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

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Illinois Educational Facilities Authority/Illinois Finance 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

S&P Global Ratings affirmed its 'A' rating, with a stable outlook, on Illinois Educational Facilities Authority's, now Illinois Finance Authority, revenue debt, issued for Loyola University of Chicago (LUC).

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, solid balance sheet resources, and sufficient reserves that offset a 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:

- Robust operating performance with an operating margin of 4.3% for fiscal 2016 and an expectation of another full-accrual surplus in fiscal 2017;
- Solid available resources, equal to 77.3% of expenses and 112.4% of total debt for fiscal 2016; and
- No new debt planned with debt proceeds, gifts, and internal funds expected to be sufficient to complete the 2011-2017 capital plan.

The rating also reflects our opinion of LUC's:

- Current maximum annual debt services (MADS) burden of 12.7% in fiscal 2016 with a bullet payment in 2038--We, however, recognize that the university plans to address bullet payments before their call date and that smoothed MADS burden is manageable at approximately 6%; and
- High student dependency of about 81.7% in fiscal 2016.

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 Lakeshore campus in the Rogers Park neighborhood on Chicago's North Side; and
- The Maywood campus, which houses the medical and nursing schools and various health science programs.

The university also owns a retreat and environmental facility in Woodstock, the 98-acre Cuneo mansion and gardens in Vernon Hills, and the Rome Center in Italy.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that during the two-year outlook period, LUC will likely maintain, at least, stable enrollment and generate full-accrual operating surpluses consistent with recent operating results that are sufficient to repay debt under the accelerated repayment plan. We also expect available resources will likely continue to improve moderately relative to the rating category.

Upside scenario

We could raise the rating during the two-year outlook period if LUC were to show sustained enrollment growth and improvement in its demand profile while it produces increasing full-accrual surpluses or if available resources were to increase significantly.

Downside scenario

We could lower the rating or revise the outlook to negative during the next two years if the university were to start generating full-accrual deficits, if available resources were to decrease substantially, if there was a trend of significant enrollment declines, or if the university were to issue additional debt without a commensurate increase in balance sheet resources.

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 since 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 stable-to-growing. For fall 2016, total full-time-equivalent student enrollment was 15,185 compared with 14,845 for fall 2015, a modest 2.3% 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 engineering program and chiefly to its 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.

Although ACT scores declined to 26.3 from a previous high of 27.2, they remained stable at 26.5 for fall 2016, which was still 20% above the national average. We continue to view student quality as above average. The retention rate declined slightly for fall 2016, but management's goal is to improve it to 90%.

After several years of volatile freshman applications, the trend seems to have stabilized with a modest 5% increase in applications for fall 2016. For fall 2016, applicants totaled 22,712, up from 21,555 in fall 2015. Selectivity has been unstable during the same period, ranging from 60%-85%. However, for fall 2016, it was relatively stable at 72%.

We consider LUC's matriculation rate weak compared with its peer institutions due to strong regional competition for high-quality students. For 2016, matriculation increased to 16%, an improvement from 14% in fall 2015. The university's geographical draw is very Midwest centric with about 60% 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. Dr. John Pelissero, who was the interim president, has resumed his role as the provost. The university is currently looking to fill the roles of vice president of advancement and chief investment officer.

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 and parking, 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, 2016, operating income on a full-accrual basis was $29.7 million, or a 4.3% operating margin, compared with $31 million, or a 4.62% margin, for fiscal 2015. Fiscal 2015 operating income included a $7.8 million grant for Mundelein Center, which is not accounted for in the figures above.

Management expects another operating surplus for fiscal 2017, consistent with fiscal 2016 results. We believe operating performance remains sound. Management also has a long-term financial planning forecast that shows sustained operating performance with similar operating results for the next three fiscal years. The university, in our opinion, has a concentrated revenue base with 81.7% 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 2016 freshman class was 47% compared with 40% in fall 2009, a trend we consider consistent with LUC's peer institutions. The overall tuition discount rate, however, was a modest 31.1% for fall 2016. Like many private universities, LUC has worked to reduce its rate of tuition increase recently.

For the 2016-2017 academic year, undergraduate tuition was $40,700, or $55,802 including room and board, an increase of 4%, 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; however, management reports it does not use the line. 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 2016 remain consistent for the rating category, in our view. Available resources, measured by expendable resources, were solid at $534 million as of fiscal year-end June 30, 2016, or 77.3% of adjusted operating expenses and 112.4% of total debt.

As of June 30, 2016, the market value of the investment pool was $604 million, which includes $69 million of institutional reserves with the remainder in the university endowment. The long-term portfolio asset allocation is about 74% equities, including public, private, and real estate and related strategies; 13% in credit strategies; and 13% in cash and fixed-income investments. 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 70% 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 (about 2.5%) 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

Debt outstanding was $475.1 million as of June 30, 2016, including the $65.2-million medium-term loan and $74 million of commercial paper (CP). Most of LUC's debt is fixed-rate debt with only the CP program providing a 16% variable component. Liquidity for any unremarketed rollovers on the $95-million authorized CP program, with $74 million outstanding, is provided by a bank liquidity facility from PNC Bank.

In addition to debt outstanding, LUC has a $20 million line of credit that is currently unused. Including bullet payments, the university has relatively high MADS at 12.7% of fiscal 2016; however, when we smooth the debt service, we believe MADS is more manageable at approximately 6%. The university has an internal bank to provide for strategic capital projects, as well as the repayment of two bullet payments and the medium-term loan, which matures by 2022.

The plan calls for budgeted reserve deposits from the tuition budget, internal auxiliary operations (housing, parking, the medical school, etc.), and other designated funds. Management reports that the balance is currently $65 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 Select Demand And Financial Statistics

	--Fiscal year-end June 30--					'A' private colleges and universities medians
	2017p	**2016**	**2015**	**2014**	**2013**	**2015**
Enrollment and demand						
Headcount	16,422	16,437	15,902	15,957	15,720	MNR
Full-time equivalent	15,185	14,845	14,613	14,649	14,333	3,443
Freshman acceptance rate (%)	72.6	71.3	63.3	85.0	58.0	65.8
Freshman matriculation rate (%)	15.9	14.3	17.7	19.1	17.6	MNR
Undergraduates as a % of total enrollment (%)	67.8	67.4	64.9	63.7	61.9	78.9
Freshman retention (%)	82.3	86.0	86.0	85.7	85.3	86.0
Graduation rates (six years) (%)	74.9	73.7	73.0	N.A.	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	720,968	703,636	677,396	642,617	MNR
Adjusted operating expenses ($000s)	N.A.	691,216	672,551	648,577	611,684	MNR

Loyola University Of Chicago, Illinois Select Demand And Financial Statistics (cont.)

	--Fiscal year-end June 30--					'A' private colleges and universities medians
	2017p	**2016**	**2015**	**2014**	**2013**	**2015**
Net operating income ($000s)	N.A.	29,752	31,085	28,819	30,933	MNR
Net operating margin (%)	N.A.	4.3	4.6	4.4	5.1	1.9
Change in unrestricted net assets ($000s)	N.A.	(1,470)	21,340	79,230	74,074	MNR
Tuition discount (%)	N.A.	31.1	30.1	29.5	29.0	34.9
Tuition dependence (%)	N.A.	72.5	71.9	71.7	71.5	MNR
Student dependence (%)	N.A.	81.7	81.2	80.8	79.2	85.8
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	6.4	8.2	8.6	8.3	MNR
Endowment and investment income dependence (%)	N.A.	1.3	1.3	1.2	1.1	MNR
Debt						
Outstanding debt ($000s)	N.A.	475,135	510,523	546,432	572,644	98,975
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	475,135	N.A.	N.A.	N.A.	MNR
Pro forma maximum annual debt service (MADS)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	7.9	7.9	7.5	3.8	MNR
Current MADS burden (%)	N.A.	5.9	8.5	8.9	9.3	4.5
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	533,614	541,667	538,523	461,949	219,203
Cash and investments ($000s)	N.A.	797,834	805,619	842,548	781,208	MNR
Unrestricted net assets ($000s)	N.A.	1,035,425	1,036,895	1,015,555	936,325	MNR
Expendable resources ($000s)	N.A.	534,224	572,995	666,777	651,909	MNR
Cash and investments to operations (%)	N.A.	115.4	119.8	129.9	127.7	147.0
Cash and investments to debt (%)	N.A.	167.9	157.8	154.2	136.4	263.0
Cash and investments to pro forma debt (%)	N.A.	167.9	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	77.3	85.2	102.8	106.6	93.2
Expendable resources to debt (%)	N.A.	112.4	112.2	122.0	113.8	172.0
Expendable resources to pro forma debt (%)	N.A.	112.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	10.2	9.9	9.3	9.4	13.3

p--Projected. 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 expenses = unrestricted expenses plus financial aid expenses. Net operating margin = 100*(net adjusted operating income/adjusted operating expenses). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expenses/adjusted operating expenses). Current MADS burden = 100*(MADS expenses/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net property, plant, and equipment - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expenses.

Ratings Detail (As Of March 8, 2017)		
Loyola Univ of Chicago		
Long Term Rating	A/Stable	Affirmed
Illinois Finance Authority, Illinois		
Loyola Univ of Chicago, Illinois		
Illinois Finance Authority (Loyola University of Chicago)		
Long Term Rating	A/Stable	Affirmed