MOODY'S
INVESTORS SERVICE

Rating Update: Moody's affirms A2 for Loyola Marymount University, CA; outlook stable

Global Credit Research - 29 Jun 2015

$137M pro forma rated debt

LOYOLA MARYMOUNT UNIVERSITY, CA
Private Colleges & Universities
CA

NEW YORK, June 29, 2015 --Moody's Investors Service affirms Loyola Marymount University's (LMU) A2 ratings on its outstanding rated revenue bonds, all issued through the California Educational Facilities Authority. The affirmations are in conjunction with its recent refunding of its Series 2010B bonds with the Series 2015 Variable Rate Refunding Revenue Bonds, Series 2015, a five year direct placement with Wells Fargo Municipal Capital Strategies, LLC. The outlook is stable.

SUMMARY RATING RATIONALE

The A2 rating reflects LMU's relatively stable student demand despite a highly competitive student market due to a strong program mix and desirable urban location, with continued growth in net tuition revenue and financial resources, and surplus operations providing strong debt service coverage.

The rating also incorporates the university's high revenue reliance on student charges in a highly competitive market, with a small enrollment decline in fall 2014 and expected moderation of operating performance in part from an elevated endowment spend to support to the law school over the next few years.

OUTLOOK

The stable outlook reflects our expectation that LMU's strong fiscal management and healthy flexible reserves will allow it to absorb more modest operating results in the near-term as it works to stabilize its law school operations.

WHAT COULD MAKE THE RATING GO UP

-Continued ability to generate strong cash flow despite law school supplemental funding

-Growth in resource cushion to debt and operations that outpaces A2 peers

WHAT COULD MAKE THE RATING GO DOWN

-Substantial deterioration of resource cushion to debt and operations

-Sustained operating pressure that erodes monthly liquidity

STRENGTHS

-Los Angeles urban comprehensive university with large and diverse enrollment

-Consistent surplus operations, with FY 2014 operating cash flow margin of 17%

-Improving balance sheet metrics due to growing financial resources and annual principal pay down

-Monthly days cash on hand up to a strong 268 days in FY 2014

CHALLENGES

-High revenue reliance on student charges

-Declining law school enrollment adds modest operating pressure with supplemental endowment spending in FYs

2015-2019

-Weak 21% matriculation reflective of highly competitive California student market

RECENT DEVELOPMENTS

Recent developments are incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

MARKET POSITION: STEADY STUDENT DEMAND IN A HIGHLY COMPETITIVE ENVIRONMENT; DIVERSE GRADUATE AND UNDERGRADUATE PROGRAMS

LMU's diverse program offerings and Los Angeles location contribute to overall enrollment stability despite high competitive pressure, particularly for the law school. The university has a good mix of undergraduate and graduate students, with 67% full-time equivalent (FTE) enrollment at the undergraduate level. Total FTE was down approximately 2.5% after many years of modest growth, to 8,981, with declines concentrated in the graduate school of education and the law school.

The university is gradually reducing its law school class sizes to reflect lower demand for legal degrees. Despite declines in the overall law school enrollment, LMU has hit its budgeted law student target for the last two years, and expects to do so again in fall 2015. The target for fall 2015 is similar to fall 2014, but is an approximate 27% decline in new law student class size since fall 2010 which is consistent with national trends.

LMU operates in a highly competitive student market with many other public and private universities in the Los Angeles area, evidenced by its relatively weak 21% freshmen matriculation rate in fall 2014. Despite the competition and decreases in graduate enrollment, LMU has maintained modest, although thinning, year over year net tuition per student growth ranging from 4.2% in fall 2012 to 0.5% in fall 2014.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLAN: SURPLUS OPERATIONS, WITH SLIGHT MODERATION EXPECTED; GOOD GROWTH OF RESOURCES AND LIMITED CAPITAL PLANS

LMU's strong fiscal oversight and demonstrated ability to cut expenses in line with revenue changes is an important credit strength in light of the university's highly competitive market. Operations, which are 86% based on student charges, have remained strong in the last few years, even as net tuition revenue growth has slowed, with a three-year average operating margin of 6% and average debt service coverage of 3.7 times. We expect performance to moderate somewhat, but remain positive over the next few years as the university uses an elevated endowment spend rate to support financial aid and its longer-term law school resizing and stabilization plan. Tuition revenue from the law school represents a significant 14% of total net tuition revenue.

Resource growth is healthy and in line with peers over the last five years due to fundraising, endowment returns, and retained surpluses. Growth will likely moderate in the near term with expected lower investment returns in FY 2015 and a pledge to use approximately $20 million to support the law school over the next few years. Further improvement in resource cushion to debt and operations, combined with continued strong cash flow could lead to positive rating action over time.

Future capital plans are limited and will be dependent upon fundraising. The university has had healthy campus investment with a capital spending ratio of 2.0 times in FY 2014, due to the construction of its life sciences building which was funded by donor contributions while the underground parking garage was funded by the Series 2013A bonds. LMU completed a fundraising campaign in FY 2012 and is currently in the midst of a $100 million fundraising challenge, largely for scholarship support, of which $66 million has been raised.

Liquidity

LMU's liquidity is ample with FY 2014 unrestricted liquidity of $217 million covering operating expenses for 268 days. In addition, the university has approximately $130 million of additional near-term liquidity held in commingled funds in the endowment that could likely be liquidiated within 30 days, but are not considered in our monthly liquidity calculation due to certain redemption clauses. The university's endowment investments are overseen by the Endowment Committee of the Board of Trustees. An investment consultant provides direction and expertise to the Endowment Committee of the Board. Funds within the endowment are well diversified, with no funds holding more than 9% of the portfolio, and only four funds with holdings of greater than 4%.

DEBT AND OTHER LIABILITIES: MANAGEABLE DEBT BURDEN RELATIVE TO GROWING RESOURCES

The university's debt levels are manageable at the current rating, with regular amortization and growth in financial resources leading to improved coverage over the last three years. Expendable financial resources cover debt by 1.9 times and operations by 1.0 times in FY 2014. The university regularly amortizes the majority of its debt, with approximately $168 million of pro-forma debt outstanding as of June 1, 2015. Debt to operating revenues are a modest 0.5 times.

Debt Structure

LMU's recent refunding of its Series 2010B SIFMA Index bonds with the Series 2015 Variable Rate Refunding Bonds (five-year direct placement through Wells Fargo) is a modest credit positive, as it smooths the university's debt service schedule by removing the large bullet payment. LMU's debt structure, all regularly amortizing debt and with only 18% held in a variable rate direct placement, is manageable given ample liquidity and healthy cash flow. LMU has $168 million of pro-forma direct debt as of 5/31/15 (including $38 million of Series 2001A Capital Appreciation Bonds), all issued by the California Educational Facilities Authority.

There is modest remarketing risk associated with the Wells Fargo Series 2015 direct placement once the five year initial term is complete, and the bonds have a remote risk of acceleration if the university does not maintain an unrestricted net assets ratio (unrestricted and temporarily restricted net assets to debt) of 0.9 times. The Series 2001A CEFA bonds are subject to the same financial covenant. As of fiscal year end 2014, LMU had strong headroom under the covenant with 1.9 times coverage, with expected improvement for FY 2015.

Debt-Related Derivatives

The university has a variable-to-fixed LIBOR-based swap with Bank of America to hedge the CEFA 2015 Variable Rate Refunding Bonds that expires on October 1, 2034. LMU is required to post collateral if its rating falls to Baa1 and the mark-to-market liability exceeds $5 million. This threshold falls to zero if the rating is downgraded below Baa1. Given the university's current rating, LMU has not had to post collateral. As of May 31, 2015, the mark-to-market valuation of the swap was a $5.9 million liability for the university.

Pensions and OPEB

The university has limited debt like obligations through a post-retirement health plan (OPEB) and a defined contribution retirement plan. Favorably, related annual expenses are minimal. The OPEB plan has an $11 million liability, which, given the scope of LMU's operations and financial resources, is manageable.

MANAGEMENT AND GOVERNANCE

LMU has a new president as of June 1, 2015 who was previously Vice President for Academic Affairs at Loyola University of Maryland. Other senior leadership is stable.

The university's strong budget oversight and scenario planning is a credit strength, especially in light of pressures at the law school. Management has a demonstrated ability to contain expenses in line with fluctuations in revenue growth, thus generating consistent surpluses that help to grow unrestricted resources. LMU engages in long-range planning and benchmarks against peer institutions, particularly related to tuition pricing.

KEY STATISTICS

- Total FTE Enrollment: 8,981 students

- Total Financial Resources: $508 million

- Total Pro Forma Direct Debt: $168 million (after FY 2015 principal payments)

- Total Operating Revenue: $343 million

- Reliance on Tuition and Auxiliary Revenue (as % of operating revenue): 86%

- Monthly Days Cash on Hand: 268 days

- Operating Cash Flow Margin: 16.6%

- Three-Year Average Debt Service Coverage: 3.7 times

OBLIGOR PROFILE

Loyola Marymount University is a private Jesuit comprehensive university located in Los Angeles. LMU has two campuses, the law school located in downtown LA and the primary 142-acre Westchester campus located in western Los Angeles. Founded in 1911, the university has diversified programs across seven schools (Bellarmine College of Liberal Arts, College of Communication and Fine Arts, College of Business Administration, Frank R. Seaver College of Science and Engineering, School of Education, School of Film and Television and Loyola Law School). For fall 2014, it reported enrollment of nearly 9,000 FTEs.

LEGAL SECURITY

Bonds are an unsecured general obligation of the university and are on parity.

USE OF PROCEEDS

Not applicable.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Eva Bogaty
Lead Analyst
Public Finance Group
Moody's Investors Service

Diane F. Viacava
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street

New York, NY 10007
USA