

Villanova University, PA

Delaware County Authority, PA

Contacts

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Moody's Rating

MOODY'S AFFIRMS VILLANOVA UNIVERSITY'S LONG-TERM A2 RATING; OUTLOOK REMAINS STABLE

UNIVERSITY HAS A TOTAL OF \$184 MILLION RATED DEBT OUTSTANDING

Opinion

Moody's has affirmed Villanova University's long-term A2 underlying rating and stable outlook. The rating affirmation affects approximately \$184 million of Series 1995, 1998A, 1998B, 2001, 2002, and 2003 bonds. The Series 1998A and 1998B bonds also carry Aaa ratings based on municipal bond insurance provided by MBIA, while the Series 1995 bonds carry a Aaa rating based on municipal bond insurance provided by AMBAC. The Series 2001 and 2002 bonds carry Aa3/VMIG1 ratings based upon bank letters of credit.

The A2 rating is based on:

- The University remains highly leveraged within its rating category. As of the end of FY2003, total non-plant financial resources covered total debt by 0.6 times. More recently, investment returns, coupled with additional contributions to the endowment will likely improve this cushion. Investment returns for the fiscal year through February were 18.4%, and the current market value of the endowment is at an all time high of \$210 million. The University's future capital plans call for construction of a new law school facility and renovation of the existing law facility to house the school of nursing, but there is no firm timeline for these projects as the University is seeking to identify a site for the new facility. Projected borrowing for the projects is about \$40 million, although the actual amount financed may be reduced by gifts. The University's ability to absorb this incremental debt at the current rating level will depend on its ability to maintain strong student demand and healthy operating margins. We believe the University has limited debt capacity beyond the potential \$40 million borrowing, without commensurate growth in financial resources.
- Financial operations remain sound, driven by prudent management practice. Over the past three years, the University has posted a healthy average operating margin of 5.2%. Management projects similar results for 2004. The University's commitment to budgeting for contributions to quasi-endowment and capital reserves ensures a healthy cushion for the operating budget, and provides an additional source of balance sheet growth.

-- After several years of significant improvement in selectivity and matriculation, demand appears to have recently softened somewhat, although the University reports that the quality of the applicant pool remains strong. Throughout the late 1990s, the University pursued a successful strategy to build demand, improve selectivity and increase the yield on admitted students. For the fall of 2004, management reports that applications declined 15%, but the average SAT of the applicant pool actually improved, indicating that the loss of applicants was from the weaker end of the pool. Management attributes the decline to the perception among some traditional market segments that admission to Villanova may be unattainable because of heightened selectivity. Household concerns about the economy also likely played a role. While this one-year decline in applications is not an immediate credit concern, over a longer period credit quality could weaken if the University is not able to build demand to generate growing net tuition revenue.

Outlook

Moody's stable outlook anticipates positive operating margins, stable enrollment, and no additional borrowing beyond the projected \$40 million.

KEY DATA AND RATIOS (Enrollment as of Fall 2003; Fiscal 2003 financial data):

Total Enrollment: 9,116 full-time equivalent students

Total Financial Resources: \$191 million

Total Debt: \$198 million

Freshman Selectivity: 53%

Freshman Matriculation Rate: 27%

Net Tuition per Student: \$18,259

Expendable Resources to Pro Forma Debt: 0.6x

Expendable Resources to Operations: 0.5x

Total Resources per Student: \$20,948

Three-year Average Operating Margin: 5.2%

CONTACTS:

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