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Fitch Ratings: FY18 Median Ratios Show Widening Credit Gap; Strong Fundamentals for U.S. Higher Ed

Fitch Ratings-Chicago-12 July 2019: Fiscal 2018 ratios show a more bifurcated sector and widening credit gap among U.S. universities and colleges, with higher-rated institutions getting stronger and lower-rated entities facing more operating, leverage and demand pressures, according to a new report from Fitch Ratings. Trends highlighted in the median report show relatively flat student-generated revenues and public funding continue to pressure margins, while solid fundamentals helped to support largely stable median liquidity and leverage levels in fiscal 2018.

Student-driven revenue remains paramount across the sector, and tuition pressures at the lower end of the rating spectrum continue to rise; with a range from marginal growth below 2% for 'A' category public institutions and 'BBB' category private institutions, and net tuition declines and volatility at lower ratings. Tuition discounting continues a steady rise across rating categories, and poses a real credit concern for those credits with weaker demand profiles and thinner balance sheet resources.

Still, a strong year for endowment performance and ongoing expense control helped support liquidity-related metrics in fiscal 2018, which continue to be a distinguishing factor across rating levels. Median ratios of available funds (AF) to debt and AF to expenses increased for most Fitch-rated institutions in fiscal 2018, and were at worst flat in the lower rated categories.

Two new metrics related to the release of the new 'U.S. Public Finance College and University Rating Criteria' (June 2019) aid this analysis: adjusted cash flow margin and available funds to adjusted debt.

Contact:

Emily Wadhwani
Director
1-312-368-3347
Fitch Ratings
70 W. Madison Street
Chicago, IL 60602

Margaret Johnson
Director
1-212-908-0545

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

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