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U of C tries to keep up with the Ivy League

By Claire Bushey August 19, 2013

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AUGUST 19, 2013

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Becker Friedman Institute for Research in Economics, \$105 million Sara Mays

The University of Chicago is on a nearly \$1.5 billion spending spree that will push annual deficits on teaching operations to \$30 million a year and worsen an already heavy debt load.

That's the price of trying to remain one of the country's elite universities.

The centerpiece of university President Robert Zimmer's plan is a **trio of construction projects** already underway. Over the next five years, U of C would create a home for a molecular engineering program, expand the Laboratory

Schools, which teach kindergarten through high school, and convert a seminary into space for an economics institute named for Nobel laureates Milton Friedman and Gary Becker.

For **Mr. Zimmer**, in his eighth year as president, the plan is an opportunity to put his imprint on a 123-year-old university with a history of strong-willed top executives.

The projects, which also include a dormitory and a Hong Kong campus for the Booth School of Business, are necessary to recruit premier teachers and top students, administrators say. Yet to finance construction, Mr. Zimmer, a former provost at Brown University, has proposed issuing up to \$800 million in bonds. That move would burden a school that already has more debt than many of its peers and likely increase the cost of future borrowing.

"That's the balance that management has to play," says Jessica Matsumori, a credit analyst at Standard & Poor's Financial Services LLC in San Francisco who tracks U of C.

While the projects themselves are not new, Mr. Zimmer has not publicly disclosed how he would pay for the \$1.46 billion expansion. Details are contained in a five-year financial plan presented to the U of C board on June 6 that was obtained by Crain's.

Financing will draw on a mix of sources, including:

- \$700 million to \$800 million in debt.
- \$374 million in cash from operations.
- \$100 million in donations.
- \$50 million in real estate sales.
- \$45 million in cost cuts over the next two years.

The board discussed the financial plan in June but does not expect to vote on it, a U of C spokesman says. Each element will be considered separately, and some projects could be

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delayed if they can't be financed.

Mr. Zimmer was not available for an interview but says in a statement that while borrowing entails risk, the school cannot "scale back our academic and programmatic ambitions in a way that risks our future excellence as a university."

The financial plan covers the current phase of a building program highlighted by Mr. Zimmer in 2008 that already includes a new library and arts center on the Hyde Park campus and an academic center in Beijing.

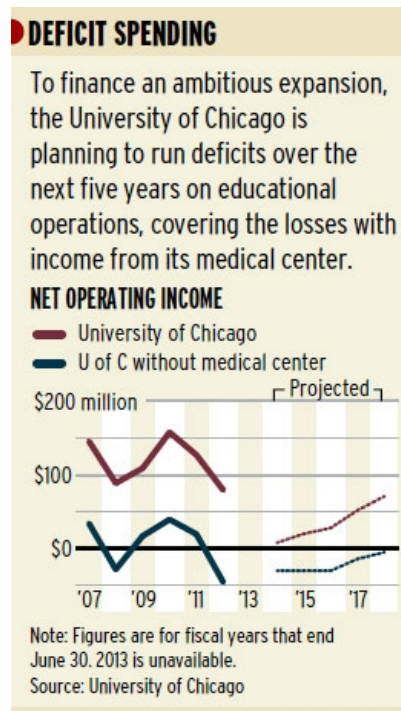
The projects are vital to U of C's future, says David Greene, an executive vice president in charge of strategic planning.

"There's a risk of underinvestment," he says. "If we are in a position where we can't provide an adequate facility for people in astronomy and astrophysics, for example, they're going to go elsewhere because there are other places that will."

Yet the financial plan has its own risks.

Long-term debt is projected to grow by 21 percent, to \$3.37 billion, by the fiscal year ending June 30, 2018, the plan says. As a result, ratings agencies could downgrade the university's credit by as many as two notches. U of C's current rating of Aa1 already is lower than that of key rivals such as Northwestern University, the plan notes, citing Moody's Investors Service Inc.

Northwestern has just \$1.1 billion in long-term debt and a \$7.1 billion endowment, larger than U of C's \$6.6 billion fund. The Evanston university is one of seven U of C rivals that have better credit ratings, including Ivy League members Harvard, Yale and Columbia universities.



Left: William Eckhardt Research Center, \$225 million. Right: Laboratory Schools renovation and expansion, \$192 million Photos by Sara Mays

U of C's educational operations are expected to run operating deficits that would start at \$30 million in the fiscal year ending June 30, 2014, but taper down to \$5 million by 2018, the report says. Revenue from U of C's medical center is projected to cover those losses, keeping the entire university in the black.

The risks are manageable and outweighed by U of C's mission, Mr. Greene says.

"We're not a bank," he says. "Our goal is not to maximize profit to shareholders, like there are in corporate models. Our primary job is to be able to support the faculty and the academic programs at the highest level possible."

Cost-cutting won't affect the quality of research or teaching, administrators say, and special tuition increases aren't part of the financial plan. Undergraduate tuition and room and board will cost \$64,000 this fall, in line with peers. The university has boosted financial aid.

The pressure to compete drives an "arms race" of costly construction projects, says Richard Vedder, director of the Center for College Affordability and Productivity in Washington.

U of C "may be suffering from Ivy envy," he says.