S&P Global
Ratings

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

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Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- 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.

Security

Villanova had approximately $202.8 million of debt outstanding, consisting of $187.9 million in bonds and $14.9 million in operating leases as of May 31, 2023. We view the leases as manageable. All of the bonds are secured by a general obligation of the university. Villanova has no contingent liability risk exposures. More than 50% of the principal debt outstanding is due in the next 10 years. Maximum annual debt service (MADS) of $24.9 million will occur in 2024 and then drop to $14.4 million in fiscal 2026, creating even more debt capacity for the university. The university is in the early planning phases for additional debt, and nothing has been approved by the board.

Credit overview

On Nov. 2, 2023, a definitive agreement was announced between Villanova University and Cabrini University. While the agreements have been approved by the governing boards of each institution and executed by the parties, completion of the asset purchase remains subject to the receipt of certain regulatory approvals and each party's satisfaction of certain closing conditions. Closing is anticipated to occur on or about June 30, 2024. Should the deal close, it will include the purchase of the land on which Cabrini's campus sits from the Missionary Sisters of the Sacred Heart of Jesus, and is expected to either provide sufficient funds to Cabrini for defeasance of its debt (approximately $46 million after the July 1, 2023, principal payment) or Villanova would separately assume the debt obligation directly.

The agreement also stipulated that the land and campus will be used to support Catholic education and that Villanova will retain the Cabrini name as part of its final naming of the campus site. Two representatives chosen by Cabrini, including one from the Missionary Sisters of the Sacred Heart of Jesus, who were the founders of Cabrini and owned the land on which the campus sits, will have seats on Villanova's board for up to two successive terms of five years.

From a strategic standpoint, we believe this purchase affords Villanova the ability to expand, particularly its undergraduate enrollment, which has seen strong demand with applications consistently about 23,000 for 1,700 freshmen spots. We believe that, with over 110 acres located less than two miles from Villanova, the Cabrini campus will complement the current campus. We expect future operations will be additive to total operating results in the long term after the initial period of investment to update facilities and hire additional faculty and staff. We do not believe the financial costs associated with the agreement will weaken Villanova's financial resources substantially.

We assessed Villanova's enterprise risk profile as very strong with fairly stable enrollment, healthy demand metrics with solid selectivity and matriculation, and good student quality. We assessed Villanova's financial risk profile as strong, with a history of healthy operating surpluses, solid financial resources, and moderate MADS burden. Combined, these credit factors lead to an anchor of 'a+'. However, Villanova's cash and investments, especially relative to debt, are strong and more consistent with those of higher-rated peers; hence, we apply one notch of uplift from the anchor, leading to a final rating of 'AA-'.

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

- Solid enrollment and demand metrics comparable with those of similarly rated peers;
- History of positive full accrual operating results, which we expect will continue even amid inflation and wage pressures;
- Healthy financial resources; and
- Low MADS burden of 3.6%, including a small amount of lease payments with a front-loaded debt service schedule that is expected to drop in fiscal 2026.

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

- Limited revenue diversity, with more than 82.5% of gross revenues in fiscal 2023 coming from student-generated revenues (tuition, fees, and auxiliaries);
- Lower endowment per full-time equivalent (FTE) than that of similarly rated peers, although ongoing endowment growth has been healthy.

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, it offers a comprehensive array of undergraduate, graduate, and professional degrees, including law, business, engineering, and nursing.

Environmental, social, and governance

We analyzed Villanova's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance and found them to be neutral in our credit rating analysis.

Outlook

The stable outlook reflects the university's strong management, healthy operating margins and financial resources, and solid enrollment and demand profile. We expect that Villanova will successfully close on the agreement with Cabrini University with no immediate change to financial operations or resources.

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 as a negative credit factor.

Upside scenario

We would consider a positive rating action if financial resources and operating margins increase and are consistent with 'AA' rating category medians and those of higher-rated peers even as the university issues additional debt and the Cabrini campus is brought online. We would view positively an improvement to demand metrics.

Credit Opinion

Enterprise Risk Profile – Very Strong

Market position and demand

Full-time equivalents (FTEs) declined by 1.4% in fall 2023 to about 9,408, with a small increase in undergraduate FTEs offset by a larger decrease in graduate FTEs. Average FTE enrollment in the past five years was steady although competition remains high for graduate students and the university continues to recruit adult learners. Management also notes an emphasis on research and continued growth in the PhD programs over time. Undergraduate enrollment remains the largest component of overall enrollment at about 75% of total FTEs. The university also benefits from geographic diversity, with only 32% of students coming from Pennsylvania.

The number of applications remains high, averaging around 23,000 in the past five years. Selectivity and matriculation remain healthy at 24.3% and 29.6%, respectively, in fall 2023. Management is carefully planning for the potential increases in enrollment on the Cabrini campus as it wants to maintain strong academic quality. We believe demand factors remain consistent for the rating and demonstrate stability despite a competitive operating environment. The university has remained test optional but we believe student characteristics are strong, as the retention rate and graduation rate are stable at 95.1% and 91.8%, respectively, consistent with those of similarly rated peers.

The university has been gaining momentum under the strategic plan and annual giving has increased, averaging around $80 million annually in recent years. We expect that it will launch the public phase of its comprehensive campaign shortly, and the goal is likely to be much larger than the previous one. Villanova's last campaign ended on May 31, 2018, and raised $760 million, $160 million above its initial $600 million goal.

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. A new vice president for advancement and vice president for human resources were hired internally. There is currently a search underway for a new chief information officer. The active 32-member board of trustees governing the university has been stable with normal rotations.

The university continues to operate under its 10-year strategic plan that focuses on maximizing the impact of the Augustinian tradition, fostering a diverse and equitable community, building a more connected community, creating dynamic opportunities for research and scholarship, advancing innovative teaching and learning, and propelling Villanova students on a path for lifelong success. The university invested more funds into faculty compensation after completing a benchmarking study and has been successful in retaining faculty in a competitive job market. Villanova also has invested in expanding the advancement office in preparation for the public launch of a comprehensive campaign to address some of the strategic initiatives. In addition, it is working on a campus master plan and has identified major projects such as the Center for Engineering Education and Research (CEER), which is already underway. As a result of Villanova's disciplined and prudent financial management, some of the initial capital project costs, including the CEER, have been funded through surplus cash and fundraising. Management is considering additional debt issuance to finance larger projects such as a new library, although no plans have been finalized and board approved.

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

Financial Risk Profile – Strong

Financial performance

Villanova's financial profile remains solid, with an operating margin of 2.64% in fiscal 2023 or net income of $19.1 million. Net tuition revenue, the largest driver of total revenue, continued to increase as enrollment remained steady and tuition rose by 4%. However, overall performance was slightly down from fiscal 2022 as a result of strategic investments in areas such as faculty salaries and advancement, as noted above. Management is budgeting for an operating surplus in fiscal 2024 even with increases in financial aid, raises for staff and faculty, and general inflation. We view the university's consistent operating surpluses as a credit strength.

Villanova is highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 82.5% of fiscal 2023 adjusted revenue. Tuition (including room and board) was in line with that of peer institutions. The tuition discount rate was 31.7% in fiscal 2023 and has been increasing incrementally as part of the university's strategic plan to extend access to a broader, more diverse set of students. While we expect that increases to financial aid will continue, net tuition revenue will also likely continue to rise.

Financial resources

At fiscal 2023 year-end, cash and investments remained healthy at $1.38 billion, equal to 191.5% of operating expenses and 680.9% of debt. Fundraising should continue to spur growth.

As of June 30, 2023, the endowment had a market value of approximately $1.2 billion, up 7.8% from the previous year. A small internal endowment team manages the portfolio. A search for a manager of operations for the endowment is ongoing. The portfolio itself is diverse, with 37.9% in public equities (domestic and global), 27.9% in private investments, 33.4% in diversifying assets (hedge funds and private credit), and 0.8% in bonds and cash. It is sufficiently liquid, with 1% available on a daily basis, 29.5% on a monthly basis, and 50% 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 commitment for the private investment portfolio is about 18% 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' category rated private colleges & universities
	2024	**2023**	**2022**	**2021**	**2020**	**2022**
Enrollment and demand						
Full-time-equivalent enrollment	9,408	9,545	9,737	9,761	9,785	7,733
Undergraduates as a % of total enrollment	74.8	73.2	70.8	70.6	70.6	67.4
First-year acceptance rate (%)	24.2	23.4	25.2	30.6	28.2	17.8
First-year matriculation rate (%)	29.6	31.8	28.7	25.0	26.1	38.8
First-year retention rate (%)	95.1	96.1	95.9	96.1	96.0	95.0
Six-year graduation rate (%)	91.8	90.6	91.3	92.0	91.0	90.3
Income statement						
Adjusted operating revenue ($000s)	N.A.	740,102	693,572	639,933	625,381	693,572
Adjusted operating expense ($000s)	N.A.	721,037	661,052	610,248	596,420	661,052
Net operating margin (%)	N.A.	2.6	4.9	4.9	4.9	4.1
Change in unrestricted net assets ($000s)	N.A.	11,446	29,047	139,194	75,604	MNR
Tuition discount (%)	N.A.	31.7	31.4	30.9	29.9	39.5
Student dependence (%)	N.A.	82.5	83.2	86.1	84.5	59.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.8	1.5	1.5	1.4	5.4
Debt						
Outstanding debt ($000s)	N.A.	202,766	219,381	234,969	234,360	596,725
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.7	4.1	4.2	3.9	MNR
Current MADS burden (%)	N.A.	3.6	3.8	4.3	4.2	5.2
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.9	12.7	12.1	12.7	14.4
Financial resource ratios						
Endowment market value ($000s)	N.A.	1,194,916	1,165,526	1,122,560	797,015	2,391,304

Villanova University, Pennsylvania--enterprise and financial statistics (cont.)						
	--Fiscal year ended May 31--					Medians for 'AA' category rated private colleges & universities
	2024	**2023**	**2022**	**2021**	**2020**	**2022**
Cash and investments ($000s)	N.A.	1,380,708	1,442,060	1,361,230	1,042,976	2,852,879
Cash and investments to operations (%)	N.A.	191.5	218.1	223.1	174.9	377.8
Cash and investments to debt (%)	N.A.	680.9	657.3	579.3	445.0	463.1
Cash and investments to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022