

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

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Credit Profile		
US\$45.205 mil rev bnds (Villanova University) ser 2016 due 12/01/2031		
Long Term Rating	A+/Stable	New
<b>Villanova Univ ICR</b>		
Long Term Rating	A+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'A+' rating to the Delaware County Authority, Pa.'s series 2016 bonds, issued on behalf of Villanova University. At the same time, we affirmed our '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.

We assessed Villanova's enterprise profile as very strong with growing enrollment, high retention, increased applications, and improved selectivity, although matriculation remains somewhat weak. We assessed Villanova's financial profile as very strong, with a history of robust operating surpluses, moderate financial resources, and adequate pro forma maximum annual debt service (MADS) burden. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'aa-'. As our criteria indicate, the final rating can be within one notch of the indicative credit rating. In our opinion, the 'A+' rating better reflects the university's slightly weaker enterprise profile and lower financial resources relative to the 'AA' rating category medians and peers.

The 'A+' rating reflects our view of the university's strengths:

- Historically solid enrollment and demand as evidenced by growing enrollment over the past four years, increasing applications, and ongoing high retention with good student quality;
- Solid financial operations with consistently good operating surpluses on a full-accrual basis, which is expected to continue for fiscal 2016;
- Improving financial resources relative to operations and sufficient financial resources relative to debt expected for fiscal 2016; and
- Average pro forma MADS burden of approximately \$25 million, equal to 5% of fiscal 2015 adjusted operating expenses, and predictable, conservative, front-loaded fixed-rate debt structure.

The 'A+' rating reflects our view of the university's weaknesses:

- Limited revenue diversity, with more than 87% of gross revenues in fiscal 2015 coming from student-generated revenues (tuition, fees, and auxiliaries) which is expected to be similar in fiscal 2016; and
- Significant debt issuance associated with a residence-hall construction project (series 2015 that will be reflected in the fiscal 2016 audit) that weakened financial resources relative to debt slightly.

Proceeds from the series 2016 bond issuance will be used to partially refund the series 2010 bonds. The bonds are secured by a general obligation of the university and will amortize over 15 years. We do not anticipate that the university will issue additional debt.

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. Villanova offers a comprehensive array of undergraduate, graduate, and professional degrees, including law, business, engineering, and nursing. In fall 2015, total enrollment was 10,728, 65% of which were undergraduates, and nearly all (92%) were full-time students.

## Outlook

The stable outlook reflects our expectation that over the next two years, the university will continue to produce good operating surpluses 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 not issue additional debt beyond current levels.

### Upside scenario

We would consider a positive rating action over the two-year outlook period if there was significant growth in financial resource ratios relative to operations and debt more in line with 'AA' rating medians, and improved with selectivity and matriculation that is comparable to 'AA' medians and peers.

### Downside scenario

We would consider a negative rating action over the two-year outlook period if operations weakened significantly or financial resource ratios deteriorated substantially. We would also view a weakening of the demand profile, or additional debt issuance without commensurate growth in resources negatively.

## Enterprise Profile

### Industry risk

Industry risk addresses the higher education sector's overall cyclical risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

### Economic fundamentals

In our view, the university has good geographic diversity, although it is mostly regional. About 18% of students are from Pennsylvania, although 73% are from the surrounding states such as New Jersey, New York, Massachusetts, and Connecticut. Still, because there is no concentration in any particular state, Villanova's economic fundamentals are anchored by the U.S. GDP per capita.

## **Market position and demand**

Overall enrollment has been improving slightly in the last few years; it was 10,728 in fall 2015, or 9,827 full-time equivalents (FTEs). Undergraduate enrollment was 6,994 as of the same date and is slightly up from the prior year. With the ongoing construction of residential dorms, Villanova anticipates being able to offer housing to approximately 85% of undergraduate students. There are no plans to increase undergraduate enrollment significantly from current levels. Management cites that an area of growth in the next few years could be on the graduate side, with additional online programs and expanded programs for working adults. The law school enrollment has stabilized, and management expects that it can reach future targets of around 460. Overall graduate and professional enrollment grew by about 20% in fall 2015, with the majority of the growth in graduate enrollment, which we view positively.

Applications remain solid, growing steadily for the past few years. We consider demand flexibility average with moderate selectivity (around 48% for fall 2015) and relatively weak matriculation (22% for fall 2015). The weak matriculation rate continues to reflect a highly competitive market. Management anticipates some of the demand metrics will improve given the Carnegie Foundation's elevation of the university's classification to the Doctoral Universities category from the Master's Colleges and Universities category, along with the recent NCAA national championship win in men's basketball.

Student quality remains above the national SAT average of 1,012, with average SAT scores of approximately 1,315. The retention rate remains around 96%, which is high compared to rating medians. The six-year graduation rate is also very solid at 90.5% for fall 2015. The overall enrollment and demand profile is sound. As mentioned, the draw from the Northeast remains large, but the students from Pennsylvania only constitute 17%. According to management, Villanova's main competitors are Lehigh University, Boston College, Holy Cross University, Wake Forest University, Bucknell University, and University of Richmond.

Villanova is currently in the middle of a capital campaign to raise \$600 million, including \$250 million for the endowment (including scholarships), \$125 million for academic priorities, \$150 million for capital projects, and \$75 million for the annual fund. To date, it has received approximately \$540 million, with about \$233 million in pledges and \$307 million in cash. Management believes the university is on track to raise the full amount by fiscal 2018. The alumni participation rate is high at 27%, and the university has received some large gifts. We expect that financial resources will increase over time with the ongoing campaign.

## **Management and governance**

The management team has been quite stable in the past five years. The president has been in place for 10 years and the finance team for over 10. There have been new deans for the school of business and the law school, as well as enrollment management, who will all start Sept. 1, 2016. The 32-member board of trustees governing the university has been stable, with only rotational changes.

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 positive 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.

## Financial Profile

### Financial management policies

The college has formal policies for endowment, investments, and debt. It operates according to a 10-year strategic plan and has a formal reserve liquidity policy. It also meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies to comparable providers.

### Financial performance

Villanova's financial profile is characterized by very good operating performance. The university has maintained consistently robust financial operations on a full-accrual basis with surpluses of 5%-7% in the past five fiscal years. We attribute the solid margins to good enrollment and demand and prudent expense management. Management budgets for at least a 5% margin every year (including depreciation), which we view as a best practice. We believe that the university's consistent operating surpluses are a key credit strength.

As with most private universities of its size, Villanova is highly dependent on student-generated fees; tuition, fees and auxiliary revenue generated 87% of fiscal 2015 adjusted revenue, and we believe the percentage will be similar for fiscal 2016. Tuition (including room and board) was in line with peer institutions, although the university plans to increase the discount rate slowly over time to improve the academic profile of the university and attract 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. Management has already built in the increasing financial aid, and is still expecting to see net tuition revenue growth. Margins are expected to be slightly slimmer but still around 5%.

### Financial resources

Expendable resources relative to operating expenses are expected to be in line with medians for fiscal 2016. We note that there was some decline in expendable resources relative to debt given the large series 2015 issuance, but expect that the ratio based on fiscal 2016 results will still be commensurate for the rating. Due to the university's policy of investing approximately 50% of its annual operating surplus back into the endowment, we expect financial resources will continue to grow over the next few years.

The endowment, which had a market value of approximately \$551 million as of May 31, 2016, reflects a diverse, somewhat aggressive allocation of assets: 25% domestic equities, 15% global equity, 8% emerging markets, 21% hedge funds, 6% inflation hedging, 3% opportunistic, 11% private capital-growth assets, 7% U.S. bonds, and 5% cash. Although liquidity is less of a concern as management states that 39% of the portfolio is liquid on a daily basis, 60% on a monthly basis, and 85% on an annual basis. We consider such a portfolio highly liquid. The spending policy remains 5%, based on a three-year rolling-average market value. We believe that this rate is sustainable.

### Debt and contingent liabilities

We expect total pro forma debt post the series 2016 refunding bonds and the series 2015 bonds to be around \$305 million. The university has no contingent liability risk exposures from financial instruments with payment provisions

that change on the occurrence of certain events. Pro forma MADS of \$25 million was equal to what we consider a moderate 5% of fiscal 2015 operating expenses. The projects associated with the series 2015 bonds are on time and on budget, according to management. We do not anticipate the university will issue additional debt in the near term.

Villanova University, PA -- Selected Financial Statistics						
	Fiscal year ended May 31					Medians
	Demand Data 2016	Audited 2015	Audited 2014	Audited 2013	Audited 2012	Private colleges and universities 'A' 2015
<b>Enterprise Profile</b>						
Full-time equivalent	9,827	9,677	9,563	9,381	9,477	3,443
Freshman acceptance rate (%)	47.9	49.3	48.9	45.6	44.0	65.8
Freshman matriculation rate (%)	21.9	21.6	22.7	24.2	24.3	MNR
Freshman retention (%)	95.8	93.7	94.0	94.0	94.2	86.0
Faculty with terminal degrees (%)	88.0	88.0	89.2	85.8	87.9	MNR
Average SAT scores	1,315	1,315	1,310	1,300	1,300	1,184
Average ACT scores	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Freshman Applications	16,198	15,705	14,966	14,901	15,396	MNR
Annual freshman application percentage change (%)	3.1	4.9	0.4	(3.2)	7.2	MNR
Graduation rates (six years) (%)	90.5	89.7	87.6	N.A.	N.A.	MNR
Undergraduates as a % of total enrollment (%)	65.2	65.7	65.2	66.0	66.1	78.9
Tuition discount (%)	29.2	28.3	19.5	27.1	25.3	34.9
Alumni participation rates (%)	27.0	26.0	N.A.	N.A.	N.A.	MNR
Endowment per FTE	N.A.	58,269	52,440	45,389	37,672	61,641
Students from inside of the state (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.9	15.1	15.1	14.5	13.3
<b>Financial Profile</b>						
Net operating margin (%)	N.A.	5.05	5.65	4.59	4.87	1.92
Student dependence (%)	N.A.	86.9	85.5	87.6	88.1	85.8
State appropriation dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.3	1.4	1.3	1.6	MNR
Endowment and investment income dependence (%)	N.A.	3.8	3.8	3.3	1.8	MNR
Other operating revenue dependance (%)	N.A.	0.0	0.0	0.0	0.0	MNR
Endowment spending rate (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	3.34	3.68	3.57	3.70	4.50
Pro forma MADS burden (%)	N.A.	5.22	N.A.	N.A.	N.A.	MNR
Cash and investmtns (\$000s)	N.A.	757,344	666,089	576,956	512,452	MNR
Cash and investments to debt (%)	N.A.	457.2	383.8	313.8	264.7	263.0
Cash and investments to pro forma debt (%)	N.A.	252.5	N.A.	N.A.	N.A.	MNR

**Villanova University, PA -- Selected Financial Statistics (cont.)**

	Fiscal year ended May 31					Medians
	Demand Data 2016	Audited 2015	Audited 2014	Audited 2013	Audited 2012	Private colleges and universities 'A' 2015
Expendable resources (\$000s)	N.A.	489,053	454,634	371,457	294,731	MNR
Expendable resources to operations (%)	N.A.	101.0	103.7	79.8	65.6	93.2
Expendable resources to debt (%)	N.A.	295.2	262.0	202.0	152.2	172.0
Expendable resources to pro forma debt (%)	N.A.	163.0	N.A.	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	484,185	438,570	465,283	449,371	MNR
Total debt	304,998	165,662	173,544	183,866	193,597	98,975
Total pro forma debt	304,998	299,942	N.A.	N.A.	N.A.	MNR
Current debt service	N.A.	17,134	17,414	15,804	17,589	MNR
Pension funded status (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pension expense	N.A.	14,578	14,098	14,089	16,366	MNR
OPEB expense	N.A.	720	744	833	748	MNR
Pct Retired 10 years (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Contingent liabilities	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

**Ratings Detail (As Of August 12, 2016)**

**Delaware Cnty Auth, Pennsylvania**

Villanova Univ, Pennsylvania

**Delaware Cnty Auth (Villanova University) Series 2006**

*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.

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