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

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Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating on the series 2014 bonds issued by the Delaware County Authority, Pa. on behalf of Villanova University. At the same time, we affirmed the 'A+' long-term rating, issuer credit rating (ICR), and underlying rating (SPUR) on the university's outstanding debt. The outlook on all ratings is stable.

The rating reflects the university's consistent operating surpluses, with margins between 4.5% and 9% in the past five years. The university's demand and enrollment are consistent, and financial resources continue to strengthen relative to that of peers. Management may issue up to $150 million in additional debt in the next two years. We believe the university has some capacity for additional debt at the current rating if it is able to sustain its current profile, and we will evaluate the additional debt at the time of issuance.

The rating reflects our view of the university's:

- Historically strong student demand, as demonstrated by stable enrollment, strong application base, generally good selectivity (49%), excellent freshmen retention rates (94%), and good student quality (1310 SATs);
- Strong financial operations with consistently good operating surpluses on a full accrual basis, with a 4.6% margin in fiscal 2013 and good growth in net tuition and fee income, as well as prudent fiscal management. We expect fiscal 2014 to show similar results;
- Good financial resources for the rating category, with expendable resources of $371 million in fiscal 2013 (May 31 year-end) equal to 80% of adjusted operating expenses and 202% of debt, and expected growth in fiscal 2014; and
- Conservative pro forma maximum annual debt service (MADS) burden of approximately $16.2 million, equal to 3.5% of fiscal 2013 adjusted operating expenses, and predictable, conservative fixed-rate debt structure.

Partially offsetting factors include:

- Relatively flat net tuition revenue growth in fiscal 2013 as a result of an increased focus on affordability, which is also expected for fiscal 2014;
- Limited revenue diversity, with more than 88% of gross revenues in fiscal 2013 coming from student-generated revenues (tuition, fees, and auxiliaries); and
Potential significant debt issuance over the next two years of approximately $150 million, pending township and board approvals.

The series 2014 bonds are being issued to refund the series 2005 and 2006 bonds. The maturities are not extended beyond the original maturities and the cost savings reduce MADS by about $500,000 to $16.2 million in 2024. Management may issue $150 million of debt over the next two years to fund the construction of residential halls for undergraduate students, a performing arts center, and a parking facility. The project has an indeterminate timeline because it is awaiting approval from local authorities and the university's board. We believe the university may be able to absorb the debt at the current level given the significant growth in financial resource ratios in the last fiscal year, expected growth due to the investment of operating surpluses in the endowment, and proceeds from the capital campaign. However, we will assess the credit impact of the new debt closer to the date of issuance.

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 2013, total enrollment was 10,492, 65% of which were undergraduates, and nearly all (92%) were full-time students. Management expects fall 2014 enrollment to remain steady with demand metrics similar to previous years.

Additionally, operating performance is expected to maintain a 5% margin going forward. The university is in the midst of a $600 million capital campaign and has raised approximately 55% of the total goal from gifts and pledges to date. We expect fundraising to remain consistent through the term of the campaign, which will strengthen financial resources.

For more information, see the full analysis published published Dec. 20, 2013.

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 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 university has some debt capacity at the current rating assuming its financial position is maintained or strengthened. Given that debt plans are still tentative, we will evaluate the credit impact at the time of issuance.

Factors that could result in a positive rating action over the two-year outlook period are a significant improvement in financial resource ratios to the level of 'AA' category medians and continued strong operating performance with margins close to 5%. We also would expect enrollment and demand to remain stable. While not expected, a negative rating action is possible if the university produces deficit operating performance on a generally accepted accounting principles basis, or if there is a significant deterioration of financial resource ratios or significant weakening of the demand profile.
Related Criteria And Research

Related Criteria

Ratings Detail (As Of June 19, 2014)

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Many issues are enhanced by bond insurance.

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