STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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

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Credit Profile		
Villanova Univ ICR		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A+' rating on 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+' underlying rating (SPUR) on the university's outstanding debt. The outlook is stable.

The 'A+' rating reflects Villanova's consistent operating surpluses, with margins between 4.5% and 9% in the last five years. Demand and enrollment remain consistent and financial resources continue to strengthen relative to the peers. We believe the university should be able to absorb the planned additional debt in the next few years at the current rating if it is able to sustain its current financial profile. We will evaluate the additional debt at the time of issuance.

The rating 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;
- Good financial resources for the rating category, with expendable resources of $371 million in fiscal year 2013 (May 31 year-end) equal to 80% of adjusted operating expenses and 202% of debt outstanding; and
- Manageable maximum annual debt service (MADS) burden of approximately $16.6 million equal to 3.6% of fiscal 2013 adjusted operating expenses, and a predictable, conservative debt structure.

Partially offsetting factors include:

- Relatively flat net tuition revenue growth for fiscal 2013, as a result of an increased focus on affordability;
- 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.

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.

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 will likely be able to absorb a potential debt issuance 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 of 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, significant deterioration of financial resource ratios, or significant weakening of the demand profile.

Enterprise Profile

Enrollment and demand

The university has a strong demand profile, characterized by a stable applicant pool, a good level of selectivity, high retention rates, and good student quality. Fall 2013 selectivity was slightly weaker than previous years at approximately 49% and matriculation was also weaker at 23%, although student quality improved with average SAT scores of approximately 1300. Management states that given improved student quality, some softening in selectivity and matriculation was expected. We do not believe this is a concern as the university continues to demonstrate significant demand flexibility that supports the current rating. We expect demand to remain strong over the next few years.

Overall enrollment has been stable over the last few years, with enrollment of 10,492 in fall 2013, or 9,563 full-time equivalents (FTE). Undergraduate enrollment was 6,837 as of the same date and in line with historic levels. Management indicates that its on-campus housing is close to capacity, and that it plans to keep full-time undergraduate enrollment at the current level. Student retention continues to be very strong in our view, with approximately 94% of freshmen returning for their sophomore year in fall 2013.

Following the launch of several online programs in the last two years, graduate enrollment has increased, a trend management expects to continue over the next few years. At the same time, law school enrollment has declined, reflecting the reduced demand for law school programs nationally. Overall graduate and professional enrollment rose slightly in fall 2013 to 3,655 students, of whom 3,054 were graduate students and 601 were law students.

Management

The management team has been quite stable in the past five years. The president has been in place for seven 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. Management allocates a portion of surpluses into cash reserves and the quasi endowment annually, which we view positively. The university has investment and debt policies, which we also view favorably as a key credit strength.

Financial Profile

Operating performance

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, 2013, the university produced an operating surplus of $21.3 million (or 4.6% of fiscal 2013 adjusted operating expenses), which is similar to fiscal 2012 performance, but 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 5% over the next five years as the university fulfills its strategic plan related to affordability. We believe that the university's strong and consistent operating surpluses are key to the rating and expect them to continue for the next few years.

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 29% 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, 2013, expendable resources were $371.5 million, up an impressive 26% from a year earlier, which is equal to 80% of adjusted operating expenses and 202% of debt, which we consider good for the rating category. Cash and investments also significantly increased to $577 million, equal to 124% of operating expenses and 314% of debt. Management states that significant increases in expendable resources were due to generous market returns, combined with investment of operating surpluses into cash reserves and quasi endowment, as well as receipt of gifts related to the ongoing capital campaign. Due to the university's policy of investing approximately 50% of its annual operating surplus back into the endowment, financial resources will continue to grow over the next few years. Given the growth in resource ratios, we believe that the university will be able to absorb potential additional debt.

In addition to a significant cash position of $146 million as of May 31, 2013, the university's long-term investments of $453.6 million (as of Oct. 31, 2013) reflect a diverse allocation of assets: 27% domestic equities, 25% global equity, 19% hedge funds, 9% inflation hedging, 2% opportunistic, 7% private capital- growth assets, 8% U.S. bonds, and 3% cash. Management states that 45% of the portfolio is liquid on a daily basis, 65% on a monthly basis, and 90% is liquid on an annual basis. We consider such a portfolio highly liquid. The spending policy continues to be 5%, based on a three-year-rolling-average market value. We believe that the endowment is invested conservatively and that the spending rate is sustainable.

Fundraising

The university recently announced its current capital campaign to raise $600 million; to date approximately $301 million has been raised in pledges, $72 million of which has been collected in cash. Management states that the campaign's goal is to raise $250 million for the endowment, including scholarships, $125 for academic priorities, $150 million for capital projects, and $75 million for the annual fund. This campaign is approximately double the amount raised in the campaign that ended in 2007. We believe that the receipt of funds over the next few years will continue to buoy the university's balance sheet.

Debt

As of May 31, 2013, Villanova had $183.9 million of total debt, all of which is fixed rate. 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. The project still needs to be approved by local authorities as well as the university's board. As such, the timing of the project is unknown. We believe given the significant growth in financial resource ratios in the last fiscal year and expected continued growth due to investment of operating surpluses in the endowment and the capital campaign proceeds, the university will be able to absorb the debt at the current level. In our view, the MADS burden is very manageable at $16.6 million, or 3.6% of fiscal 2013 adjusted operating expenses. Management states that additional capital needs on campus will likely be funded through proceeds from the capital campaign or operating cash.

Villanova University, PA						
	--Fiscal year ended May 31--				**Medians**	
	2014	**2013**	**2012**	**2011**	**Private Colleges & Universities 'AA' 2012**	**Private Colleges & Universities 'A' 2012**
Enrollment and Demand						
Headcount (HC)	10,492	10,380	10,467	10,482	MNR	MNR
Full time equivalent (FTE)	9,563	9,381	9,477	9,508	3,111	3,445
Freshman acceptance rate (%)	48.9	45.6	44.0	45.1	29.0	64.0
Freshman matriculation rate (%)	22.7	24.2	24.3	25.4	35.0	24.0
Undergraduates as a % of total enrollment (%)	65.2	66.0	66.1	66.7	78.0	79.0
Freshman retention (%)	94.0	94.0	94.2	94.8	95.0	86.4
Graduation rates (5 years) (%)	87.6	89.9	89.0	89.9	87.7	74.0
Income Statement						
Adj. operating revenue ($000s)		486,617	471,254	464,112	MNR	MNR

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Villanova University, PA (cont.)					
Adj. operating expense ($000s)	465,283	449,371	432,437	MNR	MNR
Net operating income ($000s)	21,334	21,883	31,675	MNR	MNR
Net operating margin (%)	4.6	4.9	7.3	1.7	2.1
Change in unrestricted net assets ($000s)	53,611	(6,138)	59,322	MNR	MNR
Tuition discount (%)	27.1	25.3	24.4	35.9	34.0
Tuition dependence (%)	73.7	74.1	73.1	48.0	70.2
Debt					
Outstanding debt ($000s)	183,866	193,597	202,601	249,020	95,019
Current debt service burden (%)	3.40	3.91	3.84	3.91	3.98
Current MADS burden (%)	3.57	3.70	3.85	MNR	MNR
Financial Resource Ratios					
Endowment market value ($000s)	425,793	357,022	375,061	987,054	182,270
Cash and investments ($000s)	576,956	512,452	524,532	MNR	MNR
Unrestricted net assets ($000s)	415,937	362,326	368,464	MNR	MNR
Expendable resources ($000s)	371,457	294,731	330,813	MNR	MNR
Cash and investments to operations (%)	124.0	114.0	121.3	341.8	130.2
Cash and investments to debt (%)	313.8	264.7	258.9	414.8	228.3
Expendable resources to operations (%)	79.8	65.6	76.5	202.7	84.9
Expendable resources to debt (%)	202.0	152.2	163.3	261.1	141.4
Average age of plant (years)	15.1	14.5	13.6	12.2	12.5

Median not reported. 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 times (net adjusted operating income/adjusted operating expense). Tuition dependence = 100 times (gross tuition revenue/adjusted operating revenue). Current debt service burden = 100 times (current debt service expense/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. Expendable resources = unrestricted net assets + temporarily restricted net assets - (net property, plant, and equipment - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Criteria And Research

Related Criteria

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of December 20, 2013)		
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 December 20, 2013) (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.