

## Research:

### Villanova University, Pennsylvania

Publication date: 08-Mar-2005

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### Credit Profile

US\$28.5 mil rev rfdg bnds (Villanova Univ) ser 2005 dtd

03/01/2005 due 08/01/2020

A

Sale date: 10-MAR-2005

### OUTLOOK:

STABLE

### Rationale

Standard & Poor's Ratings Services assigned its 'A' rating to Delaware County Authority, Pa.'s \$28.5 million revenue refunding bonds, series 2005, issued for Villanova University. The outlook is stable.

The rating reflects the institution's:

- Good financial operations;
- Seasoned management, with conservative budgetary practices;
- Historically strong student demand, with an acceptance rate of 58% in 2004, an increase in the matriculation rate to 31% in 2004 from 27% in 2003, and good student retention (93.4% for the Class of 2007);
- Good student quality, measured by SAT scores, with the average ranging from 1190-1330; and
- Improved fundraising, with strong success thus far on a \$300 million campaign.

The bond proceeds will be used to advance refund outstanding series 1995 bonds. The bonds are secured by loan payments made to the authority by the university. These loan payments are a general obligation of the school, and there is no debt service reserve associated with these bonds. The bonds are expected to sell with bond insurance provided by MBIA.

### Outlook

The stable outlook reflects Standard & Poor's 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.

### Finances

Villanova has historically had favorable financial operations and generated operating surpluses of 7.6% in 2004 and 5.6% in 2003. Similar results are expected in fiscal 2005. These surpluses are especially noteworthy given the fact that the university also budgets various revenue set-asides, including a \$6.3 million transfer to the endowment in fiscal 2004.

The school's revenue base is fairly concentrated, with gross tuition accounting for 71% of total revenues. Tuition in fall 2004 was \$27,700, and a 4% increase is expected to be implemented for fall 2005. This tuition level is fairly comparable to the school'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%.

Due in part to good operating performance in recent years, liquidity levels have increased. In 2004, expendable resources increased to \$177.8 million, versus the \$147.6 million recorded only two years earlier. This resource level produced liquidity ratios on the low end of the rating category; however, liquidity is improving. In 2004, expendable resources were equal to 61% of operations and 90% of debt.

As of May 31, 2004, total outstanding debt was \$185.1 million, producing a debt burden (maximum annual debt service as a percent of operations) of 2.58x.

In addition, a subsidiary of the university, Aldwyn Lane, has a \$13.2 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 lease, which has covered debt service. At this time, the university's additional debt plans have not been finalized; however, it is expected that during the next five years, at least an additional \$50 million is likely to be issued.

The market value of Villanova's endowment, as of Jan. 31, 2005, was \$229.7 million, reflecting a 9% increase from the Feb. 29, 2004, value. The asset allocation has remained diverse, with the largest components being domestic equities (46%), bonds (16%), and international equities (16%). 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. 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 campaign has already reached about 40% of its goal.

## ■ Demand

Total headcount enrollment has remained stable during the last few years, with a total headcount of 10,435 in fall 2004. About 65% of the 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 2004 declined about 16% for fall 2004; however, the number is expected to bounce back up to about 10,400 for fall 2005, and a higher portion of the class consists of early-decision candidates. The school attributes the drop in fall 2004 to enhanced admission standards, and while the drop seemed significant, the number of applications from the prior year was one of the highest experienced by the university in recent years. The school's matriculation rate also rose, indicating that the students who were applying were more likely to attend. Full-time-equivalent enrollment remained fairly constant from 2004- 2005. Student quality, as measured by SAT scores, continues to improve. The average for the fall 2004 class ranged from 1190-1330.

The matriculation rate for fall 2004 was 31%; the average for the five-year period was 30%, which is indicative of the market in which Villanova competes, especially as the university continues to become more selective. The average SAT score ranged from 1190-1330 in fall 2004. At the same time, student retention, from freshman to sophomore year, has remained strong, averaging 94% during the past five years. The law school is even more selective. In fall 2004, of the 2,923 applications received, only 32% of the students were accepted and, of those accepted, 27% matriculated.

Student demand is primarily drawn from the Northeastern Corridor. About 72% of the students come from the Mid-Atlantic Region and 13% come from New England.

## ■ History/Description

Villanova University is an independent, coeducational institution that is located in Radnor Township, about 14 miles west of Philadelphia, Pa. 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.

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