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Fitch: Some Smaller U.S. Colleges May Face More Pressure in 2018.

Fitch Ratings-Chicago-07 December 2017: The outlook for ratings in the U.S. colleges and universities sector is stable headed into next year, though the gap is widening between larger, stronger universities and some of their smaller counterparts, according to Fitch Ratings in its 2018 outlook report.

“Operating revenue pressures will likely intensify for small, tuition-dependent schools in demographically declining areas or highly competitive regions,” said Director Emily Wadhwani. “Barring those outliers, operating performance is expected to remain strong sectorwide, which coupled with steady student demand and enrollment and solid financial resources supports a stable sector outlook.”

Operating revenue also stands to be affected by recently proposed tax reform legislation, with annual charitable gift revenue and both state and federal funding to feel those effects most acutely. Most vulnerable are institutions already facing revenue pressures related to enrollment, tuition dependency, or those with limited liquidity profiles lacking material foundations or endowments. “Proposed bills have served to sustain national focus on the value proposition of higher education, which could have a more lasting impact over time,” said Wadhwani.

Nonetheless, U.S. colleges and universities by and large enjoy ample financial flexibility and have been proactive in minimizing the volatility of investment returns and increasing the overall liquidity of their total holdings. Well-positioned institutions retain meaningful balance sheet resources, solid demand and increasing tuition revenue while keeping leverage in check. Most colleges are also effectively balancing the desire to maximize long-term investment returns and the need for capital investments against the need for sufficient working capital and liquidity.

Fitch’s ‘2018 Outlook: U.S. Colleges and Universities’ is available at www.fitchratings.com.

Contact:

Emily Wadhwani
Director
+1-312-368-3347
Fitch Ratings, Inc..
70 W. Madison Street
Chicago, IL 60605

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

