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## Villanova University, Pennsylvania; Private Coll/Univ - General Obligation

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# Villanova University, Pennsylvania; Private Coll/Univ - General Obligation

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Villanova Univ ICR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Delaware Cnty Auth, Pennsylvania</b>		
Villanova Univ, Pennsylvania		
Delaware Cnty Auth (Villanova University)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

## Rationale

S&P Global Ratings affirmed its 'AA-' long-term rating and issuer credit rating on Delaware County Authority, Pa.'s bonds, issued for Villanova University. The outlook is stable.

Villanova had approximately \$234 million of debt outstanding as of May 31, 2020. All of the bonds outstanding are secured by general obligation of the university. The university has no plans for additional debt at this time.

Because of the COVID-19 pandemic, Villanova moved classes online in March and asked that most students leave campus. The school issued refunds for housing totaling \$16.5 million. Auxiliary operations typically account for 12% of revenue, which we view as average. This fall, the university allowed students to return to campus and is teaching about half of its classes exclusively online, about 20% of classes are taught in-person, and the remaining classes are taught in a hybrid format. All fall sports were suspended and no decision has been made yet regarding winter and spring sports. Full-time enrollment in fall 2020 was 9,558, a slight increase over the prior year. We consider this a strong result in a difficult market. Only 3.2% of Villanova's full-time enrollment is international so the university had limited exposure to any drops in retention of these students.

Through the CARES Act, Villanova received \$4.3 million in relief funding, half of which is earmarked for students. The university also saved \$2.0 million through employee retention credits for employees that were retained but could not work due to campus closures. Villanova historically surpasses its annual budgeted operating surplus of 4%. Thanks to cost-cutting measures and relief funds, Villanova posted an impressive 4.9% margin in fiscal 2020 despite the challenges of responding to the pandemic. Cost-cutting measures included deferred capital spending, reduced operating expenses due to campus closures, reduced retirement contributions, and delaying salary increases. As of Aug. 31, 2020, approximately \$166.8 million, which represents 20% of Villanova's endowment, was liquid on a weekly basis which we view as sufficient. To enhance liquidity during this uncertain time, the university has drawn on two lines of credit totaling \$60 million but has not used the cash. Management does not intend to hold this debt long term, so it is not included in our debt ratios.

## Credit overview

The 'AA-' long-term rating reflects the university's strong demand metrics including selectivity and matriculation with continued robust operating surpluses and successful fundraising, which have improved financial resources over time. The endowment remains lower than similarly rated peers but we expect continued momentum from fundraising and operating surpluses to continue to support growth, albeit at a slower pace during the pandemic and the outlook period.

We assessed Villanova's enterprise profile as very strong with growing enrollment, high retention, increased applications, and improved selectivity and matriculation. We assessed Villanova's financial profile as strong, with a history of robust operating surpluses, healthy financial resources, and moderate maximum annual debt service (MADS) burden. Combined, these credit factors lead to an initial indicative stand-alone credit profile of 'a+'. Villanova's cash and investments are greater than four times its outstanding debt, which per our criteria, raises the indicative stand-alone credit profile one notch to 'aa-', resulting in a final rating of 'AA-'.

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

- Solid enrollment and demand as evidenced by stable enrollment, increasing applications over the last several years, and high retention with good student quality;
- Healthy financial operations with positive operating results in fiscal 2020 and expected for fiscal 2021, even in light of the pandemic, as a result of sound fiscal discipline and budgeting practices;
- Available resources that are in line with similarly rated peers, with continued growth in cash and investments; and
- Average MADS burden of 4.2% with a predictable, conservative, front-loaded fixed-rate debt structure.

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

- Limited revenue diversity, with more than 84% of gross revenues in fiscal 2020 coming from student-generated revenues (tuition, fees, and auxiliaries);
- Lower endowment per full-time equivalent (FTE) than similarly rated peers.

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.

The stable outlook reflects the university's strong management, healthy operating margins, adequate financial resources, and solid enrollment and demand profile. At the current rating level, we do not expect additional debt without commensurate growth in resources.

## Environmental, social, and governance (ESG) factors

In our view, Villanova faces elevated social risk due to uncertainty on the duration of the COVID-19 pandemic, similar to other higher education institutions. Villanova's management team implemented remote learning in spring 2020, and has adopted several approaches this fall to protect the health and safety of students, faculty, and staff. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite the elevated social

risk, we believe the university's environmental and governance risks are in line with our view of the sector as a whole.

## Stable Outlook

### Downside scenario

We would consider a negative rating action if financial resource ratios declined or if operations weakened significantly. We would also view a weakening of the demand profile, or additional debt issuance without proportionate growth in resources negatively. Although we think Villanova has taken proactive steps to address COVID-19, and understand the virus to be a global risk, we could consider a negative rating action should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of the university.

### Upside scenario

We would consider a higher rating if financial resource ratios grew to levels consistent with 'AA' rating medians and 'AA' peers, while margins, enrollment, and demand remained at about current levels.

## Credit Opinion

## Enterprise Profile

### Economic fundamentals

In our view, the university has good geographic diversity, with only 33% of students coming from Pennsylvania. While we believe the draw is national, there is still a concentration in the Northeast, although not for a particular state, therefore, Villanova's economic fundamentals are still anchored by the U.S. GDP per capita.

### Market position and demand

Full time enrollment (FTE) has grown slightly over the last two years. Despite operating pressures associated with COVID-19, Villanova's FTE in fall 2020 was 9,558, up 0.1% from fall 2019. We consider this a solid result considering that many institutions experienced enrollment declines this fall. Undergraduate enrollment remains the largest component of overall enrollment, while graduate enrollment, including the law school, accounts for about 37%. Graduate and professional enrollment increased by approximately 25%, driven by increases in Villanova's online graduate programs. In our opinion, the university continues to benefit from a relatively steady enrollment base.

Applications declined slightly in fall 2020, dropping by 3.6% from the prior fall to 22,056. However, this figure still shows impressive growth from the 16,198 applications Villanova received for fall 2015. Management credits this growth in part to the addition of an early decision application round in fall 2018. Management plans to add a second round of early decision for fall 2021. As the number of applications has increased, selectivity has strengthened, with Villanova's acceptance rate declining from 48% in fall 2015 to 31% in fall 2020. While fall 2020's acceptance rate is not as competitive as the prior year's result of 28%, many institutions had weaker selectivity this fall as they sought to manage enrollment pressures. Matriculation remains very competitive given the market, but the university has seen a stable 25% rate for the last three years, up from 22% in fall 2017. In our opinion, demand factors have remained comparable with Villanova's 'AA-' peers and demonstrate stability despite a challenging operating environment.

Student quality remains solid with an average incoming freshmen SAT score of 1390 for fall 2020, well above the 2018 national SAT average of 1059. The retention rate remains stable at 96%, which is consistent with 'AA' rating medians. The six-year graduation rate is also slightly improved at 92% for fall 2020, up from 90% in prior years. According to management, Villanova has expanded its peer group slightly after the national doctoral university designation and includes universities such as Northeastern University, American University, Texas Christian University, St. Louis University and Southern Methodist University in addition to the historical peer group which included Lehigh University, Boston College, and Wake Forest University. In our view, student quality and graduation metrics remain consistent with other 'AA-' peers.

Villanova's most recent campaign ended on May 31, 2018, and the university successfully raised \$760 million, \$160 million over its initial \$600 million goal, which we view positively. Over \$320 million was raised for the endowment, while \$180 million was raised for capital and other academic purposes along with \$80 million for the annual fund. Alumni participation in the campaign was high at 30%. There is currently no formal campaign underway and management paused alumni outreach for the fiscal 2020 annual campaign as the timing in spring 2020 overlapped with the initial outbreak of the pandemic. However, the school's annual fund still managed to raise about \$5 million in unrestricted funds in fiscal 2020 compared to a typical result of \$6 million. Villanova also continues to have success generating large gifts. We believe that the university will continue the momentum of successful fundraising into the next campaign.

### **Management and governance**

The management team has been quite stable. The president and the finance team have been in place for over 15 years. There were minimal changes to senior management including the creation of the vice president for diversity and inclusion role and a new vice president of mission and ministry after the former vice president retired. A new dean of the college of engineering was appointed in spring 2020 after the former dean passed away. The 32-member board of trustees governing the university has been stable, with only rotational changes. We view the stability of the management team as a strength.

The university operates under the direction of a strategic plan. According to management, key goals under the old strategic plan have been met and viewed as a success. The university has developed a new 10-year strategic plan that will continue to highlight Villanova's status at the national level through improvements to research offerings and academic spaces. However, management is currently focused on handling the operational impacts of COVID-19.

We consider the university's financial management policies and practices to be conservative and demonstrate 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 with comparable organizations.

### **Financial performance**

Villanova's financial profile remains solid, with an operating margin of 5% in fiscal 2020. While this is a drop from the 7%-8% margins Villanova typically achieves, we view this as an impressive result in a difficult operating environment. Management budgets for at least a 4% margin every year and includes depreciation, which we view as a best practice. We believe that the university's consistent operating surpluses are a key credit strength. While we expect fiscal 2021's operations will be challenged by impacts of the pandemic, Villanova is still targeting a 4% margin and management has a range of reasonable cost reductions prepared if the circumstances of the pandemic worsen.

As with most private universities of its size, Villanova is highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 85% of fiscal 2020 adjusted revenue. Tuition (including room and board) was in line with peer institutions. The tuition discount rate has been stable at about 30%, though management expects it may increase slightly this year as students have weakened financial resources during the pandemic.

### **Financial resources**

Expendable resources relative to operating expenses were essentially stable at 93.8% in fiscal 2020 compared with 93.4% in fiscal 2019. However this level is down from 123.9% in fiscal 2017. The drop in expendable resources over this period was largely driven by increases in net property, plant, and equipment and decreases in long-term debt. However, cash and investments relative to operating expenses and debt have grown to 174.9% and 445.0%, respectively, which is comparable with other 'AA-' peers. Expendable resources relative to debt increased slightly to 238.7% in fiscal 2020 from 218.8% in fiscal 2019. Because of the university's policy of investing approximately half of its annual operating surplus back into the endowment, we expect financial resources will continue to grow over time, though this growth may be slower in the outlook period as the university applies resources to handling the impacts of the pandemic.

The endowment, which had a market value of approximately \$797 million as of May 31, 2020, reflects a diverse allocation of assets: 44.0% equities (domestic and global), 19.5% private investments, 33.0% diversifying assets, and 3.5% bonds and cash. The portfolio is sufficiently liquid with 10% of the portfolio available on a daily basis, 41% on a monthly basis, and 65% on an annual basis. The endowment spending policy remains 5%, based on a three-year rolling-average market value, which we believe is sustainable.

### **Debt and contingent liabilities**

As of May 31, 2020, the university had \$234.4 million of debt outstanding. All of the bonds outstanding are secured by general obligation of the university. The university has no contingent liability risk exposures from financial instruments with payment provisions that change on the occurrence of certain events. MADS of approximately \$25 million was

equal to what we consider a moderate 4.2% of fiscal 2020 operating expenses. The projects associated with the series 2015 bonds were completed on time and on budget, according to management. We do not believe the university will issue additional debt in the near term. Any potential expansion of facilities to increase research and academic space would likely be funded with internal reserves or donor gifts.

<b>Villanova University, Pennsylvania--Enterprise And Financial Statistics</b>						
	<b>--Fiscal year ended May 31--</b>					<b>Medians for 'AA' rated private colleges and universities</b>
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>
<b>Enrollment and demand</b>						
Headcount	10,933	10,848	11,023	10,983	10,842	MNR
Full-time equivalent	9,558	9,546	9,520	10,127	9,942	6,429
Freshman acceptance rate (%)	30.6	28.2	29.2	36.0	43.5	22.2
Freshman matriculation rate (%)	25.0	26.1	25.4	22.5	22.3	MNR
Undergraduates as a % of total enrollment (%)	63.4	61.8	61.6	63.4	64.6	67.8
Freshman retention (%)	96.0	96.0	96.0	94.7	94.8	95.0
Graduation rates (six years) (%)	92.0	91.0	90.0	90.1	90.4	MNR
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	625,381	619,678	594,491	558,201	MNR
Adjusted operating expense (\$000s)	N.A.	596,420	577,509	552,694	513,360	MNR
Net operating income (\$000s)	N.A.	28,961	42,169	41,797	44,841	MNR
Net operating margin (%)	N.A.	4.86	7.30	7.56	8.73	2.30
Change in unrestricted net assets (\$000s)	N.A.	75,604	93,588	129,100	68,183	MNR
Tuition discount (%)	N.A.	29.9	29.9	29.8	29.3	37.9
Tuition dependence (%)	N.A.	73.9	73.0	73.0	73.7	MNR
Student dependence (%)	N.A.	84.5	84.7	84.5	85.4	58.3
Research dependence (%)	N.A.	1.4	1.2	1.1	1.2	MNR
Endowment and investment income dependence (%)	N.A.	5.8	5.5	5.2	4.8	MNR
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	234,360	246,539	258,000	268,878	386,585
Total pro forma debt (\$000s)	N.A.	234,360	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.90	4.02	4.20	4.44	MNR
Current MADS burden (%)	N.A.	4.17	4.30	4.50	4.84	4.10
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	797,015	743,061	710,592	640,428	1,603,114
Cash and investments (\$000s)	N.A.	1,042,976	942,501	960,718	875,326	MNR
Unrestricted net assets (\$000s)	N.A.	859,597	783,993	690,405	561,305	MNR
Expendable resources (\$000s)	N.A.	559,329	539,427	633,383	636,000	MNR
Cash and investments to operations (%)	N.A.	174.9	163.2	173.8	170.5	333.1

## Villanova University, Pennsylvania--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended May 31--					Medians for 'AA' rated private colleges and universities
	2021	2020	2019	2018	2017	2018
Cash and investments to debt (%)	N.A.	445.0	382.3	372.4	325.5	505.9
Cash and investments to pro forma debt (%)	N.A.	445.0	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	93.8	93.4	114.6	123.9	228.6
Expendable resources to debt (%)	N.A.	238.7	218.8	245.5	236.5	320.2
Expendable resources to pro forma debt (%)	N.A.	238.7	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.7	14.4	15.7	16.2	13.9

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 =  $100 \times (\text{net adjusted operating income} / \text{adjusted operating expense})$ . Student dependence =  $100 \times (\text{gross tuition revenue} + \text{auxiliary revenue}) / \text{adjusted operating revenue}$ . Current debt service burden =  $100 \times (\text{current debt service expense} / \text{adjusted operating expenses})$ . Current MADS burden =  $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$ . Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation / depreciation and amortization expense.

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020



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