MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 to Villanova University, PA's $139M Ser. 2015; outlook stable

Global Credit Research - 09 Sep 2015

$295M pro-forma rated debt

DELAWARE COUNTY AUTHORITY, PA
Private Colleges & Universities
PA

Moody's Rating

ISSUE	RATING
Villanova University Revenue Bonds, Series 2015	A1

Sale Amount $138,685,000
Expected Sale Date 09/16/15
Rating Description Revenue: 501c3 Secured General Obligation

Moody's Outlook STA

NEW YORK, September 09, 2015 --Moody's Investors Service assigns an A1 rating to Villanova University's (PA) proposed approximately $139 million of Series 2015 Revenue Bonds (expected final maturity in 2045) issued through the Delaware County Authority. We also affirm the university's existing A1 ratings. The outlook is stable.

SUMMARY RATING RATIONALE

The assignment of the A1 rating is based on Villanova University's ("VU" or "Villanova") fiscal discipline to maintain consistently strong operating performance and significantly grow cash and investments to absorb the large debt issuance.

The rating is further supported by its national reputation as a large Catholic comprehensive university with diverse programs, strengthened fundraising, and straightforward debt structure.

These positive factors are counterbalanced by heavy dependence on student charges in a highly competitive market and a moderate financial resource cushion to debt and operations relative to other A1-rated private universities.

OUTLOOK

The stable outlook reflects expectations for stable enrollment, positive operating margins, solid debt service coverage, and no increase in financial leverage beyond the current issuance.

WHAT COULD MAKE THE RATING GO UP

-Substantial increase in financial resources on an absolute basis and relative to debt and operations

-Greater revenue diversity while maintaining positive operating performance

WHAT COULD MAKE THE RATING GO DOWN

-Deterioration of operating cash flow margins

-Softening student demand or multi-year period of declining net tuition revenue

-Additional debt without compensating increase in revenue and financial resources

STRENGTHS

-National reputation as a large Catholic comprehensive university and noted intercollegiate athletics

-Strong fiscal controls and conservative budgeting and planning drive positive operations and solid projected debt service coverage

-Strong fundraising bolstered by a $600 million fundraising campaign

-All debt is fixed-rate and amortizing

CHALLENGES

-Heavy reliance on student charges (81% of total operating revenue)

-Highly competitive student market, evidenced by constrained net tuition per student growth

-Moderate cushion of expendable financial resources to pro-forma debt compared to A1-rated large universities, at 1.3 times

RECENT DEVELOPMENTS

Villanova is moving forward with a $250 million multi-year project ("Lancaster Avenue project") to develop part of its campus currently occupied by a parking lot that will be funded by the Series 2015 tax-exempt bond issuance, $100 million of university equity, and $7.5 million of state funding. The project entails construction of two residence halls with 1,150 new beds, a student-centered retail component, parking garages and surface level parking, and a pedestrian bridge across Lancaster Avenue, the street dividing the two sections of campus. The project's final completion date is for fall 2019, with the opening of the residence halls. Management anticipates that additional auxiliary revenues would fund debt service associated with the project.

After completing a national search, Villanova appointed its first provost as of August 1, 2015, who previously served as the dean for the business school.

DETAILED RATING RATIONALE

MARKET POSITION: SOLID REPUTATION AS A CATHOLIC UNIVERSITY DRIVES STABLILITY IN A HIGHLY COMPETITIVE MARKET

Villanova's national profile as a large Catholic university with a diverse array of undergraduate and graduate programs supports stable student demand. For fall 2015, the university expects similar enrollment compared to fall 2014 of over 9,600 full-time equivalent (FTE) students. Villanova has leveraged its established reputation to increase graduate enrollment to offset declines at its law school, experienced nationwide.

Villanova's academic reputation and its successful basketball program attract national attention to support ongoing demand. Its high net tuition per student, measuring $27,965 in fiscal year (FY) 2015, reflects both positive student demand and considerable amount of low-discount graduate programs. Net tuition per student growth has stagnated in recent years, reflective of its strategy to gradually increase undergraduate financial aid and the high competition in the northeast from where Villanova draws the majority of students. VU's ability to continue meeting enrollment targets and grow in non-core markets in the West and South while managing its discount rate is an important credit factor given high reliance on student charges. Despite the increased aid, the discount rate remains manageable at 28% for FY 2015.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLAN: FAVORABLE CASH FLOW AND GIFTS LEAD TO GOOD GROWTH OF RESOURCES AND LIQUIDITY

The university will continue to generate surpluses through conservative budgeting and careful expense management. Operating cash flow is good at 15%, providing 3.6 times annual average debt service coverage from FY 2013-2015.

VU has limited revenue diversity relative to similarly rated peers, with tuition and auxiliary revenue representing 81% of total operating revenue in FY 2015 per Moody's calculation. However, Villanova benefits from some diversity within tuition revenue because of its mix of undergraduate, graduate, professional and continuing education students. Nevertheless, the high dependence highlights the importance of maintaining stable enrollment

and growing net tuition revenue.

The university is in the midst of a $600 million comprehensive campaign for which it has raised $435 million, including $81 million in deferred gifts, at fiscal year-end 2015. Nearly 60% of the amount raised has been received in cash. Giving levels have been elevated since the campaign went live in FY 2013, averaging $75 million of gift revenue annually over FY 2013-FY 2015, largely from temporarily or permanently restricted gifts. The campaign is scheduled to conclude in FY 2018.

Strong campaign results, as well as retained surpluses and investment returns have driven an exceptional 84% growth in expendable financial resources since FY 2010. FY 2015 expendable financial resources of $409 million provide moderate coverage of pro-forma debt at 1.3 times and operations at 1.1 times for the rating level.

The market value of VU's endowment portfolio totaled $552 million, with a preliminary one-year return of a modest 1.2% at June 30, 2015. The investment allocation is commensurate with similarly sized endowments. There is concentration with one hedge fund manager of 19%, though the underlying assets are diverse and spread across several managers. Villanova's investment advisor is Cambridge Associates.

Management reports no additional debt plans. In addition to annual capital renewal projects, several large scale capital projects are on the horizon, including a new performing arts center and a renovated basketball arena, which Villanova plans to fundraise the entire cost of these projects.

Liquidity

Villanova's liquidity is very good given manageable capital calls in its investment portfolio, conservative debt structure, and consistent cash flow. For FY 2015, the university had $398 million of unrestricted monthly liquidity translating to 405 days cash on hand. The university maintains a $5 million line of credit, which has not been drawn upon.

DEBT AND OTHER LIABILITIES: CONSISTENT CASH FLOW AND FINANCIAL RESOURCE GROWTH SUPPORT SIZEABLE DEBT INCREASE

Following the Series 2015 issuance, VU has limited additional debt capacity at the current rating over the next several years as it absorbs the increased financial leverage, including spending $100 million of its unrestricted reserves over the next five years. Villanova maintains its A1-rating due to strong fundraising and operating cash flow and growing total financial resources since FY 2010. In addition, we expect the fundraising campaign will continue garnering favorable results, cash flow will remain consistent, and the project will be at least revenue neutral once open.

Debt Structure

All of VU's debt is fixed rate and amortizing, with no bullet maturities. Peak debt service of approximately $25 million occurs in 2025. Maximum annual debt service will consume an elevated 6.7% of operations, up notably from 4.3%, but manageable given management's conservative budgeting.

Debt-Related Derivatives

There are no debt-related derivatives.

Pensions and OPEB

VU has a relatively large $26 million pension and other postretirement benefit (OPEB) liability depressing its net assets and financial resources. The defined benefit (DB) pension plan was closed to new employees at the end of FY 1996. The university offers a defined contribution plan to employees hired since FY 1997 or those that elected to transfer from the DB plan.

Villanova's fiscal 2015 contributions to the retirement plans and postretirement healthcare plan represent a manageable 4% of total expenses.

MANAGEMENT AND GOVERNANCE

Villanova's sound financial standing is attributable to management's disciplined fiscal oversight and multi-year planning. The university consistently achieves margins in excess of its 5% target while continuing to invest in programs, salaries and capital renewal.

Villanova has mitigated the impact of the sizeable debt issuance through improved fundraising and balance sheet growth, which should remain favorable given increased resources to support a larger fundraising infrastructure. In addition, the project is revenue-generating and VU has strong undergraduate demand to support the additional beds. While the Lancaster Avenue project is expensive, university leadership believes investing in student facilities is strategic for attracting students in a highly competitive market.

Villanova is affiliated with the Augustinian Order of the Catholic Church, but is governed by an independent board of trustees currently composed of 34 voting members with diverse professional experiences, including nine members of the Augustinian Order.

KEY STATISTICS (FY 2015 financial data, fall 2014 enrollment data)

-Full-Time Equivalent Enrollment: 9,677 students (fall 2014)

-Total Financial Resources: $683 million

-Total Cash & Investments: $757 million

-Total Pro-Forma Direct Debt: $304 million

-Total Operating Revenue: $416 million

-Reliance on Tuition & Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 81%

-Monthly Days Cash on Hand: 405 days

-Operating Cash Flow Margin: 15%

-Three-Year Average Debt Service Coverage: 3.6 times

OBLIGOR PROFILE

Villanova University was founded in 1842 by the Augustinian Order of the Roman Catholic Church and is located 14 miles west of downtown Philadelphia in the affluent suburb of Radnor Township. A comprehensive university, VU has headcount enrollment of more than 10,500 students across a diverse array of undergraduate and graduate programs.

LEGAL SECURITY

The Series 2015 bonds are secured by a lien and security interest in the university's unrestricted revenues and are on parity with the outstanding bonds. The university also covenants to generate net revenue at least equal to 100% of annual debt service requirements. There are no debt service reserve funds.

USE OF PROCEEDS

Proceeds of the Series 2015 bonds will be used to construct student housing and related capital projects to develop the south side of Lancaster Avenue, and pay issuance costs.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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