Jewish Federation of Metropolitan Chicago, IL

Update to credit analysis

Summary

Jewish Federation of Metropolitan Chicago’s (JFMC, Aa3 stable issuer rating) strong credit quality reflects an exceptional liquidity of over 1,200 monthly days cash on hand, and strong financial resource coverage of debt and operations. JFMC has a strong reputation in the Metropolitan Chicago region as an important social service provider. Further, its affiliation with the Jewish United Fund, a related organization that shares the same board and management, continues to report significant gifts, helps to drive the Federation’s robust philanthropic support. These strengths are offset by a high reliance on gift support and endowment distribution. Additionally, the organization has a complex debt structure largely of guaranteed obligations and elevated debt relative to revenue.

Credit strengths

» Very good unrestricted gift revenues surpassing $143 million since fiscal 2015, supporting the organization’s mission reflecting a very strong donor base

» Substantial monthly liquidity of $605 million provides excellent 6.2x coverage of demand debt

» Strong budgetary management and a flexible operating model driving good operations and cash flow

Credit challenges

» Elevated leverage against somewhat limited scope of operations

» Significant revenue reliance on philanthropic support exposes the organization to revenue volatility during periods of economic downturn

» Complex debt structure, with guaranteed obligations of affiliates now representing 90% of JFMC’s debt
Rating outlook
The stable outlook reflects the expectation JFMC will maintain an ample financial resource cushion to debt and expenses, strong fundraising and prudent management of its debt guarantee program.

Factors that could lead to an upgrade
» Substantial increase in philanthropy generating higher wealth
» Significant growth in a scope of operations paired with a commensurate growth in financial resources
» Meaningful decrease in complexity of debt structure

Factors that could lead to a downgrade
» Weakened financial management and oversight of guaranteed organizations
» Diminishment in liquidity and cash and investments
» Considerable increase in leverage, including guaranteed debt

Key indicators

Exhibit 1

<table>
<thead>
<tr>
<th>JEWISH FEDERATION OF METROPOLITAN CHICAGO, IL</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue ($000)</td>
<td>200,233</td>
<td>176,430</td>
<td>158,501</td>
<td>181,430</td>
<td>216,580</td>
</tr>
<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>59.1</td>
<td>-11.9</td>
<td>-10.2</td>
<td>14.5</td>
<td>19.4</td>
</tr>
<tr>
<td>Total Cash &amp; Investments ($000)</td>
<td>1,031,660</td>
<td>1,218,868</td>
<td>1,232,304</td>
<td>1,146,367</td>
<td>1,307,117</td>
</tr>
<tr>
<td>Total Debt ($000)</td>
<td>261,952</td>
<td>264,458</td>
<td>278,549</td>
<td>361,147</td>
<td>354,342</td>
</tr>
<tr>
<td>Expendable Financial Resources to Total Debt (x)</td>
<td>4.0</td>
<td>4.8</td>
<td>4.5</td>
<td>3.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Expendable Financial Resources to Operating Expenses (x)</td>
<td>7.7</td>
<td>9.7</td>
<td>7.9</td>
<td>7.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand</td>
<td>1,582</td>
<td>1,692</td>
<td>1,452</td>
<td>1,403</td>
<td>1,231</td>
</tr>
<tr>
<td>Operating Cash Flow Margin (%)</td>
<td>31.4</td>
<td>26.7</td>
<td>1.3</td>
<td>12.8</td>
<td>17.2</td>
</tr>
<tr>
<td>Total Debt to Cash Flow (x)</td>
<td>4.2</td>
<td>5.6</td>
<td>138.2</td>
<td>15.6</td>
<td>9.5</td>
</tr>
<tr>
<td>Three-Year Average Gift Revenue ($000)</td>
<td>109,615</td>
<td>133,581</td>
<td>140,549</td>
<td>122,926</td>
<td>119,354</td>
</tr>
<tr>
<td>Annual Debt Service Coverage (x)</td>
<td>116.9</td>
<td>57.6</td>
<td>2.4</td>
<td>24.3</td>
<td>49.2</td>
</tr>
</tbody>
</table>

Expendable financial resources excludes unitholders and non-controlling interest investors
Source: Moody's Investors Service

Profile
The Jewish Federation of Metropolitan Chicago 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. In fiscal 2017 JFMC reported total revenues of over $216 million.

Detailed credit considerations
Market profile: Jewish philanthropic social service provider garners strong donor and community support
JFMC, a well-established Jewish philanthropy in the Chicago area, will garner strong philanthropic support, a reflection of its prominence and reputation in its service area. The Federation allocates funds to national and international charitable, educational, social welfare, health care, and other human service organizations. Its broad donor platform positions it well for ongoing fundraising success. Its 2017 annual campaign generated a record $87 million. Fiscal 2017 total unrestricted gift revenue exceeded $143 million, primarily due to large gifts to and contributions made to its donor advised fund program. The $143 million number does not include the annual campaign which is run through the Jewish United Fund.

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Operating performance: good cash flow from ample gift revenue and active fiscal oversight
JFMC's strong budgetary management will enable it to maintain its reserves, a core credit strength of the organization. Management's philosophy of maintaining balanced operations is an important credit factor as it demonstrates prudent stewardship of its large financial resource base.

JFMC's total operations, when including all unrestricted revenues, are more volatile from fluctuations in gift revenue and donor advised fund distributions. Moody’s operating metrics include all unrestricted operating revenues and expenses and substitute JFMC's reported 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 17% for fiscal 2017, providing average annual debt service coverage of 49.2 times. However, periods of market volatility generally result in weaker operating metrics, such as in fiscal 2015 when the organization posted a weak 1.3% operating cash flow margin. The volatility in operating metrics demonstrates JFMC’s exposure to financial markets and is a core credit risk for the organization.

Gift revenue constitutes JFMC's largest revenue stream at 68% of total operating revenue in fiscal 2017. JFMC's annual fundraising campaign is a key determinant in its budget process, with its annual campaign raising $87 million in 2017. The other key revenue source is its endowment distribution, comprising 28% of revenue.

Wealth and liquidity: exceptional wealth and liquidity
Preservation and growth of JFMC’s financial reserves are important drivers of its strong credit quality. Fiscal 2017 expendable financial resources of $1.3 billion provide a strong cushion to operations by 7.2x. Financial resources exclude outside investors’ ownership in Federation’s investment pool as they are permitted to withdraw their investment in accordance with redemption provisions outlined in their account agreement.

The Federation has a large pool of well-managed and diversified investments. At fiscal 2017, over $1 billion was invested through professionally managed funds. The portfolio had an annual return of 9.6% for 2017. JFMC’s investment committee supervises and is responsible for the strategy and policy of the portfolio with regular meetings.

LIQUIDITY
The Federation maintains exceptional unrestricted monthly liquidity of $605 million. This equates to over 1,200 monthly days cash on hand and covers Moody’s classified demand debt a strong 6.2x. Unfunded capital commitments in the $1.3 billion endowment totaled $200 million at fiscal 2017, the highest in five years.

Leverage: complex debt structure and contingent liabilities
As part of a long-term strategic plan to reduce its total debt exposure, JFMC expects to decrease debt to under $300 million within the next year. For fiscal 2017, expendable financial resources cushioned debt 3.7x. Of $354 million of total debt, approximately 90% is in the form of guarantees of affiliates’ debt.

Debt structure
JFMC has a complex debt structure consisting of variable rate debt with financial covenants and interest rate swap agreements. However the Federation's financial reserves and liquidity lessen some of the associated risks. Approximately 85% of total direct debt, which includes guarantees, has a variable interest rate. The vast majority of variable rate debt is hedged with interest rate swaps to minimize the effects of changes in interest rates.

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 1.00x reported on December 31 and June 30. The most recent calculation was 4.2x. Failure to maintain this covenant is considered an event of default and could lead to acceleration of the guaranteed debt. Fiscal 2017 expendable financial resources to debt of 4 times offsets the moderately high debt to revenue of 1.6 times.

Legal security
All of its debt and debt guarantees are unsecured general obligations.
Debt-related derivatives
JFMC has six interest rate swaps with three financial institutions for a total notional amount of $170 million as of June 30, 2018, expiring on various dates through 2041. JFMC is required to post collateral when the net present value of the swaps exceeds $20 million with JP Morgan and $25 million with Wells Fargo. As of June 30, 2018, the mark-to-market was a $11.9 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 only modestly funded at approximately 61% as of December 2016 (most recent available). JFMC’s contribution to both plans was $512,000 for fiscal 2017, just 0.3% of total expenses. The Federation does not provide post-retirement health (OPEB) coverage.

Governance and management: robust oversight over debt guarantee program
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, as well as balanced operations and liquid reserves available to cover debt.
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