Chicago’s Roosevelt University gets breathing room with debt restructuring

By Yvette Shields
Published October 03 2018, 3:13pm EDT


CHICAGO — Chicago-based Roosevelt University bought more time for its turnaround plans as it restructured most of its debt in a private placement refunding deal that eases debt service demands in the near and long term.

The university, which lost its investment grade ratings in 2016 due to an enrollment decline and the debt strains from financing its 32-story “vertical” campus tower, closed last week on the refunding of $195 million of debt. That included $9 million this year and $186 in a forward delivery for next year.

The final maturity goes out 40 years, easing annual debt service payments and eliminating the $3 million jump that would have begun in 2021. “It creates a lot of benefits,” said Roosevelt’s Chief Financial Officer Andrew Harris. “And, because of the timing we get good budget relief in the current year.”

The transaction closed last Thursday through the Illinois Finance Authority. Yields landed in the 6% range. Wells Fargo Securities served as the underwriter and placement agent, and the bonds were placed with Preston Hollow Capital.
Over the long term, the restructuring provides more “consistency and certainty” for the school’s finances and “the structure of the refunding harmonizes with our efforts on our Building a Stronger Roosevelt plan,” Harris said.

The plan is the school’s strategy aimed at raising enrollment and reducing debt and operating costs. It calls for various program and curriculum and administrative changes. Harris said enrollment has stabilized and results for the recently ended fiscal year were better than projected and the new fiscal year is so far on track.

As part of the turnaround plan, Roosevelt has the condominiums it owns in the downtown Chicago Gage Building on the market.

The school owns 126,000 square feet of the 207,000-square-foot building near its campus on Michigan Avenue. The school would use proceeds of the eventual sale — which published reports have quoted school officials as saying could fetch about $20 million — to further pay down debt, according to IFA documents.

Harris cautioned any use of proceeds is not yet determined. “Because the sale of Gage, when it happens, might affect existing bondholders, I can’t speculate on how we would use the proceeds,” he said.

Harris — who has held senior positions at University of Chicago, University of North Texas, and Boston University — said the need for a debt restructuring as part of a turnaround plan was clear when he took the job in May because debt service was consuming too much of the budget. He started eyeing a private placement.

The restructuring refunded a portion of the school’s original $46 million of 2007 bonds and all of the outstanding debt in its original $184 million of 2009 paper. The Gage Building acquisition was partially financed with the 2007 bonds and construction of the “vertical” tower was financed with the 2009 proceeds.

The IFA board approved the transaction at its September meeting.

The university’s current ratings on its 2009 bonds are Ba3 from Moody’s Investors Service and a BB from Fitch Ratings. The 2007 bonds are rated B1/BB, respectively. All carry a negative outlook from both rating agencies.

The 2009 bond issue carried initial ratings of Baa2/BBB-plus and the 2007 bonds were rated Baa1/A-minus. The 2009 bonds benefit from a mortgage pledge and reserve fund.

The refunding bonds were not rated. The new bonds have a final maturity in 2058. The 2007 bonds had a final maturity in 2037 and the 2009 bonds in 2044.

The new bonds are secured by a general unrestricted revenue pledge of the university, a mortgage on the university’s real estate holdings, including substantially all of the university’s real estate holdings in Chicago and Schaumburg with the exception of the Gage Building office condominiums, according to the IFA.

Roosevelt, which also operates a campus in the northwest suburb of Schaumburg, was established in 1945, named in honor of President Franklin D. Roosevelt and First Lady Eleanor Roosevelt. It has an enrollment of 4,500. It offers 73 majors and 38 minors and 46 graduate and three doctoral programs through five colleges.

Moody’s last lowered its rating on the school in June, dropping the 2009 bonds two levels to Ba3 from Ba1 and the 2007 bonds to B1 from Ba2, reflecting “the university’s material structural imbalance, with large operating deficits and insufficient debt service coverage that require draws on the university’s reserves.”

“Roosevelt’s very high financial leverage and associated fixed costs are becoming increasingly unaffordable as its scale declines,” Moody’s wrote. “Favorably, a relatively new, but experienced, management team has implemented observable expense reductions and is working towards a broader plan to achieve break-even operations by fiscal 2020.”

Fitch last downgraded the bonds in February, citing negative operating margins seen in fiscal 2016 and expected in fiscal 2017.
While the school’s academic mission takes priority and it has no other borrowing plans, Harris said the school does hope to regain its investment grade rating in the coming years.

“We recognize we have a lot of hard work to get back to that level,” he said.