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

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

Credit Profile		
Villanova Univ ICR		
Long Term Rating	A+/Stable	Upgraded
Delaware Cnty Auth, Pennsylvania		
Villanova Univ, Pennsylvania		
Delaware Cnty Auth (Villanova Univ) rev bnds ser 2005 (MBIA)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Delaware Cnty Auth (Villanova Univ) ser 2006 (AMBAC)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services has raised its issuer credit rating (ICR) to 'A+' from 'A' on Villanova University. Standard & Poor's also raised its long-term rating and underlying rating (SPUR) to 'A+' from 'A' on the series 2005, 2006, and 2010 revenue bonds issued for the university by the Delaware County Authority, Pa. The outlook is stable.

The higher rating reflects Villanova's continued strong financial operating performance, prudent fiscal management, conservative debt structure, and improving demand trends.

The rating also reflects our view of the university's:

- Historically strong student demand, demonstrated by stable enrollment, growing applications over a long period of time, generally good selectivity, excellent freshmen retention rates, and very 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;
- Adequate financial resources for the rating category, with expendable resources of $257 million in fiscal year 2010 equal to 62% of adjusted operating expenses and 122% of debt then outstanding; and
- Manageable debt service burden, with maximum annual debt service (MADS) of approximately $16.6 million, equal to 4.0% of fiscal 2010 adjusted operating expenses, and a predictable, conservative debt structure.

Other rating factors include a softening in demand for fall 2009 and slower growth in net tuition revenue for fiscal 2010, limited revenue diversity (with more than 85% of gross revenues from student charges), and a relatively small endowment compared with many of its competitive peers.

The university completed a debt restructuring in 2010 and refinanced both fixed- and variable-rate debt. Currently all of the university's bonded debt is fixed rate, and it has never had outstanding interest rate swaps associated with

the bonds. As of May 31, 2010, Villanova recorded $210 million of total debt.

Villanova University is an independent, coeducational institution located in Radnor Township, about 14 miles west of Philadelphia. Founded in 1842 by the Augustinian Order of the Roman Catholic Church, today the well-maintained 255-acre campus encompasses 66 buildings located on Philadelphia's affluent "Main Line."

Villanova offers a comprehensive array of undergraduate, graduate, and professional degrees in a variety of schools, including law, business, engineering and nursing. In fall 2010, 67% of enrolled students were undergraduates, and nearly all (91%) are full-time students.

Outlook

The stable outlook reflects Standard & Poor's expectation that the university will continue to demonstrate strong financial performance, steady student demand, and stable financial resources relative to operating expenses and debt.

We could consider a lower rating if Villanova issues a significant amount of new debt that dilutes financial resources levels, or experiences significant deterioration in financial performance. Conversely, significant growth in financial resources resulting in levels that are consistent with higher rated entities, combined with an improvement in the competitive profile could have positive rating implications.

The University

The university has a strong demand profile characterized by applicant pool that has grown over time, a good level of selectivity, and high retention rates. First-time student applications grew significantly from fall 2004 to fall 2008, until a decline in fall 2009, which management indicates is consistent with its peer competitors, and a subsequent recovery in fall 2010. Peak applications were 15,102 for fall 2008 before dropping to 13,098 for fall 2009, and rebounding back to 14,361 for fall 2010. Management indicates that applications reached an all-time high of 15,384 for fall 2011. Freshmen acceptance rates appear to have plateaued at roughly 45%, which we consider very selective, and the freshmen matriculation rate of 25.4% indicates the university operates in a highly competitive market for students. Despite this competitive framework, and a larger pool of acceptances, the university enrolled a freshman class of 1,649 students for fall 2010, a slightly larger class than prior years.

Overall enrollment is slightly higher than in recent years, and was 10,482 for fall 2010. Management indicates that its on-campus housing is close to capacity, and it plans to keep enrollment at the current level for the foreseeable future. Student retention continues to be very strong in our view, with approximately 95% of freshmen returning for their sophomore year in fall 2010.

in our opinion, student quality, as measured by SAT scores, continues to be solid. The average SAT score for the fall 2009 class was 1,300, up from 1,260 six years ago. The university has a fairly regional draw in its student body, with approximately 67% of the incoming students coming from mid-Atlantic states.

Finances: Strong Operations and Conservative Management

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 over the past five fiscal years. For the fiscal year ended May 31, 2010, the university produced an operating surplus of $34.9 million (or 8.5% of fiscal 2010 adjusted operating expenses), similar to the previous year's results of $34.4 million. Management indicates that fiscal 2011 performance, on a GAAP basis, should be similar to results recorded for fiscal 2010.

Villanova consistently budgets for operating surpluses and planned savings for endowment and actual results generally exceed budgeted projections. 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. The university's revenue base is fairly concentrated with tuition and other student-generated revenues accounting for close to 87% of total operating revenues. Up until fiscal 2009, the university increased tuition at a high rate, but these increases have moderated for both fiscals 2010 and 2011 in response to the recession. At the same time, the tuition discount rate has held steady, except for a modest increase for fiscals 2010 and 2011.

Satisfactory Financial Resources And Manageable Debt Burden

As of May 31, 2010, expendable resources were 62% of adjusted operating expenses and 122% of debt outstanding of $210 million, which we consider consistent with the rating category. Cash and investments of $441.8 million were 107% of operating expenses and 210% of debt. All of the university's debt is fixed rate, and the university does not have any swaps related to its debt. The university does not plan to issue additional debt in the next two years and MADS is in our view very manageable $16.6 million, or 4.4% of fiscal 2010 adjusted operating expenses. Management reports that it is proceeding cautiously with its capital plan. However, it does have capital needs on campus and will finance those with a combination of gifts, operating reserves, and debt. Villanova does not have current plans to issue debt in the next two years.

In addition to a significant cash position of $134 million as of May 31, 2010, The university's long-term investments of $307 million were held in a diverse mix of assets including 19% domestic equities ($59.2 million), 17% global equity ($52.6 million), 20% hedge funds ($62.2 million), and 12% U.S. bonds ($36.6 million). As of May 31, 2010, a majority (60%) of invested assets were classified as levels 1 and 2, which we consider to be a proxy for the relative liquidity of assets.

The spending policy continues to be 5%, based on a three-year-rolling average market value. The university successfully concluded a $300 million campaign in December 2007, raising $304 million. The university's annual fund has been growing modestly over the past years, raising $5.8 million in fiscal 2010, up from $4.2 million in fiscal 2009. The alumni-participation rate closed fiscal 2010 at 19%, up slightly from prior years, and management indicated that this level could continue to rise in the future.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of March 18, 2011)		
Delaware Cnty Auth, Pennsylvania		
Villanova Univ, Pennsylvania		
Delaware Cnty Auth (Villanova Univ) univ rev bnds ser 2010		
Long Term Rating	A+/Stable	Upgraded
Many issues are enhanced by bond insurance.		