and tuition dependency of about 80% in fiscal 2011;
- Financial resource ratios that, while stronger at the end of fiscal 2011 due to stronger investment markets and the effect of the sale of LUHS to Trinity Health, remain low for the 'A' rating category; fiscal 2011 expendable resources (ER) were equal to 85% of expenses and 78% of pro forma debt; and
- Strong regional competition for Loyola's high-quality students.

Proceeds of the series 2012A and 2012B bonds will be used to fund $200 million of capital projects in the university's extensive 2011 through 2016 capital plan, as well as to refund about $60 million of outstanding bonds. Management reports that it deferred borrowing for capital projects until fiscal 2012 to reserve debt capacity and to complete the LUHS sale. As a result, LUC has chosen to use these bond proceeds, as well as proceeds from a $113 million bank term loan, to complete its $750 million capital plan. Funding of the plan is a mix of internally generated funds, borrowing, proceeds from the Trinity sale, and gifts. Major capital projects include two new residence halls, student activity and athletic facilities at the Lake Shore campus, a nursing building at the Maywood campus, a research building co-funded with Trinity Health, and (depending on gift receipts), a new business school at the Water Tower Campus. Loyola intentionally created a front-ended debt structure using these 2012A and 2012B bonds and the term loan. As a result, we consider pro forma debt burden (excluding two bullet maturities) high at 10.6% of fiscal 2011 operating expenses, but we anticipate this will moderate to around 5.4% after the bank term loan is repaid in fiscal 2018.

Loyola was founded in 1870 by the Jesuit order and is a private, non-profit, Catholic institution of higher education. It is fully accredited. Enrollment was 16,040 (headcount) in fall 2011. 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 within 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.

On July 1, 2011, LUC sold its wholly owned affiliate, Loyola University Health System, to Trinity Health, a not-for-profit, Catholic health system with hospitals and related health facilities nationwide. While the university's fiscal year ended June 30, 2011, the effect of the sale is largely reflected in the fiscal 2011 financial statements, which included adjustments for losses on discontinued assets, as well as receivables for payments and various commitments from Trinity. Trinity essentially purchased LUC's hospital in Maywood, including various affiliates and clinical operations. LUC retained the education and research components of the health sciences operations, including the schools of medicine and nursing. At closing, and subsequently in fiscal 2012, LUC received $80 million of cash, a net asset reconciliation payment of $49.5 million, and a pledge to fund $75 million of a research building (essentially half the projected cost). As with the LUHS before it, the hospital will be staffed by Loyola medical school faculty, and Trinity will pay LUC about $22 million per year to support the medical school. We view the sale as advantageous to Loyola as it gains a strong partner, reduces health service risk, and receives cash and pledges to fund strategic initiatives.

Outlook

The stable outlook reflects our expectation that, in the two year outlook period, Loyola will maintain stable enrollment and generate operating and cash surpluses that are consistent with recent operating results and sufficient to repay debt under its accelerated repayment plan. We also expect the university will grow into its high debt burden, and that financial resource ratios will improve moderately relative to the rating category. Our outlook does not anticipate any new debt issuance while the term loan is outstanding as we consider the university to be at its debt capacity at the current rating.

Within the outlook period, credit factors that could lead to a negative rating action include operating margins that are 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 was 16,040 for the fall 2011 semester (15,028 full-time equivalents). Management indicates that undergraduate enrollment is nearing capacity although graduate enrollment is expected to increase. In the past four academic years, enrollment was fairly stable, following rapid growth that began around fiscal 2001. Most undergraduate students attend full-time, and in fall 2011 they composed about 61% of headcount enrollment. We view student quality as above average, and entering freshmen classes typically have an average ACT score in excess of 26 (the national average is about 21). The number of freshman applications has been relatively stable, between 17,300 and 17,800 since fall 2007, and management reports it has focused on the quality of its applicant pool rather than the sheer number of applications. Management reports that in both fall 2010 and 2011, as growth objectives were met and academic capacity was approached, a smaller but more targeted number of applicants were admitted. As a result, the selectivity rate improved to 55% in fall 2011 and 59% in fall 2010 compared with rates around 70% in prior years. We consider Loyola's matriculation rate to be reflective of strong regional competition for high-quality students. While it improved to about 19.7% in the past two academic years, we consider this rate weak compared to peer institutions. The university's geographical draw is fairly diverse, with about 60% of undergraduate students coming from Illinois. Enrollment for Loyola's numerous graduate and professional programs, including social work, law, and medicine, has been relatively stable over time.

Management

The university is governed by a 50-member board of trustees, elected for staggered three-year terms. We understand there are currently 45 members due to routine turnover and that the vacancies are expected to be filled. University by-laws 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 eight positions on the board are reserved for Jesuits, and that there is limit of three consecutive terms. In addition, following the Trinity transaction, Trinity has the right to nominate an individual to serve on the board and has done so. The board has 12 standing committees, including a Governance and Trusteeship committee created in March, 2012 to advise the board on governance issues, such as board size, committee composition, and term limits. We understand that amendments to the current bylaws could result from the committee's future recommendations.

Father Garanzini has been Loyola's president since 2001. Management reports that in recent months he has been splitting his time between Loyola and special projects related to higher education for the Jesuit Society Worldwide. As a result, reporting assignments for senior staff were modified to reduce the president's number of direct reports. We understand that senior staff has been stable.

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

The university is in the process of implementing its 2007 through 2015 strategic plan, of which the $750 million capital plan is a part. The strategic plan has six main components, which touch on faculty, mission, academic excellence, inter-disciplinary programs, centers of excellence, faculty initiatives, and capital facilities. We understand that management periodically reviews the goals and the status.

Financial Profile

Financial performance

Loyola has demonstrated consistently strong operating performance in its academic operations. For the fiscal year ended June 30, 2011, operating income (excluding the LUHS operations that were sold to Trinity) on a full accrual basis was $54.3 million or 10% of operating expenses. This compared to $63.8 million in fiscal 2010 (12.4% operating margin), and $47 million in fiscal 2009 (8.9%). We understand that the fiscal 2012 operating budget is on track to generate another operating surplus. Management anticipates that operating margins will narrow in the coming years due in part to increased depreciation expense, given the substantial number of large capital projects under construction or in the capital plan. The university fully funds depreciation expense, which its financial plan partially allocates to repay debt and meet the rapid debt amortization structure.

The bottom-line change in the university's unrestricted net assets (UNA) is more volatile due in large measure to market value fluctuations of endowment investments. In fiscal 2011, unrestricted net assets increased by $171 million, a combination of operating surpluses, stronger endowment market value, and the net effect of the Trinity sale.

The university remains tuition dependent, in our view. The largest sources of fiscal 2011 operating revenue were tuition and student-generated fees at about 81% of adjusted operating revenues, followed by grants (8.6%), unrestricted gifts (0.3%), and endowment spending, including net assets released from restriction (about 4%). 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. Even with enrollment fairly stable in the past two academic years, net tuition revenue increased 4.8% in fiscal 2011 and 6.4% in fiscal 2010. Although tuition discount pressures exist, they are being managed within the operating budget, in our view. The discount for the fall 2011 freshman class was 44%, compared with 38% in fall 2008, a trend we consider consistent with peer institutions.

Like many private universities, Loyola has worked to moderate its rate of tuition increase in recent years. For the 2011-2012 academic year, undergraduate tuition was $32,200 ($44,864 including room and board) and increased by 3.7%, versus 4% in both fall 2009 and fall 2010. The board approved a 2.7% tuition increase for the 2012-2013 academic year for continuing students and a 5% increase for new freshmen.

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. We understand reserves were somewhat lower than usual at the end of fiscal 2011, but management reports that was due to the funding of capital projects in advance of bond proceeds and before Trinity cash payments were received later in fiscal 2012. Management expects to be reimbursed for about $70 million from proceeds of the series 2012A and 2012B bonds. Long-term investments are managed separately.

Financial resource ratios

At June 30, 2011, total net assets were $1.093 billion, of which $822.3 million were unrestricted (UNA), $139 million were temporarily restricted, and $131 million were permanently restricted. We measure Loyola's balance sheet strength using expendable resources. This value adjusts the audited UNA with long-term debt, net plant, and temporarily restricted net assets. Because of the Trinity sale, we believe that fiscal 2011 financial resource ratios are not directly comparable with prior years. At June 30, 2011, expendable resources were $458 million, equal to nearly 85% of operating expenses and 78% of pro forma debt (about $588 million). We consider these ratios low for the 'A' rating category. Cash and investments (including permanently restricted endowment) at June 30, 2011 totaled $480 million. We note that this cash and investment value does not include about $149 million of Trinity payments. We also consider ratios based on cash and investments low for the rating category, at 89% of expenses and 82% of pro forma debt.

Investments and endowment

At June 30, 2011, the market value of long-term investments was $400 million, which does not include the substantial working capital discussed above or cash payments received from Trinity later in fiscal 2012. The university reports long-term investments to be about $420 million at April 13, 2012. At that time, the long-term portfolio had an asset allocation of about 45.4% equities; 33.8% private equity, real assets, real estate, and high-yield investments; and 20.8% 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. This is consistent with the fiscal 2011 audit's presentation of level I, II, and III investments, with levels I and II being the most liquid, and which we consider a proxy for liquidity. We consider Loyola's formal endowment spending rate to be fairly standard, based on 5% of market value at the last Dec. 31. Management reports that it has spent less 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.

Fundraising

Loyola's endowment was $388.7 million at the end of fiscal 2011 and is estimated at $420.6 million at March 31, 2012. The university's capital program benefited significantly from a $500 million capital campaign, which ended in 2010. The campaign was publicly announced in 2008, ended two years before schedule in 2010, and raised $534 million in gifts and pledges.

Debt, pensions, and contingent liabilities

Outstanding debt for the university was $285 million at June 30, 2011. Post-issuance debt is projected to be $588 million and includes the $113 bank term loan, the series 2012 bonds, and $80 million in commercial paper (CP). Most of Loyola's debt is expected to be fixed rate, with only the CP program providing a 14% variable component. Liquidity for any unremarketed rollovers on the $95 million authorized CP program, ($80 million is outstanding), is provided by an $80 million bank liquidity facility from PNC Bank. Standard & Poor's has a separate 'A-1+' CP rating based solely on the bank facility.

The university has an internal "capital asset reserve" 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 $46 million and that the funds are invested as both working capital and long-term investments. As part of the repayment plan for the $113 million bank term loan and the $200 million of net new series 2012A and 2012B bond proceeds, the university plan calls for using budgeted depreciation expense for debt repayment, as well as other designated operating surpluses.

We view the 2012A and 2012B bonds as a general obligation pledge on par with outstanding debt, but note that the series 2012A and 2012B security structure is marginally weaker than the separate Master Indenture (it has no coverage or liquidity covenants). The Master Indenture covenants will continue to remain in effect until related debt matures, which is currently scheduled to occur in fiscal 2024.

Loyola University of Chicago, IL

	--Fiscal year ended June 30--				Medians
	2012	2011	2010	2009	A' rated private colleges and universities 2010
Enrollment and demand					
Headcount (HC)	16,040	15,951	15,879	15,670	MNR
Full time equivalent (FTE)	15,028	14,341	14,337	14,095	3,701
Freshman acceptance rate (%)	54.9	59.6	78.1	73.8	65.0
Freshman matriculation rate (%)	19.7	19.6	15.3	17.1	24.0
Undergraduates as a % of total enrollment	61.4	61.1	63.5	64.6	77.0
Freshman retention (%)	87.3	85.1	84.7	83.7	MNR
Income statement					
Adjusted operating revenue ($000s)	N.A.	594,455	579,305	576,981	MNR
Adjusted operating expense ($000s)	N.A.	540,175	515,500	529,977	MNR
Net operating income ($000s)	N.A.	54,280	63,805	47,004	MNR
Net operating margin (%)	N.A.	10.0	12.4	8.9	MNR
Change in unrestricted net assets ($000s)	N.A.	171,550	273,290	(40,982)	MNR
Institutional tuition discount (%)	N.A.	27.9	27.4	27.8	32.3
Student tuition dependence (%)	N.A.	80.9	79.0	75.5	69.6
Debt					
Pro forma debt ($000s)	N.A.	587,978	290,055	284,488	86,471
Current debt service burden (%)	N.A.	8.70	4.30	4.2	4.30
Pro forma MADS burden (%)	N.A.	10.60	4.30	4.20	MNR
Financial resource ratios					
Endowment market value ($000s)	N.A.	388,739	315,305	278,873	163,132
Cash and investments ($000s)	N.A.	480,658	433,378	371,536	MNR
Unrestricted net assets ($000s)	N.A.	822,888	651,338	378,048	MNR

Loyola University of Chicago, IL (cont.)					
Expendable resources ($000s)	N.A.	458,608	370,934	175,372	MNR
Cash and investments to operations (%)	N.A.	89.0	84.1	70.1	122.2
Cash and investments to pro forma debt (%)	N.A.	81.7	149.4	130.6	211.0
Expendable resources to operations (%)	N.A.	84.9	72.0	33.1	80.7
Expendable resources to pro forma debt (%)	N.A.	78.0	127.9	61.6	125.8
Average age of plant (years)	N.A.	10.9	10.9	10.4	12.3

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). Tuition dependence = 100* (gross tuition 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- 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

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of May 4, 2012)		
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