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

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

Rationale

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

Villanova had approximately \$235 million of debt outstanding, including \$218 million in bonds outstanding and \$16 million in operating leases as of May 31, 2021. We view the leases as manageable. All of the bonds outstanding are secured by general obligation of the university. The university has no contingent liability risk exposures and fully repaid the \$60 million lines it drew on at the height of the pandemic to provide additional liquidity. The university has no plans for additional debt at this time.

Villanova returned to a full, in person academic and residential experience for the 2021-2022 academic year, although other delivery modes are offered depending on program designs or needs. In fiscal 2021, the university realized about \$6.2 million of federal and local stimulus related to the pandemic. This helped to offset some of the COVID-19 related expenses including testing. Overall, the university still managed to generate a healthy surplus for fiscal 2021 as it allowed students to return to campus in fall 2020 and did not see any significant declines in enrollment. Occupancy at the dorms was slightly lower than the historical 97%, but still solid at about 91%. We expect fiscal 2022 results to be positive on a full accrual basis, consistent with prior years with \$5.6 million realized from HEERF III funding, a relatively stable enrollment profile and conservative expense management.

Credit overview

We assessed Villanova's enterprise profile as very strong with stable enrollment, high retention, increased applications, and improved selectivity and student quality. We assessed Villanova's financial profile as strong, with a history of healthy operating surpluses, solid 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 even in light of the pandemic, as a result of sound fiscal discipline and budgeting practices;
- Growing available resources, especially in cash and investments; and
- Average MADS burden of 4.3% 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 86% of gross revenues in fiscal 2021 coming from student-generated revenues (tuition, fees, and auxiliaries);
- Lower endowment per full-time equivalent (FTE) than similarly rated peers, although there has been healthy growth year over year, especially in fiscal 2021.

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, good financial resources, and solid enrollment and demand profile.

Environmental, social, and governance

Vaccine progress in the U.S. has helped alleviate some health and safety social risks stemming from COVID-19; however, in our view, Villanova, like other not-for-profit colleges and universities, continues facing potential operational pressures in light of emerging COVID-19 variants. We believe management has taken prudent actions regarding health and safety including mandatory vaccinations with exemptions for religious or medical reasons with regular surveillance testing. We believe that Villanova's governance, along with environmental risks, are in line with our view of the sector.

Stable Outlook

Upside scenario

We would consider a positive rating action if financial resource ratios continued to grow to levels consistent with 'AA' rating medians and 'AA' peers, while margins remained at about current levels. Enrollment growth and improvement to demand metrics would be viewed positively.

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.

Credit Opinion

Enterprise Profile

Market position and demand

FTE has remained steady in fall 2021 at about 9,517, with limited effects from the pandemic. While undergraduate FTE remained very stable, graduate FTE experienced a second year of declines. Management cites the declines mainly due to some transition in marketing and management of online courses from external parties back to Villanova. The university continues to have strong law and graduate nursing enrollment and hopes to offer more certificate programs in areas such as cybersecurity, software engineering and business taxation to appeal to the non-traditional, adult learners. Management also notes an emphasis on research with a desire to grow the PhD programs over time. Undergraduate enrollment remains the largest component of overall enrollment at about 64%. In our opinion, the university continues to benefit from a relatively steady enrollment base.

Applications rebounded in fall 2021 with an all-time record of 24,400 applicants. Selectivity strengthened to about 25%. While fall 2022 applications looking to be slightly lower than fall 2021, demand remains healthy nonetheless and management expects a similar selectivity rate given the strong early decision pool. Matriculation remains very competitive given the market, but the university has seen a solid increase to 28.7% up from an average of 25% in the last three years. In our opinion, demand factors have remained comparable if not slightly stronger than some of Villanova's 'AA-' peers and demonstrate stability despite a competitive operating environment.

Student quality remains solid with an average incoming freshmen SAT score of 1420 for fall 2021. The university was test optional during the pandemic and has not yet determined plans after. The retention rate and graduation rate remains stable at 96% and 91%, respectively, which is consistent with medians. Peers for Villanova based on management's assessments include Georgetown University, Fordham University, 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.

Currently the university raises about \$80 million annually and is in the midst of preparing for a future campaign, which is likely to be larger than the prior one. Villanova's last campaign ended on May 31, 2018, and raised \$760 million, \$160 million over its initial \$600 million goal. We believe the university's ability to fundraise is a credit strength.

Management and governance

The management team has been quite stable, which we view as a strength. The president and the finance team have been in place for over 15 years. The prior executive vice president of administration, finance and operations retired, and his role was split into two positions, the chief financial officer position was filled internally and an EVP for administration and operations was hired in November 2020. A new vice president for student life and vice president for mission and ministry were all filled internally. The 32-member board of trustees governing the university has been

stable, with only rotational changes.

The board recently approved a 10-year strategic plan in March 2019. While some of the initiatives were put on hold during the pandemic, the university is returning to the plan and moving forward. Some of the areas of emphasis include investing in faculty compensation especially as the university seeks to grow its research abilities while improving on diversity equity and inclusion metrics, enhancing the graduate student experience to attract and retain those students, and increasing access for students with a focus around increasing scholarships. We believe the next fundraising campaign will align with these various initiatives.

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 performance

Villanova's financial profile remains solid, with an operating margin of 4.9% in fiscal 2021. The pandemic did not have a material effect on operations as student revenues remained healthy and expenses were well managed, which we view positively. 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 credit strength. While management is budgeting for a 4% margin for fiscal 2022, we believe that results will likely be better.

As with most private universities of its size, Villanova is highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 86% of fiscal 2021 adjusted revenue. Tuition (including room and board) was in line with peer institutions. The tuition discount rate has been stable at about 31%, which is somewhat low compared with rating category medians and similarly rated peers, although this may increase slightly given the university's strategic plans to increase access.

Financial resources

Villanova's resources grew at a very healthy rate in fiscal 2021 due to strong market performance, consistent with many of its peers with similarly sized endowments. Expendable resources grew to over \$898 million, which was 147.2% of operating expenses and 382.4% of debt. Cash and investments had even greater growth, ending the 2021 year at \$1.36 billion, up from 1.04 billion at fiscal 2020 year end. This was 223.1% of operating expenses and 579.3% of debt. 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 incrementally over time.

The endowment at the end of Oct. 31, 2021, had a market value of approximately \$1.2 billion, up 39.3% from the prior year. It reflects a diverse allocation of assets: 40.9% equities (domestic and global), 25% private investments, 30.6% diversifying assets, and 3.5% bonds and cash. The portfolio is sufficiently liquid with 3.5% of the portfolio available on a daily basis, 37% on a monthly basis, and 62.5% on an annual basis. The endowment spending policy remains 5%,

based on a three-year rolling-average market value, which we believe is sustainable. The maximum unfunded commitments for its private investment portfolio is about 13% of the total endowment value, which we view as manageable.

Villanova University, Pennsylvania Enterprise And Financial Statistics						
	--Fiscal year ended May 31--					Medians for 'AA' rated private colleges and universities
	2022	2021	2020	2019	2018	2020
Enrollment and demand						
Headcount	10,885	10,933	10,848	11,023	10,983	MNR
Full-time equivalent	9,517	9,558	9,546	9,520	10,127	8,288
Freshman acceptance rate (%)	25.2	30.6	28.2	29.2	36.0	18.0
Freshman matriculation rate (%)	28.7	25.0	26.1	25.4	22.5	MNR
Undergraduates as a % of total enrollment (%)	64.1	63.4	61.8	61.6	63.4	65.1
Freshman retention (%)	96.0	96.0	96.0	96.0	94.7	95.0
Graduation rates (six years) (%)	91.3	92.0	91.0	90.0	90.1	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	639,933	625,381	619,678	594,491	MNR
Adjusted operating expense (\$000s)	N.A.	610,248	596,420	577,509	552,694	MNR
Net operating income (\$000s)	N.A.	29,685	28,961	42,169	41,797	MNR
Net operating margin (%)	N.A.	4.86	4.86	7.30	7.56	1.20
Change in unrestricted net assets (\$000s)	N.A.	139,194	75,604	93,588	129,100	MNR
Tuition discount (%)	N.A.	30.9	29.9	29.9	29.8	39.4
Tuition dependence (%)	N.A.	75.1	73.9	73.0	73.0	MNR
Student dependence (%)	N.A.	86.1	84.5	84.7	84.5	59.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.5	1.4	1.2	1.1	MNR
Endowment and investment income dependence (%)	N.A.	5.9	5.8	5.5	5.2	MNR
Debt						
Outstanding debt (\$000s)	N.A.	234,969	234,360	246,539	258,000	540,885
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	234,969	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.23	3.90	4.02	4.20	MNR
Current MADS burden (%)	N.A.	4.27	4.17	4.30	4.50	4.20
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	1,122,560	797,015	743,061	710,592	1,922,226
Cash and investments (\$000s)	N.A.	1,361,230	1,042,976	942,501	960,718	MNR

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

	--Fiscal year ended May 31--					Medians for 'AA' rated private colleges and universities
	2022	2021	2020	2019	2018	2020
Unrestricted net assets (\$000s)	N.A.	998,791	859,597	783,993	690,405	MNR
Expendable resources (\$000s)	N.A.	898,562	559,329	539,427	633,383	MNR
Cash and investments to operations (%)	N.A.	223.1	174.9	163.2	173.8	338.3
Cash and investments to debt (%)	N.A.	579.3	445.0	382.3	372.4	447.8
Cash and investments to pro forma debt (%)	N.A.	579.3	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	147.2	93.8	93.4	114.6	185.4
Expendable resources to debt (%)	N.A.	382.4	238.7	218.8	245.5	261.5
Expendable resources to pro forma debt (%)	N.A.	382.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.1	12.7	14.4	15.7	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*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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