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Delaware County Authority, Pennsylvania, Villanova University

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Credit Profile

US\$31.245 mil rev rfdg bnds
(Villanova Univ) ser 2004 dtd
05/15/2004 due 08/01/2024
A
Sale date: 04-MAY-2004

OUTLOOK: STABLE

Rationale

Standard & Poor's Ratings Services has assigned its 'A' rating to Delaware County Authority, Pa.'s revenue refunding bonds, series 2004, issued for Villanova University, reflecting the institution's:

- Balanced financial operations;
- Seasoned management with conservative budgetary practices;
- Historically strong student demand, with an acceptance rate of 53% in 2003 and good student retention;
- Good student quality, measured by SAT scores, with the average ranging from 1190 to 1330; and
- Improved fundraising.

However, liquidity levels are less representative of private universities in this rating category. Further erosion of liquidity relative to operating expenses and debt would be of concern. In 2003, expendable resources to pro forma debt and operations were 65% and 48%, respectively.

Bond proceeds will be used to advance refund outstanding series 1995 bonds. The bonds are secured by loan payments made to the authority by the university. These loan payments are a general obligation of the school, and there is no debt service reserve associated with these bonds. The bonds are expected to sell with bond insurance.

Villanova has historically had balanced financial operations and generated operating surpluses of 5% in both 2002 and 2003. The school expects 2004 to also end with an operating surplus, with various revenue set asides, including a \$6.3 million transfer to endowment.

The school's revenue base is fairly concentrated, with gross tuition accounting for 71% of total revenues. There was a 7% increase in tuition and fees in 2003, bringing the rate to \$25,600, for a total of \$34,200 with room and board. For fall 2004, the tuition rate is expected to increase 4%; room and board will be increasing approximately 2.5%. Villanova has been able to annually increase net tuition and fee income, while at the same time, maintaining a low and stable tuition discount rate of 20%.

Liquidity levels are low for the rating category, with unrestricted resources of \$91 million, equal to 33% of operations and 44% of pro forma debt. In 2003, this liquidity deterioration is due in part to unrestricted net assets being adjusted downward by \$12.4 million in order to reflect an additional pension liability. Expendable resources are stronger, at \$132.7 million, equal to 48% of operations and 65% of pro forma debt.

The market value of Villanova's endowment, as of Feb. 29, 2004, was \$210.4 million, reflecting a 21% increase from the June 1, 2003 value. The asset allocation is diverse, with the largest components being domestic equities (46%), bonds (17%), and international equities (15%). The spending policy

continues to be 5%, based on a three-year rolling average. The school is in the planning stages for its next capital campaign; it is expected that campaign proceeds will be used to bolster the endowment.

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

The institution is comprised of the College of Liberal Arts and Sciences, College of Commerce and Finance, College of Engineering, College of Nursing, and the School of Law. In addition, there are graduate studies in the College of Liberal Arts and Sciences. Graduate enrollment was approximately 1,100 in the fall of 2003.

Outlook

The stable outlook reflects Standard and Poor's expectation that student demand will remain strong, with applications increasing to prior levels, and financial operations will be balanced. Because of low levels of liquidity for the rating category, further erosion of financial resources relative to operating expenses and debt would be of concern.

Demand

Total headcount enrollment has remained stable over the past few years, with a total headcount of 10,446 in fall 2003, a 1% increase over the prior year. Approximately 65% of students are undergraduates, who mostly attend classes on a full time basis. Applications for fall 2003 were flat, at 10,896, and of those, 53% were accepted. However, applications for fall 2004 have shown a 16% decline. The school attributes this drop to enhanced admission standards, in combination with the weakness in the economy. Although this drop has been fairly significant, student quality, as measured by SAT scores, continues to improve. The average for the fall 2003 class ranged from 1190 to 1330. As a further sign of the improving student quality, for the 1,800 students on the wait list for fall 2004, the average SAT score is 1222.

The matriculation rate for fall 2003 was 27%; the average for the five-year period was 30%. This low matriculation rate is indicative of the environment in which Villanova competes. Student retention is good, with 94% of freshmen returning for sophomore year.

Student demand is primarily drawn from the Northeastern corridor. Approximately 34% of undergraduate students are residents of Pennsylvania, followed by students from New Jersey (22%), and New York (14%).

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