RESEARCH

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

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Credit Profile

US$55. mil univ rev bnds (Villanova Univ) ser 2006 dtd 03/01/2006 due 08/01/2020	A
Sale date: 15-MAR-2006	
AFFIRMED	
Delaware Cnty Auth, Pennsylvania	
$29.680 mil. Delaware Cnty Auth (Villanova Univ) (MBIA)	AAA/A(SPUR)
OUTLOOK:	STABLE

Rationale

The 'A' rating on Delaware County Authority, Pa.'s $55 million revenue bonds series 2006, issued for Villanova University, reflects the university's:

- Good financial operations, with healthy operating surpluses and good growth in net tuition and fee income;
- Seasoned management with conservative budgetary practices;
- Historically strong student demand, evidenced by an acceptance rate of only 51% in 2005, in conjunction with a 30% matriculation rate and a high freshmen retention rate of 94%;
- Good student quality, with the average SAT score ranging from 1190-1340 for fall 2005; and
- A good track record of fundraising--exceeding the goal in the last comprehensive campaign and recording positive results to date on the current initiative.

In recent years Villanova has increased its debt load, and with this issuance debt will total approximately $237 million (including nonrecourse debt of $12.8 million) as of May 21, 2006, the conclusion of its current fiscal year. This debt level produces a moderate debt burden of roughly 5.5%, and 4.9% without the nonresource debt. Furthermore, the university expects to issue an additional $50 million in 2008.

Bond proceeds will be used for portions of various capital projects on the campus. The largest of these projects are the construction of a 170,000 square-foot building to house the School of Law, including a parking facility; and the construction of an 85,000 square-foot addition to the building that houses the College of Nursing and other academic programs. In addition, proceeds will also fund other campus renovations. The bonds are secured by loan payments made to the authority by the university. These loan payments are secured by a pledge of unrestricted university revenues, and therefore are essentially an unsecured general obligation of the school. The bonds are expected to sell with bond insurance provided by AMBAC.

Outlook

The stable outlook reflects the expectation that student demand will remain strong, the current capital campaign will be successful, and financial operations will remain favorable. It is expected that when additional debt is issued, there will be a commensurate increase in liquidity, pursuant to projections.

Finances

Villanova has historically had favorable financial operations, and generated operating surpluses of approximately $20 million and $25 million in 2004 and 2005, respectively. In addition, the university's projections through 2011 show positive results. One component to the financial success is strong financial planning, including an annual increase in planned savings, which reached $6.8 million in 2005.

The university's revenue base is fairly concentrated with net tuition accounting for 66% of total revenues. Average tuition in fall 2005 for the incoming freshmen class was $29,060, and reflected a 4% increase from the prior year. This tuition level is fairly comparable with the university's peer institutions. 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%. Approximately 40% of the university's undergraduates receive no financial aid.

Due in part to good operating performance in recent years, liquidity levels have increased. In 2005, expendable resources increased to $214 million, compared with the $133 million recorded only two years earlier. This resource level produces liquidity ratios on the low end of the rating category; however, liquidity is improving. In 2005, expendable resources were equal to 82% of operations and 118% of debt, excluding nonrecourse debt of $13.2 million. With the new borrowing, at the end of fiscal 2006 expendable resources to operations and expendable resources to debt are expected to be 91% and 112%, respectively (excluding nonrecourse debt of $13.2 million).

As of May 31, 2005, total debt was $192 million (including nonrecourse debt of $12.8 million), and will increase to $237 million with this issuance at the end of fiscal 2006. Upon issuance, the debt burden (maximum annual debt service as a percent of budget) will be a moderate 5.5%. The university anticipates issuing another $50 million in fiscal 2008, but beyond that timeframe there are no further debt plans currently anticipated at least for the next five years.

In addition, a subsidiary of the university, Aldwyn Lane, has a $12.8 million nonrecourse mortgage note that was issued for the acquisition of office buildings adjacent to the campus. This debt is supported by a 20-year triple net lease that has covered debt service, with transfers of approximately $1.2 million flowing into the university's endowment.

The market value of Villanova's endowment as of June 30, 2005, was $241 million, reflecting a 5% increase from the Jan. 31, 2005, value; as of Jan. 31, 2006, this figure had increased to $274 million. The asset allocation has remained diverse, with the largest components being domestic equities (33%), global equity (16%), hedge funds (15%). and U.S. bonds (14%).

The stated spending policy continues to be 5%, based on a three-year rolling average; however, draws have been lower than the stated amount in recent years. In 2005 the draw was 4.1%, and is expected to be 3.9% for 2006. The university publicly announced a $300 million capital campaign in the fall of 2004, the proceeds of which are expected to be used to bolster the endowment. To date, the university is well on its way to achieving its campaign goal, having reached 67% of its target.

Demand

Enrollment has remained stable during the last few years, with a total headcount of 10,267 in fall 2005. About 68% of students are undergraduates, who mostly attend classes on a full-time basis. There are no plans to increase this cohort of enrollment, as the targeted full-time undergraduate enrollment is about 6,150. Applications for fall 2006 show another strong year, with a 24% increase over the prior year. Selectivity remains strong, projecting 43% of applicants for fall 2006, compared with 58% for fall 2004 and 51% for fall 2005. At the same time, the matriculation rate has remained fairly constant at approximately 30%. Student retention continues to be strong, with approximately 94% of freshmen returning for their sophomore year.

Student quality, as measured by SAT scores, continues to improve. The average SAT score for the fall 2005 class ranged from 1190-1340. Student demand is primarily drawn from the Northeast Corridor. About 72% of the students come from the Mid-Atlantic Region and 12% come from New England.

History/Description

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."

The institution comprises the College of Liberal Arts and Sciences, the College of Commerce and Finance, the College of Engineering, the College of Nursing, and the School of Law. In addition, all of the colleges offer graduate studies. Combined, these colleges/schools offer bachelors degrees in 56 fields, master's degrees in 40, one J.D., and three PhD degrees.

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