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Summary: Villanova Univ, PA; Higher Education, Private Coll/Univ - General Obligation

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Credit Profile
muni debt muni issue ser 2002
due 2032
A
Sale date: 15-MAY-2002
OUTLOOK:
STABLE

Rationale

The 'A' issuer credit rating on Villanova University, Pa., reflects:

- Increasing demand for undergraduate and law school admissions and improved selectivity;
- Strong leadership and the consistent application of the mission; and
- Good financial performance, with healthy operating margins.

Another rating factor is solid liquidity, but the university has a slightly weaker balance sheet than those of other 'A' rated credits and a fairly high debt burden. Though the university does not have a history of developed fundraising relative to many other private universities, it seems to have development potential. The board is highly prominent and very involved.

Founded in 1842 by the Augustinian Order of the Roman Catholic Church, the university remains affiliated with the Catholic Church and the order but is governed by an independent board of trustees. No fewer than nine of the board members must be of the order. The ability to confer degrees was first granted in 1848. The college of engineering began in 1905, followed by the college of commerce and finance in 1922 and the colleges of nursing and law in 1953. The university attained university status in 1953. Villanova is located in an affluent suburb of Philadelphia. The attractive campus covers 255 acres and includes 60 buildings.

Today Villanova contains four colleges and a school of law. The largest college is the college of liberal arts and sciences, with approximately 3,390 students, followed by the college of commerce and finance, with 1,870 full-time students and 140 part-time students. In total, the university enrolled 10,260 students for the 2002 academic year. Nearly all of the university's undergraduates (6,587 out of 6,894) are full-time students. Interest in Villanova has grown, and freshman applications have exceeded 10,000 in each of the last three years, a significant increase from the 7,972 the school received in fall 1995. In combination with the rising number of applications, the university has become increasingly selective, with the acceptance rate dropping from 73.5% for fall 1995 to 49.9% for fall 2001. The matriculation rate improved slightly, to 34%, in fall 2001, compared to an average of 29%, and student quality continues to improve. Freshmen-retention and four-year-graduation rates are excellent, at 92% and 80%, respectively. The university has made significant headway in its competitive posture vis-à-vis overlap institutions. Institutions with which the university competes more favorably include Bucknell, Lehigh, Fairfield, Lafayette, and Providence College. For the fall 2001 class, the average SAT score is estimated to be between 1180 and 1310, compared to 1140 and 1280 just five years ago. The law school is Villanova's most selective graduate program. Villanova accepts only 44% of its law school applicants, and a good 32% matriculate.

Villanova is not a major research institution, and because it has not historically focused on private gift giving, it is highly dependent on student-generated

revenue. Tuition and fees and auxiliary operations comprise 86% of the university's operating revenue. However, positive aspects of the university's financial performance have included its ability to improve student quality and grow both net tuition and fee income and its applicant pool while it has limited tuition discounting to 20% of gross tuition. Financial aid as a percentage of operating expenses has held steady, at a manageable 14% of expenses in fiscal 2001. Annual financial operating performance is good, demonstrated by a change in unrestricted net assets from operations of 1.9% to 4.7% for the past five years. Management projects \$11.7 million in unrestricted operating income for fiscal 2002 (before accounting for an early-retirement-plan accrual) and is budgeting for a similar bottom line for fiscal 2003.

Despite endowment growth over the past decade, Villanova's balance sheet lags those of many other private universities with comparable demand. Since 1990, the university, like many other American institutions, has adjusted its asset-allocation targets. Instead of a portfolio that is heavily weighted toward domestic equities—like 78% of the endowment in 1990—the 2001 target is considerably more diverse. The university has targeted an allocation of 48% domestic equities, 15% international equities, 20% fixed income, and 17% alternative assets. The endowment-spending rate is a maximum of 5% of a three-year moving average of market value. The university's most recent capital campaign, with a stated goal of \$125 million, resulted in \$140 million. The university is contemplating an additional campaign at this time but has not yet decided on a goal. Villanova believes that it has laid the groundwork for even more successful development efforts. Individual giving has increased, and students, alumni, and parents all report high levels of satisfaction with the university. Unrestricted resources of \$101 million cover operating expenses by 41% and outstanding debt by 53%. Expendable resources of \$147 million cover operating expenses by 60% and outstanding debt by 77%.

Villanova managed to sustain financial performance throughout the past decade, during which it reduced its undergraduate enrollment from 6,700 students to 6,150 students in order to improve quality and reduce the number of pressures on the physical plant. The university invested \$250 million for the construction and renovation of its physical plant over the past ten years. At the end of fiscal 2001, the university had \$190 million of outstanding debt, with its last major issuance, of \$80 million, in fiscal 1997. With this refunding issue, which will reduce the debt burden and shorten the debt-service schedule, the university's debt burden will be about level, at just more than \$14.6 million, from 2003 through 2016. In 2017, the debt burden will drop slightly, to \$13 million, and will then begin to taper off. Carrying charges are a manageable 5.9% of fiscal 2001's operating expenses of \$247 million. The university has completed a decade of significant campus construction, including major student residences and a new student-health center. Future potential projects include a new law school (or significant renovations), a performing-arts center, and the acquisition of property contiguous to the campus. However, the university has no immediate future debt plans, and these projects currently have no definitive short-term timetable.

Outlook

The stable outlook reflects the anticipation of steady demand and continued good financial performance. No major new debt is planned, so future issuance should remain limited. If balance-sheet resources grow relative to the university's leverage, the rating could be higher in the future.

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