

THE BOND BUYER

Illinois' rating upswing gives state's public universities a boost

By

[Yvette Shields](#)

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Illinois' positive rating momentum and near-term budgetary commitment to raising higher education funding helped lift the University of Illinois' and Illinois State University's ratings.

Moody's Investors Service last month upgraded Illinois State University's issuer and auxiliary facilities system ratings to A3 from Baa1 and its certificates of participation rose two notches to A3 from Baa2. The upgrade impacts \$194 million of debt and further action could be coming, as Moody's assigned a positive outlook.

Moody's raised the state flagship University of Illinois' issuer rating to Aa2 from Aa3 last week as well as its auxiliary facilities system revenue bonds, COPs, and academic lease revenue bonds. Health Services Facilities System bonds were upgraded to A2 from A3. The school has \$1.5 billion of debt.

"The upgrade of University of Illinois' ratings incorporates the continued improvement in the state of Illinois' credit quality, which lessens risk related to future operating and post-retirement benefits funding," Moody's said.

"The university will benefit from strengthened state support heading into fiscal 2024."



"My budget for this coming year proposes the largest increase for higher education in more than 20 years," Illinois Gov. J.B Pritzker said at a recent stop at the University of Illinois. UI President Timothy Killeen is directly to Pritzker's left. *Illinois press release*

[Moody's raised Illinois'](#) general obligation debt to A3 with a stable outlook from Baa1 last month as the state makes progress on paying down debts, committing more to supplemental pension contributions, and building up a previously empty rainy-day fund to about \$2 billion.

State funding, when counting aid and on-behalf payments for pension and post-retirement benefits, accounted for about 27% of university revenues in 2022. Gov. J.B. Pritzker has proposed raising higher education funding by 10.5%, which would send an additional \$60.5 million to the University of Illinois Systems as part of his [fiscal 2024 budget proposal](#), currently before the legislature.

"The upgrade also incorporates the university's organic revenue growth, steady operations at its affiliate hospital system, and prospects for continued wealth accretion from cash-flow retainment and strong philanthropic support," Moody's said.

The state's flagship also benefits from its membership in the Big 10 Academic Alliance, land grant status, robust revenues of \$7 billion, and a growing enrollment of 95,000 students at its Urbana-Champaign, Springfield, and

Chicago campuses. It also operates an academic medical center and multiple health clinics in Chicago.

The school's healthcare enterprise, with \$1 billion of operating revenue, poses some risks given healthcare sector pressures and it operates in a highly competitive Chicago market, but it fared well fiscally through the COVID-19 pandemic and is managing wage and cost pressures with a surplus similar to fiscal 2022 expected this year.

While the university's ratings suffered during the state's two-year budget impasse that saw long delays and cuts in state aid, its diverse revenue stream helped it weather the troubles better than the state's regional public universities, many of which lost students and saw ratings sink to junk status.

The UI review comes ahead of a \$76 million sale of lease revenue bonds that were rated Aa2 for the Provident Group-SCCIL Properties LLC –University of Illinois Urbana-Champaign Project, a public-private partnership project.

The proceeds will help fund the construction of a South Campus Center for Interdisciplinary Learning, or SCCIL, on the south part of the university's main Urbana-Champaign campus. The facility will house instructional facilities, flexible classrooms, sound stages, and studios for the creation of online learning content, as well as faculty offices. A portion also will fund a four-story parking garage, providing 441 parking spaces.

The facilities are being leased to the university under triple net lease agreements with the rental payments from the university covering debt service. "The rental payments are not subject to abatement, diminution, reduction, or suspension for outstanding lease bonds and for proposed lease bonds after project completion," Moody's said.

UI stands responsible for all operating expenses, capital expenses, maintenance, upkeep, insurance, and other related costs and is providing an equity contribution of nearly \$42 million.

The Auxiliary Facilities System, or AFS bonds, are payable from net revenues of the system. COPs are payable from legally available non-appropriated funds on a subordinate basis from revenue pledged to other bonds. The Health Services Facilities System bonds are secured by net revenue of the system; Medical Service Plan revenue, and College of Medicine net tuition revenue.

The school also has outstanding lease obligations associated with Provident Group — UIC Surgery Center LLC — of \$150 million. Those bonds legally

payable by lease payments made by University of Illinois Health System under a triple net lease agreement.

As lawmakers work toward final budget action, Pritzker has been visiting universities — to promote both his higher education aid and infrastructure proposals for fiscal 2024 — including a stop last week at the University of Illinois.

"My budget for this coming year proposes the largest increase for higher education in more than 20 years," Pritzker said. "That means we can tackle college affordability from two angles: restoring public funding directly to our universities, alleviating the need to raise tuition, and taking MAP grants to new heights so we can provide record-breaking numbers of state scholarships."

In addition to direct aid being raised, the proposed budget provides \$100 million more to the financial aid Monetary Award Program, known as MAP.

Enrollment is on the mend at the state's public universities hitting a high since the budget impasse that ended in 2017, but the uptick is uneven. While the flagship held steady, many of the regional schools were hit hard as they cut programs and staff, which hurt their ability to attract students and several continue to struggle on that front although all have seen some rating improvement.

Pritzker noted the flagship's system enrollment is up 6% from four years ago.

Moody's rates a total of seven of the state's nine public universities. Southern Illinois University was upgraded last year to Baa3 with a stable outlook. Northern Illinois University was upgraded last year to Ba1 with a positive outlook. Eastern Illinois University was upgraded last year to Ba1 with a stable outlook, and Northeastern Illinois University was upgraded to Ba1 with a stable outlook.

Moody's does not rate Chicago State University, Western Illinois University, or Governors State University.

Illinois State, located in Bloomington-Normal, retained a positive outlook in its upgrade to A3 last month.

"The upgrade of Illinois State University's issuer rating to A3 reflects management's ongoing ability to effectively steer the university through multiple periods of fiscal and operational disruption," Moody's said. "Further, continued strengthening of the state of Illinois' fiscal condition with positive downstream effects to the university contribute to an improving operating environment."

ISU relies on the state for about 40% of its \$585 million of fiscal 2022 revenues. The university saw a 5% increase in funding from the state's fiscal 2023 budget,

with additional MAP funding also provided. Additional healthy increases to both funding sources are proposed for fiscal 2024.

"The positive outlook reflects the potential for additional credit improvement if the university is able to navigate the current challenges in the macroeconomic environment, including high inflation and enrollment volatility, while sustaining operating performance and liquidity," Moody's said. ISU has an enrollment of 21,000.