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Fitch Ratings: University of Alaska Hit by Shrinking State Support of Higher Education

Fitch Ratings-Chicago-23 July 2019: An expected reduction of over 40% in state funding for the University of Alaska (UofAK) would represent a landmark development that highlights the ability of states to reduce support of higher education overall, a risk that Fitch Ratings believes public institutions are more exposed to than ever in an environment of increasing fixed costs in state government budgets.

UofAK's Board of Regents voted to declare financial exigency in preparation for the now necessary sizeable operating cuts to both staff and programs. Its accreditor (the Northwest Commission on Colleges and Universities) has further warned that its accreditation status may be in jeopardy due to the magnitude and implications of the cuts. Moreover, the longer-term impact to enrollment and research could be significant in a state already facing demographic pressures.

This reduction follows a 12% decline in state support in Alaska just two years prior. Colleges and universities overall are seeing state support become a less reliable source of revenue, but a reduction of over 40% from a state with historically stronger support of higher education would represent an unprecedented event that highlights the risks of state funding volatility. Alaska had historically been a strong supporter (on both a per capita and per \$1000 in personal income basis) of higher education; only North Dakota and Wyoming outspent Alaska by those metrics in recent years. The magnitude of this reduction is equally extraordinary; in the past three years, the largest cuts to state support were Oklahoma (18% in 2017), North Dakota (15% in 2018) and Mississippi (11% in 2018).

Nationwide the trend has been more tempered; U.S. states have increased appropriations by 2% and 3.8% on average in the past two years, and appropriation revenue has represented a relatively stable proportion of total revenue at most institutions in recent years. Still, overall funding for higher education is not expected to return to pre-2008 levels for some time (if ever), increasing the importance of student fee revenue to replace it.

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