S&P Global
Ratings

Research

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+/Positive	Affirmed
Delaware Cnty Auth, Pennsylvania		
Villanova Univ, Pennsylvania		
Delaware Cnty Auth (Villanova University) 2010		
Long Term Rating	A+/Positive	Affirmed

Rationale

S&P Global Ratings revised its outlook to positive from stable on Delaware County Authority, Pa.'s bonds issued for Villanova University. At the same time, we affirmed our 'A+' long-term rating, issuer credit rating (ICR), and underlying rating (SPUR) on the university's outstanding debt.

The positive outlook reflects our opinion that during the two year outlook period, the university could grow financial resources to levels more in line with 'AA' rating medians, maintain positive operating surpluses and improve various aspects of the demand profile, such as selectivity, to levels comparable with 'AA-' peers.

We assessed Villanova's enterprise profile as very strong with growing enrollment, high retention, increased applications, and improved selectivity, although matriculation remains somewhat weak. We assessed Villanova's financial profile as very strong, with a history of robust operating surpluses, growing financial resources, and moderate maximum annual debt service (MADS) burden. All fiscal 2017 results mentioned in the article are based on unaudited draft results, although we do not expect any significant changes from the final audited numbers. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'aa-'. As our criteria indicate, the final rating can be within one notch of the indicative credit rating. In our opinion, the 'A+' rating better reflects the university's slightly weaker enterprise profile and lower financial resources relative to the 'AA' rating category medians and peers.

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

- Solid enrollment and demand as evidenced by growing enrollment over the past five years, increasing applications, and ongoing high retention with good student quality;
- Healthy financial operations with consistently good operating surpluses on a full-accrual basis as a result of sound fiscal discipline and budgeting practices;
- Improving financial resources relative to operations and debt for fiscal 2017; and
- Average MADS burden of 4.84% with a predictable, conservative, front-loaded fixed-rate debt structure.

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

- Limited revenue diversity, with more than 85% of gross revenues in fiscal 2017 coming from student-generated revenues (tuition, fees, and auxiliaries); and
- Fairly weak selectively and matriculation although initial fall 2017 demand data indicates an improvement in selectivity.

All bonds are secured by a general obligation of the university.

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.

Outlook

The positive outlook reflects the university's healthy operating margins, nice growth in financial resources which we expect to continue, and a solid enrollment and demand profile which we believe could improve over the two year outlook. We do not expect additional debt without commensurate growth in resources.

Upside scenario

We would consider a higher rating in the next two years if financial resource ratios grew to levels consistent with 'AA' rating medians and demand metrics such as selectivity improved to levels on par with 'AA-' peers.

Downside scenario

We would consider a revision to stable in the next two years if financial resource ratios do not improve to levels commensurate for a higher rating 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.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the university has good geographic diversity, with only 33.8% of students coming from Pennsylvania. While we believe the draw is still fairly regional, there is no concentration in any particular state, therefore, Villanova's economic fundamentals are still anchored by the U.S. GDP per capita.

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Market position and demand

Overall enrollment continues to improve incrementally with full-time equivalents (FTEs) growing 1.2% to 10,062 in fall 2017 from the prior year. Undergraduate enrollment remains the largest component of overall enrollment, while graduate enrollment, including the law school, accounts for about 36%. Management cites that it continues to have some success with graduate programs, both on campus and online, and that the law school enrollment has stabilized nicely at about 550 for fall 2017. We believe that the university continues to find success operating at current enrollment levels, with more growth potential on the graduate side.

Applications experienced robust growth in fall 2017, increasing by 22% from the prior year to about 21,000. The university sites the Carnegie Foundation's elevation of the university's classification to the Doctoral Universities category from the Master's Colleges and Universities category along with the 2016 NCAA championship win by the men's basketball team as main contributors to the growth. As a result of the increase in applications, selectively improved to 36% in fall 2017 from 44% in fall 2016, which we view positively. With the introduction of the early decision option in fall 2018, we believe selectively could continue to improve. Matriculation, however, remains relatively weak at about 23% and continues to reflect the highly competitive market.

Student quality remains above the national SAT average of 1,012, with average SAT scores of approximately 1,402, based on the new SAT testing (this corresponds with the 1341 in the old SAT testing). The retention rate remains about 96%, which is high compared to current rating medians. The six-year graduation rate is also very solid at 90.5% for fall 2016. According to management, Villanova's main competitors have historically been Lehigh University, Boston College, College of the Holy Cross, Wake Forest University, Bucknell University, and University of Richmond. The university is currently evaluating its comparison group as a result of its reclassification as a national doctoral university.

Villanova reached its capital campaign goal one year early and raised $70 million over the $600 million goal. The campaign will continue through May 31, 2018. Management cites success in all areas especially for endowment and academic programs. To date, it has received approximately $403 million in cash and $267 million in pledges. The alumni participation rate is high at 27%. We expect that financial resources will increase over time with the success from the campaign and continual fundraising efforts via the annual fund.

Management and governance

The management team has been quite stable in the past five years. The president has been in place for 10 years and the finance team for over 10. There were no major changes to senior management. 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 already been met and viewed as a success; therefore, the university is currently in the process of developing a new strategic plan that will focus on academic programs, faculty, research and facilities. We believe it will be focused on continuing to raise the status of the university at the national level.

We consider the university's financial management policies and practices to be conservative and on par with best practices, including budgeting on a full-accrual basis, producing multiyear projections, and contingencies to produce

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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 very solid, with operating margin reaching an all-time high of 8.7% in fiscal 2017. While we believe the university may allocate additional resources to various areas under the new strategic plan, management emphasizes that it will continue to budget for at least a 5% margin every year, including depreciation, which we view as a best practice. We believe that the university's consistent operating surpluses are a key credit strength.

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 2017 adjusted revenue. Tuition (including room and board) was in line with peer institutions, although plans to increase the discount rate slowly over time to improve the academic profile of the university and attract high-quality students are still underway. We expect that the discount rate may increase to the mid-30% range from about 28% currently, which we believe will allow it to be more competitive. Management has already built in the increasing financial aid, and margins are expected to remain about 5%.

Financial resources

Expendable resources relative to operating expenses have grown nicely to 124% in fiscal 2017 from 117% in fiscal 2016 and are healthy relative to rating medians. Expendable resources relative to debt have rebounded nicely to 236.5% in fiscal 2017 following a decline due to the large series 2015 debt issuance. Because of the university's policy of investing approximately 50% of its annual operating surplus back into the endowment, we expect financial resources will continue to grow over the next few years.

The endowment, which had a market value of approximately $642 million as of June 30, 2017, reflects a diverse, somewhat aggressive allocation of assets: 42% equities (domestic and global), 18% hedge funds, 12% private capital-growth assets, 8% emerging markets, 6% inflation hedging, 6% U.S. bonds, 2% opportunistic, and 5% cash. The portfolio remains highly liquid with 36% of the portfolio available on a daily basis, 60% on a monthly basis, and 85% on an annual basis. The endowment spending policy remains 5%, based on a three-year rolling-average market value, which we believe is sustainable.

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Debt and contingent liabilities

As of June 30, 2017, the university had $268.9 million of debt outstanding. The university has no contingent liability risk exposures from financial instruments with payment provisions that change on the occurrence of certain events. MADS of $25 million was equal to what we consider a moderate 4.8% of fiscal 2017 operating expenses. The projects associated with the series 2015 bonds are on time and on budget, according to management. We do not anticipate the university will issue additional debt in the near term as capital projects such as construction of the performing arts center, and basketball pavilion renovations are anticipated to be completely donor funded.

Villanova University, Pennsylvania Financial Statistics

	--Fiscal year ended May 31--					Medians for 'A' rated private colleges and universities
	2018*	2017*	2016	2015	2014	2016
Enrollment and demand						
Headcount	10,897	10,842	10,728	10,544	10,492	MNR
Full-time equivalent	10,062	9,942	9,827	9,677	9,563	3,659
Freshman acceptance rate (%)	36.0	43.5	47.9	49.3	48.9	63.1
Freshman matriculation rate (%)	22.6	22.3	21.9	21.6	22.7	MNR
Undergraduates as a % of total enrollment (%)	63.7	64.6	65.2	65.7	65.2	82.3
Freshman retention (%)	N.A.	94.8	95.8	93.7	94.0	86.0
Graduation rates (five years) (%)	N.A.	N.A.	N.A.	N.A.	87.6	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	558,201	532,133	508,657	499,640	MNR
Adjusted operating expense ($000s)	N.A.	513,360	496,968	484,185	474,852	MNR
Net operating income ($000s)	N.A.	44,841	35,165	24,472	24,788	MNR
Net operating margin (%)	N.A.	8.73	7.08	5.05	5.22	2.57
Change in unrestricted net assets ($000s)	N.A.	68,183	11,502	18,709	46,974	MNR
Tuition discount (%)	N.A.	29.3	29.2	28.3	27.5	34.9
Tuition dependence (%)	N.A.	73.7	73.6	74.2	73.6	MNR
Student dependence (%)	N.A.	85.4	86.1	86.9	86.5	87.2
Research dependence (%)	N.A.	1.2	1.2	1.3	1.3	MNR
Endowment and investment income dependence (%)	N.A.	4.8	4.4	3.8	3.5	MNR
Debt						
Outstanding debt ($000s)	N.A.	268,878	282,970	151,848	165,521	102,389
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	268,878	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.44	3.71	3.54	3.67	MNR
Current MADS burden (%)	N.A.	4.84	5.00	3.34	3.40	4.44
Financial resource ratios						
Endowment market value ($000s)	N.A.	640,428	552,701	563,866	501,483	200,977
Cash and investments ($000s)	N.A.	875,326	755,826	757,344	666,089	MNR
Unrestricted net assets ($000s)	N.A.	561,305	493,122	481,620	462,911	MNR

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Villanova University, Pennsylvania Financial Statistics (cont.)

	--Fiscal year ended May 31--					Medians for 'A' rated private colleges and universities
	2018*	**2017***	**2016**	**2015**	**2014**	**2016**
Expendable resources ($000s)	N.A.	636,000	581,148	475,239	446,611	MNR
Cash and investments to operations (%)	N.A.	170.5	152.1	156.4	140.3	137.7
Cash and investments to debt (%)	N.A.	325.5	267.1	498.8	402.4	243.9
Cash and investments to pro forma debt (%)	N.A.	325.5	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	123.9	116.9	98.2	94.1	81.0
Expendable resources to debt (%)	N.A.	236.5	205.4	313.0	269.8	151.8
Expendable resources to pro forma debt (%)	N.A.	236.5	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	16.2	16.5	15.9	15.1	13.5

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). Tuition dependence = 100*(gross tuition 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 & 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. *Unaudited.

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