FitchRatings

Fitch Upgrades Midwestern University (AZ) Rev Bonds to 'A+'; Outlook Stable Ratings

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Fitch Ratings-New York-14 September 2011: Fitch Ratings assigns an underlying 'A+' rating to $50 million of adjustable-rate demand revenue bonds, series 2011 issued by the Industrial Development Authority of the City of Glendale, Arizona (the authority) on behalf of Midwestern University (MWU, or the university). The series 2011 bonds (the bonds) are expected to be sold via negotiated sale on or about Sept. 27, 2011 and will be supported by an irrevocable letter of credit provided by JPMorgan Chase Bank, N.A. Fitch expects to assign long- and short-term ratings on the bonds nearer to closing. Bond proceeds will be used to reimburse the university monies expended on capital projects undertaken at the Downers Grove and Glendale campuses.

In addition, Fitch upgrades the rating on approximately $159.6 million of MWU's outstanding series 2010 bonds issued by the authority to 'A+' from 'A'.

The Rating Outlook is Stable.

SECURITY

The bonds are a general obligation of the Obligated Group, which currently consists only of MWU. In addition, MWU has pledged a security interest in its unrestricted receivables.

KEY RATING DRIVERS

Rating Upgraded: The rating upgrade to 'A+' from 'A' reflects MWU's ability to successfully meet strategic initiatives anticipated during Fitch's initial rating, highlighted by successful implementation of new program offerings while simultaneously maintaining robust operating performance.

Healthy Credit Attributes: MWU consistently generates a double-digit operating margin (24% in fiscal 2010), fueled by strong demand, and continues to diversify program offerings to mitigate the effects of potential changes in the healthcare environment in future years.

Experienced Management Team: The senior management team has significant tenure with the organization and maintains conservative budgeting and planning processes; the university exceeded budget projections within its rolling eight-year plan for the last 17 consecutive years.

Strong Student Demand: The increasing level of applications enables MWU to be very selective in its admissions process, with fall 2010 acceptance rates for the Chicago College of Osteopathic Medicine and Arizona College of Osteopathic Medicine equaling 8.6% and 14%, respectively.

Diversified Colleges: MWU has diversification among its colleges, which include health sciences, osteopathic medicine, dental medicine, pharmacy, and optometry.

Historically Stable Debt Burden: The university's debt burden remains somewhat high though manageable, evidenced by consistently strong coverage of debt carrying charges; there are no near-term additional debt plans and no identified deferred maintenance needs.

Fairly Limited Balance Sheet: MWU's balance sheet grows primarily through the generation of operating surpluses, versus growth derived from proceeds of large capital campaigns, as MWU has never had such a campus-wide initiative.

CREDIT PROFILE

Strong Operating Performance

MWU has a history of strong operations. Since 2006, the operating margin has annually increased and reached a sizable 24% in fiscal 2010, with a surplus of $52 million generated. Management expects fiscal 2011 to show another strong year, with a surplus estimated at $55 million. This healthy operating performance is especially impressive given that the university has continued to expand program offerings and has managed to successfully bring new programs on board without affecting the bottom line.

In 2010, available funds, Fitch defined as cash and investments not permanently restricted, grew to $219.4 million, and equaled 151% of operating expenses and 85% of debt. Post issuance, the available funds to debt ratio will decline to approximately 71%; however, not reflected in the ratio is the $50 million of bond proceeds that will replenish the university's coffers. These ratios are adequate for the rating category.

Because of management's prudent budgeting and planning models, Fitch anticipates that operating margins will remain strong for the foreseeable future, with significant surpluses enabling the university over time to bolster balance sheet resources.

Fairly Conservative Investment Allocation

MWU's board restricted assets totaled approximately $74.2 million as of June 30, 2011. The portfolio's asset allocation is fairly conservative, with the largest components being fixed income at 31%, large value at 27.2% and international equity at 10.7%. As alternatives accounted for just 8.7% of the total investment pool, the university does not face significant illiquidity risks often associated with these investments.

Concentrated Revenue Base

MWU's revenue stream is concentrated, with student fees (tuition and auxiliary revenues) accounting for the lion's share, at approximately 87%. This revenue concentration is not unusual for universities in this rating category. What is somewhat unusual is the strong growth in this revenue category, with tuition and fees increasing at an annual rate of approximately 15% during the period 2006 through 2010. This growth is due to both increased headcount and increased tuition charges.

The university has limited exposure to healthcare operations, as less than 2% of the revenue base is generated by its clinics.

Manageable Debt Portfolio

MWU's debt burden is moderately high, averaging 7% over the past three years, but the level has been fairly stable and no additional debt plans are currently anticipated. Historically, MWU has generated good debt service coverage, exceeding 3 times (x) during the period 2005 through 2010 and management projects good coverage through 2017. Given management's history of conservative planning, these projections appear realistic.

The university maintains a somewhat conservative posture toward debt, with many projects funded internally. Other projects are debt financed only after internal funds have been expended and the project is nearing completion. Of the $309 million of capital projects nearing completion or recently completed, only 16% will have been debt financed (i.e. this issuance).

Following the issuance of the variable-rate 2011 bonds, total debt will increase to $304.3 million, of which 76% will be fixed rate and 24% variable rate (without taking into consideration outstanding swaps). MWU's swap program was initiated in May of 2002 and has generated $8.3 million in positive cash flow to date. The university's swap counterparties are Citi and RBC and the swaps contain industry standard risk mitigants and provisions.

Midwestern University is a not-for-profit corporation, providing primarily graduate education in the health sciences. The university is made up of two campuses, offering programs that meet the needs of their respective markets. The Downers Grove (metropolitan Chicago area) campus comprises 117 acres with an estimated enrollment of 2,305. Four colleges are operated on this campus - Chicago College of Osteopathic Medicine, Chicago College of Pharmacy, College of Health Sciences, and College of Dental Medicine - Illinois. The Glendale (metropolitan Phoenix) campus encompasses approximately 147 acres with an estimated enrollment of 2,725. The Glendale campus comprises the Arizona College of Osteopathic Medicine, the Colleges of Health Sciences, the College of Pharmacy Glendale, the College of Dental Medicine - Arizona, and the College of Optometry-Glendale.

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Applicable Criteria and Related Research:

'U.S. College and University Rating Criteria' (July 14, 2011);
'Revenue-Supported Rating Criteria' (June 20, 2011);

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