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

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Credit Profile		
US\$77.44 mil univ rev bnds (Villanova Univ) due 08/01/2031		
Long Term Rating	A/Positive	New
Villanova Univ ICR		
Long Term Rating	A/Positive	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating, and positive outlook, to Delaware County Authority's series 2009 bonds, issued for Villanova University. At the same time, Standard & Poor's revised the rating outlook to positive from stable and affirmed its 'A' long-term ratings and 'A' underlying ratings (SPUR) on the Delaware County Authority's outstanding bonds issued for Villanova University.

The outlook change reflects the university's strong operating performance, prudent fiscal management, and solid demand trends.

The rating reflects the university's:

- Historically strong student demand, evidenced by an excellent freshman retention rate of 95%, an increasing number of applications, and improving acceptance rate that reached 39.5% in fall 2008, although the demand profile weakened somewhat in fall 2009;
- Good student quality, with an average SAT score of 1,290 in fall 2009;
- Strong financial operations, with consistently healthy operating surpluses on a full accrual basis and good growth in net tuition and fee income, as well as prudent fiscal management;
- Adequate financial resources, with expendable resources of \$236.7 million in fiscal year 2009 equal to 61% of operating expenses and 112% of pro forma debt;
- Moderate debt service burden, with pro forma maximum annual debt service (MADS) equal to 4.3% of fiscal 2009 operating expenses; and
- Good fundraising record, with the last comprehensive campaign exceeding the \$300 million goal.

The factors offsetting these strengths include limited revenue diversity and a relatively small endowment fund.

The university plans to use proceeds from series 2009 bonds, expected to be issued in the par amount of approximately \$77.4 million, to refund a portion of the series 1998A and 1998B fixed-rate bonds, and all of series 2001 variable-rate demand bonds and series 2002 variable-rate demand bonds. After this refunding, all of the university's debt will be in fixed rates, and the university does not have any outstanding swaps. Payment of the debt service on the bonds is a general obligation of the university. Post issuance, the university will have approximately \$211 million in debt outstanding.

Outlook

The positive outlook reflects Standard & Poor's expectation that sustained strong financial performance and student demand, as well as improvement in financial resources, could lead to an upgrade during the outlook period. We also expect that when the university issues additional debt, financial resources will increase commensurately.

The University

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, the university sits on a well-maintained 260-acre campus now encompassing 72 buildings on Philadelphia's affluent "Main Line."

The institution comprises the College of Liberal Arts and Sciences, the Villanova School of Business, the College of Engineering, the College of Nursing, and the School of Law. In addition, all of the colleges offer graduate studies. Combined, the colleges and schools offer bachelors degrees in 56 fields, master's degrees in 40, a juris doctorate, and three PhD degrees. In fall 2009, undergraduates make up 69% of enrolled students.

Demand: Historically Strong But Softer In Fall 2009

The university has a strong demand profile characterized by a growing applicant pool, improving selectivity, and high freshmen retention rate. Freshman applications grew 65% between fall 2004 and fall 2008 and reached a high of 15,102 in fall 2008; the acceptance rate improved to 39.5% from 58% during the same period. However, the number of applications and selectivity weakened somewhat in fall 2009, which management attributes primarily to the current economic environment. The university received 13,098 applications for fall 2009, down 13% from fall 2008. This resulted in a higher acceptance rate of 46%, compared with 39.5% for fall 2008. The 27% matriculation rate for fall 2009, in line with previous years, resulted in a freshman class of 1,643. Enrollment has remained stable during the past few years, with a total headcount of 10,172 in fall 2009. The university's housing is close to capacity, and management plans to keep enrollment at the current level for the foreseeable future. Student retention continues to be very strong, with approximately 95% of freshmen returning for their sophomore year in fall 2009.

Student quality, as measured by SAT scores, continues to be solid. The average SAT score for the fall 2009 class was 1,290, up from 1,260 five years ago. The university draws approximately 67% of the incoming students from mid-Atlantic states.

Strong Financial Operations And Conservative Management

Villanova has maintained consistently positive financial operations on a full accrual basis during the past five fiscal years. In fiscal year 2009, the university produced an operating surplus of \$34.4 million (8.9% of fiscal 2009 adjusted operating expenses), following an operating surplus of \$28.8 (7.7%) million in fiscal 2008 and \$30.2 million (8.5%) in fiscal 2007. Starting in fiscal 2009, management implemented various cost saving measures, including hiring and salary freezes, and it expects another healthy operating surplus in fiscal 2010. The university has a history of strong financial planning, including an annual increase in planned savings toward the endowment and maintaining sizeable reserve funds. Planned savings in fiscal 2009 equaled \$8.8 million, and the university is

budgeting \$9.3 million for planned savings for fiscal 2010.

The university's revenue base is fairly concentrated: Tuition and other student-generated revenues account for close to 88% of total operating revenues. The university has increased tuition by an annual average of 6.7% for the past five years while maintaining a modest institutional discount rate of about 20% during the same period. The freshman discount rate for fall 2009 is somewhat higher than the university's usual discount rate because of the current economic condition, but management indicates that it plans to go back to a normal discount rate in the future.

Adequate Financial Resources

As a result of good operating performance and favorable market conditions before the financial crisis, financial resources of the university had increased leading up to fiscal 2008, improving financial resources ratios when compared to operating expenses and outstanding debt. In fiscal year-ended May 31, 2008, expendable resources totaled \$366 million or 98% of operating expenses and 1.6x outstanding debt. This compares favorably with expendable resources of \$214 million, 70% of operating expenses and 1.1x outstanding debt, in fiscal 2006. Reflecting the recent market disruption, expendable resources as of May 31, 2009, were down 35% to \$236.7 million, representing 61% of operating expenses and 112% of pro forma debt. As of May 31, 2009, total outstanding debt was \$216.6 million (including nonrecourse debt of \$11 million), and total pro forma debt after this refunding will be \$211.4 million. After this refunding, all of the university's debt will be in fixed rates, and the university does not have any swaps related to its debt. The university does not plan to issue additional debt in the next two to three years, and pro forma maximum debt service (MADS) is a moderate 4.3% of fiscal 2009 operating expenses. Management reports that capital projects related to the university's campus master plan for the next one to two years will be funded internally.

Somewhat Small Endowment But Good History Of Fundraising

The market value of Villanova's endowment as of June 30, 2009, was \$266.7 million, down from \$355 million as of May 31, 2008. The asset allocation has remained diverse, with the largest components being domestic equities (17.7%), global equity (12.5%), hedge funds (22.7%), and U.S. bonds (13.3%). As of May 31, 2009, the university had 41% of its investments categorized as Level 3. However, management reports that a majority of Level 3 investments have publicly traded underlying securities with daily valuations. The spending policy continues to be 5% based on a three-year rolling average market value. The university successfully concluded a \$300 million campaign in December 2007 that raised \$304 million. The university's annual fund has been growing modestly in the past several years. It raised \$4.2 million in fiscal 2009, up from \$3.6 million in fiscal 2005. The alumni participation rate is 17.4%.

Related Research

USPF Criteria: "Higher Education," June 19, 2007

Ratings Detail (As Of October 16, 2009)

Delaware Cnty Auth, Pennsylvania

Villanova Univ, Pennsylvania

Ratings Detail (As Of October 16, 2009) (cont.)		
Delaware Cnty Auth (Villanova Univ) rev bnds ser 2005 (MBIA)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Delaware Cnty Auth (Villanova Univ) ser 2006 (AMBAC)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Many issues are enhanced by bond insurance.		

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