

**Rating Update: Moody's upgrades Jewish Federation of Metropolitan Chicago (IL) to Aa3; outlook stable**

---

Global Credit Research - 31 Jul 2015

**Issuer rating; no underlying debt rating**

JEWISH FEDERATION OF METROPOLITAN CHICAGO, IL  
Not-for-Profit Organizations--Foundations, Museums, Other (excludes Health Care & Higher Education)  
IL

NEW YORK, July 31, 2015 --Moody's Investors Service upgrades the Jewish Federation of Metropolitan Chicago IL's (JFMC or Federation) issuer rating to Aa3 from A1. The outlook is stable.

**SUMMARY RATING RATIONALE**

The upgrade to Aa3 is supported by JFMC's material growth in cash and investments driven in part from acquiring the assets of two large foundations. The Aa3 rating further reflects a history of robust philanthropic support bolstered by its affiliation with the Jewish United Fund, exceptional liquidity, and strong financial resource coverage of debt and operations.

Offsetting challenges include high reliance on gift support and endowment distribution, a complex debt structure largely of guaranteed obligations, and elevated debt relative to revenue.

**OUTLOOK**

The stable outlook reflects the expectation that JFMC will maintain a strong financial resource cushion to debt and expenses, strong fundraising and prudent management of its debt guarantee program.

**WHAT COULD MAKE THE RATING GO UP**

- Substantial growth in liquid financial resources relative to debt
- Sustained strong philanthropic support

**WHAT COULD MAKE THE RATING GO DOWN**

- Material decline in financial resources, unrestricted liquidity, or gift revenue
- Significant increase in financial leverage

**STRENGTHS**

- Financial resources of more than \$1.3 billion, much highly liquid, provide a strong cushion of debt and operations
- Flexible operations with appropriations, distributions and grants representing 82% of expenses
- Strong donor recognition through the Jewish United Fund and community support in the Chicago metropolitan area drive robust fundraising
- Effective use of policies and procedures governing JFMC's debt-guarantee process

**CHALLENGES**

- Vulnerability to external market conditions given a high dependence on gifts and endowment distribution at a combined 90% of Moody's adjusted operating revenue
- Complex debt structure for guaranteed obligations of affiliates necessitates careful oversight and monitoring
- Exposure to operational risks of guaranteeing debt for financially weaker organizations

## RECENT DEVELOPMENTS

Incorporated into DETAILED RATING RATIONALE.

## DETAILED RATING RATIONALE

### MARKET POSITION: SOCIAL SERVICE JEWISH PHILANTHROPY GARNERS STRONG DONOR AND COMMUNITY SUPPORT

JFMC, a well-established Jewish philanthropy in the Chicago area, enjoys strong philanthropic support. The Federation allocates funds to national and international charitable, educational, social welfare, healthcare, and other human service organizations. This broad platform to draw donors positions it for ongoing fundraising success. For FY 2014, total gift revenue exceeded \$154 million for the second year consecutive year, primarily due to large gifts to and distributions from its donor advised fund program. For the past five years, annual gift revenue is still strong, averaging \$111 million.

### OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: STRONG GIFT REVENUE, INVESTMENT RETURNS AND ADDITION OF SUPPORT ORGANIZATIONS DRIVE BALANCE SHEET GROWTH

Management's philosophy of maintaining balanced operations is an important credit factor in the upgrade as it demonstrates prudent stewardship of its large financial resource base. JFMC consistently generates close to breakeven operating margins when solely analyzing core operations, which balances its distributions/appropriations (expenses) with gift revenue.

JFMC's total operations, when including all unrestricted revenues, are more volatile because of fluctuations in gift revenue and donor advised fund distributions. Moody's operating metrics include all unrestricted operating revenues and expenses and substitute JFMC's endowment income distribution with a Moody's-calculated 5% spend rate of the prior three-year average of adjusted cash and investments. The operating cash flow margin was 27% for FY 2014, providing average annual debt service coverage of 59.6 times on modest debt service averaging just \$637,000 over FY 2012-FY 2014.

Gift revenue constitutes JFMC's largest revenue stream (approximately 73% of total operating revenue in FY 2014) and was record levels in recent years. JUF's annual fundraising campaign is a key determinant in the budget process, with its annual campaign raising \$82.1 million in 2014. The other key revenue source is endowment distribution, comprising 22% of revenue.

Federation has a large pool of well-managed and diversified investments. At FYE 2014, \$855 million was invested in the Federation's Pooled Endowment Portfolio (PEP), which had a strong fiscal year return of 16.9%. The nine-month fiscal year-to-date return was 0.8% at March 31, 2015. The remaining cash and investments are invested by other managers, all monitored by JFMC and managed similarly to the PEP, with similar performance history.

Preservation and growth of JFMC's financial reserves are important to maintain the Aa3 rating. Fiscal 2014 expendable financial resources of \$1.13 billion (excludes unitholders and non-controlling interest investors, which could withdraw their investments according to a redemption schedule) nearly doubled since FY 2012, providing a strong cushion to pro-forma debt and operations by 3.5 times and 8.7 times, respectively. The growth was largely driven by acquisition of two different support organizations with \$277 million of cash and investments, with stronger gift revenue and investment returns accounting for the rest.

### Liquidity

The Federation maintains exceptional unrestricted monthly liquidity of \$602 million, equating to 1,692 monthly days cash on hand and would cover Moody's classified demand debt a strong 5.8 times. Unfunded capital commitments in the endowment totaled \$122 million at FYE 2014, up but representing less than 10% of the total portfolio and expected to be called over the medium- to long-term. JFMC's swaps have collateral posting requirements, but there were no collateral postings since restructuring its swap portfolio in 2012.

### DEBT AND OTHER LIABILITIES: COMPLEX DEBT STRUCTURE AND CONTINGENT LIABILITIES

JFMC's good cushion of financial resources relative to debt mitigates high operating leverage and risks associated with guaranteeing debt for financially weaker organizations. FY 2014 expendable financial resources to pro forma debt of 4 times offsets the moderately high pro forma debt to revenue of 1.6 times in FY 2014. Of \$280 million of

pro-forma debt, approximately 92% is in the form of guarantees.

JFMC maintains comfortable headroom against its financial covenant under the Guarantee agreements to maintain a ratio of Unrestricted Liquid Assets to Total Debt (all secured indebtedness and contingent obligations) of 1.00 times reported on December 31 and June 30. The most recent calculation was 3.79 times. Failure to maintain this covenant is considered an event of default and could lead to acceleration of the guaranteed debt.

#### Debt Structure

Despite a complex debt structure, which consists of variable rate debt, financial covenants, and interest rate swap agreements, the growth in the Federation's financial reserves and liquidity relative to debt lessens some of the associated risks. Approximately 90% of total pro forma direct debt, which includes guarantees, has a variable interest rate.

#### Debt-Related Derivatives

JFMC has six interest rate swaps with three financial institutions for a total notional amount of \$214 million expiring on various dates through 2041. JFMC is required to post collateral when the net present value of the swaps exceeds \$26 million with JP Morgan and \$17.5 million with Wells Fargo. As of June 30, 2014, the mark-to-market was a \$21 million liability to JFMC.

#### Pensions and OPEB

JFMC has a low operating burden from retiree benefit plans. It offers a multi-employer defined benefit (DB) and defined contribution plans. The DB plan is relatively well funded at approximately 73% with plan assets of \$75 million (compared to a benefit obligation of \$103 million) at FYE 2013 (most recent available). JFMC's contribution to both plans was \$522,000 for FY 2014, just 0.4% of total expenses. Effective July 1, 2012, the DB plan was amended to reduce future benefits by approximately one-third. The Federation does not provide post-retirement health (OPEB) coverage.

#### MANAGEMENT AND GOVERNANCE

The Federation's management of its debt guarantee program and the size of the program will remain a critical credit factor given the risk of guaranteeing debt for financially weaker institutions. JFMC has adequate processes in place to assess a project proposed by an affiliate before committing to a guarantee request. The policies and controls in place are indicative of sound management practices to mitigate the risks involved, but JFMC's history of balanced operations and liquid reserves available to cover debt are highly incorporated into the rating. The rating is sensitive to declines in the balance sheet cushion either through increased leverage or decline in investments.

#### KEY STATISTICS (FY 2014 audited financial data)

- Total Cash and Investments: \$1.2 billion (Excludes funds invested on behalf of Unitholders and non-controlling interest in investments)
- Total Financial Resources: \$1.4 billion
- Total Direct Debt (including contingent loan guarantees): \$264 million (Pro forma Direct Debt: \$280 million)
- Operating Revenue: \$176 million
- Reliance on Gifts (% of Moody's-adjusted Operating Revenue): 73%
- Monthly Days Cash on Hand: 1,692 days
- Operating Cash Flow Margin: 27%
- Three-Year Average Debt Service Coverage: 59.6 times

#### OBLIGOR PROFILE

The Jewish Federation of Metropolitan Chicago (JFMC) is a nonprofit social service organization that makes grants to Jewish agencies and other beneficiaries primarily engaged in charitable, educational, social welfare and health activities.

## LEGAL SECURITY

While we do not have an underlying rating assigned to any of JFMC's debt, all of its debt and debt guarantees are unsecured general obligations.

## USE OF PROCEEDS

Not applicable.

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Organizations (other than Healthcare and Education) published in March 2014. Please see the Credit Policy page on [www.moodys.com](http://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](http://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](http://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](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

### **Analysts**

Erin V. Ortiz  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

Diane F. Viacava  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

Eva Bogaty  
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



© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity,

including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.