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Delaware County Authority, Pennsylvania
Villanova University; Private Coll/Univ - General Obligation

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Credit Profile		
US$22.0 mil rev rfdg bnds (Villanova University) ser 2012 dtd 11/28/2012 due 08/01/2022		
Long Term Rating	A+/Stable	New
Villanova Univ ICR		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' rating to the series 2012 bonds issued by the Delaware County Authority, Pa. on behalf of Villanova University. At the same time, we affirmed the 'A+' issuer credit rating (ICR) and 'A+' long-term rating and underlying ratings (SPUR) on the university's series 2005, 2006, and 2010 revenue bonds, also issued by the Delaware County Authority. The outlook is stable.

The 'A+' rating reflects Villanova's consistent operating surpluses. Operations remain strong despite slightly lower margins in fiscal 2012.. Demand and enrollment remain consistent and financial resources are in line with the rating category. We expect these metrics to remain stable. The current debt issue is an advance refunding of the series 2003 bonds and does not include any new-money debt. The university states it may issue approximately $150 million of debt over the next two to three years. This could pressure its financial resources, which are currently adequate for the rating. Significant additional debt could result in a negative rating action because the university will no longer be in line with its peers in the upper end of the 'A' rating category.

The rating also reflects our view of the university's:

- Historically strong student demand, demonstrated by stable enrollment, strong application base, generally good selectivity, excellent freshmen retention rates, and good student quality;
- Strong financial operations with consistently good operating surpluses on a full accrual basis and good growth in net tuition and fee income, as well as prudent fiscal management;
- Adequate financial resources for the rating category, with expendable resources of $295 million in fiscal year 2012 (May 31 year-end) equal to 66% of adjusted operating expenses and 152% of debt outstanding; and
- Manageable pro forma maximum annual debt service (MADS) burden of approximately $16.6 million equal to 3.7% of fiscal 2012 adjusted operating expenses, and a predictable, conservative debt structure.

Partially offsetting factors include:

- Expected issuance of a total of $150 million of new-money debt in the next two to three years, which could pressure financial resources;
- Slower growth in net tuition revenue for fiscal 2010-2012, with a smaller surplus for fiscal 2012 and a similar trend

for subsequent years due to an increased focus on affordability;
- Limited revenue diversity with more than 88% of gross revenues in fiscal 2012 coming from student-generated revenues (tuition, fees, and auxiliaries); and
- A relatively small endowment of approximately $357 million as of May 31, 2012, relative to many of its peers.

The series 2012 bond proceeds of approximately $22 million will advance refund the series 2003. The bonds will be secured by a general obligation of the university and will be on parity with outstanding debt. Economic savings is driving the refunding and maturities will not be extended.

Currently all of the university's bonded debt is fixed rate; Villanova has never had interest-rate swaps associated with the bonds. As of May 31, 2012, Villanova recorded $193.6 million of total debt; postissuance the debt load is projected to remain flat. Management states that it may issue $150 million of debt over the next two years to fund the construction of residential halls for undergraduate students. Although this debt will fund a self-supporting project, we expect it will pressure the university's financial resource ratios.

Villanova University is an independent, coeducational institution in Radnor Township, about 14 miles west of Philadelphia. Founded in 1842 by the Augustinian Order of the Roman Catholic Church, the well-maintained 260-acre campus encompasses 75 buildings on Philadelphia's affluent "Main Line" vicinity. Villanova offers a comprehensive array of undergraduate, graduate, and professional degrees, including law, business, engineering, and nursing. In fall 2012, preliminary total enrollment was 10,380, 66% of whom were undergraduates, and nearly all (92%) were full-time students.

Outlook

The stable outlook reflects Standard & Poor's expectation that over the next two years, the university will continue to produce good operating surpluses, albeit smaller than in the past, and will maintain a selective demand profile and financial resource ratios that are in line with the upper end of the 'A' category. The outlook further reflects our expectation that the additional $150 million of debt will be issued beyond our two-year horizon.

A negative rating action is likely if significant additional debt is issued and pressures financial resources to the point that expendable resources are equal to or below 60% operations and 1.2x debt - particularly with weaker operating margins of below 5%. Other factors that could lead to a negative rating action include deficit operating performance on a generally accepted accounting principles (GAAP) basis, significant deterioration of financial resources unrelated to debt issuance, or significant weakening of the demand profile. A positive rating action is unlikely during the outlook period given management's expectations for slimmer operating margins and a potential $150 million debt issuance.

Enterprise Profile

Enrollment and demand

The university has a strong demand profile, characterized by a stable applicant pool, a good level of selectivity, and high retention rates. Although year-to-year applications have fluctuated between 13,000 and 15,000 over the past five years, the university has maintained steady acceptance rates at approximately 45%, which we view as selective. The

freshmen matriculation rate has been pressured over the past five years – as it has for many of its peers in a highly competitive regional market -- and reached a low of 24% in fall 2011 and fall 2012. Management states that demand indicators for fall 2012 are in line with historical trends.

Overall enrollment was down slightly to 10,380 in fall 2012 (10,467 for fall 2011). Management indicates that its on-campus housing is close to capacity, and it plans to keep full-time undergraduate enrollment at the current level of 6,300 to 6,400 for the foreseeable future. Student retention continues to be very strong in our view, with approximately 94% of freshmen returning for their sophomore year in fall 2012. In our opinion, student quality, as measured by SAT scores, remains solid at approximately 1300 in fall 2012. The university draws approximately 67% of its students from the mid-Atlantic states.

Management projects some change in its graduate enrollment with the launch of several online programs. The programs will boost enrollment without putting additional burden on the campus. Villanova's law school, like others across the country, has experienced a decline in applications. The school expects to recalibrate to a smaller size of about 685 students in fall 2012, from 719 in fall 2011, which would reduce expenses as well.

Management

The management team has been quite stable in the past five years. The president has been in place for six years and the finance team for over 10 years. We consider the university's financial management policies and practices to be conservative and on par with best practices, including budgeting on a full accrual basis, producing multiyear projections, and contingencies to produce strong surpluses each year. The university has investment and debt policies, which we also view favorably.

Financial Profile

Operations

Villanova's financial profile is characterized by very good operating performance, a high level of dependence on student-generated income, and generally good financial resources. The university has maintained consistently strong financial operations on a full accrual basis with surpluses of 7%-8% in the past five fiscal years. For the fiscal year ended May 31, 2012, the university produced an operating surplus of $21.9 million (or 4.9% of fiscal 2012 adjusted operating expenses), slightly weaker than previous fiscal years, due to planned increases in financial aid as part of a new focus on student affordability. The long-term plan calls for slimmer, but still robust, margins of approximately 3%-5% over the next five years as the university fulfills its strategic plan related to affordability.

Villanova consistently budgets for operating surpluses and planned savings for endowment although actual results generally exceed budget. Operating budgets routinely incorporate the full costs of depreciation, debt service, and other budgetary reserves. Beginning in fiscal 2009, management implemented various cost-saving measures, including hiring and salary freezes, to offset increases in financial aid and reduced investment income. Management states that over the next several years, it will review its financial aid strategy to build the undergraduate demand profile and maintain high-quality students. We expect that the discount rate may increase to the mid-30% range, which will be more in line with its competitors, from about 28% currently. Given that management plans to continue to produce surpluses during this process of investment, we do not believe it will materially weaken operating performance, although surpluses will

be smaller than before. The university's revenue base is fairly concentrated, with tuition and other student-generated revenues accounting for 88% of total operating revenues.

Financial resources

As of May 31, 2012, expendable resources decreased slightly, due to slight investment losses. Expendable resources were $294.7 million, down 11% from a year earlier, which is equal to 66% of adjusted operating expenses and 152% of debt (outstanding and pro forma), which we consider consistent with the rating category. Cash and investments of $512.5 million were 114% of operating expenses and 264% of debt. All of the university's debt is fixed rate, and the are no swaps related to its debt. Pro forma MADS is, in our view, very manageable at $16.6 million, or 3.7% of fiscal 2012 adjusted operating expenses. In light of capital needs on campus, management may issue $150 million of debt to build residence halls in the next two to three years. We believe that this is a significant amount of debt that could weigh on the rating if there is not commensurate growth in financial resources. Additional capital needs on campus will likely be funded through proceeds from a pending capital campaign or operating cash.

In addition to a significant cash position of $151 million as of May 31, 2012, the university's long-term investments of $376.6 million (as of Aug. 31, 2012) reflect a diverse allocation of assets: 26% domestic equities, 21% global equity, 13% hedge funds, 13% inflation hedging, 7% opportunistic, 8% alternatives, 10% U.S. bonds, and 1% cash. Management states that 54% of the portfolio is liquid on a daily basis and 90% is liquid on an annual basis - which we view as highly liquid. As of May 31, 2012, a majority (68%) of invested assets were classified as levels 1 and 2, which we consider to be a proxy for the relative liquidity of assets. The spending policy continues to be 5%, based on a three-year-rolling average market value.

Fundraising

The university successfully concluded a $300 million campaign in December 2007, raising $304 million. Management expects to start another comprehensive campaign within the next year to support its endowment, scholarships, and capital projects. The goal and timing remain confidential through the campaign's silent phase, but the goal is likely to be larger than the previous campaign. The university's annual fund has been growing modestly over the past few years, raising $5.9 million in fiscal 2012, down from $6.4 million in fiscal 2011. The alumni participation rate rose slightly in fiscal 2012 to 23%, and management expects a further increase.

Villanova University, PA

	Fiscal year ended May 31				Medians	
	2012	2011	2010	2009	Private Colleges & Universities 'A' 2011	Private Colleges & Universities 'AA' 2011
Enrollment and Demand						
Headcount (HC)	10,467	10,482	10,172	10,152	MNR	MNR
Full time equivalent (FTE)	9,477	9,508	8,974	8,928	3,834	4,046
Freshman acceptance rate (%)	44.0	45.1	46.4	39.5	62.0	32.0
Freshman matriculation rate (%)	24.3	25.4	27.0	26.9	25.0	34.0
Undergraduates as a % of total enrollment (%)	66.1	66.7	68.8	69.3	77.0	72.0
Freshman retention (%)	94.2	94.8	94.3	94.8	85.5	94.0
Graduation rates (5 years) (%)	89.0	89.9	88.1	86.8	72.0	87.5

Villanova University, PA (cont.)

Income Statement						
Adj. operating revenue ($000s)	471,254	464,112	448,112	421,316	MNR	MNR
Adj. operating expense ($000s)	449,371	432,437	413,180	386,942	MNR	MNR
Net operating income ($000s)	21,883	31,675	34,932	34,374	MNR	MNR
Net operating margin (%)	4.9	7.3	8.5	8.9	3.1	2.1
Change in unrestricted net assets ($000s)	(6,138)	59,322	33,301	(31,579)	MNR	MNR
Tuition discount (%)	25.3	24.4	23.9	22.0	33.9	36.2
Tuition dependence (%)	74.1	73.1	72.5	72.6	70.2	49.8
Debt						
Outstanding debt ($000s)	193,597	202,601	210,344	216,611	93,958	224,304
Current debt service burden (%)	3.91	3.84	3.92	4.54	4.10	4.00
Current MADS burden (%)	3.70	3.85	4.03	4.38	MNR	MNR
Financial Resource Ratios						
Endowment market value ($000s)	357,022	375,061	302,537	265,715	180,190	989,432
Cash and investments ($000s)	512,452	524,532	441,864	395,344	MNR	MNR
Unrestricted net assets ($000s)	362,326	368,464	309,142	275,841	MNR	MNR
Expendable resources ($000s)	294,731	330,813	257,439	236,706	MNR	MNR
Cash and investments to operations (%)	114.0	121.3	106.9	102.2	136.6	343.7
Cash and investments to debt (%)	264.7	258.9	210.1	182.5	235.3	424.3
Expendable resources to operations (%)	65.6	76.5	62.3	61.2	92.9	224.0
Expendable resources to debt (%)	152.2	163.3	122.4	109.3	160.3	298.7
Average age of plant (years)	14.5	13.6	14.0	14.4	12.6	12.2

Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net PPE - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. MNR--Median not reported.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of October 8, 2012)

Delaware Cnty Auth, Pennsylvania

Villanova Univ, Pennsylvania

Delaware Cnty Auth (Villanova University) Series 2005

Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Delaware Cnty Auth (Villanova University) Series 2006

Ratings Detail (As Of October 8, 2012) (cont.)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Delaware Cnty Auth (Villanova University) 2010		
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.