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Fitch Rtgs: Coronavirus Poses Risk to US University Operations, Enrollment

Fitch Ratings-New York/Chicago-12 March 2020: US colleges and universities may experience operating and enrollment pressures as the spread of COVID-19 leads to campus shutdowns, says Fitch Ratings. Most universities have a risk management plan in place to address infectious outbreaks. Institutions with limited liquidity, as measured by available funds/expenses, a greater reliance on endowment draws to fund operations, and heavy dependence on tuition revenues are, on the whole, more susceptible to operating risks and small shifts in enrollment, with less flexibility to absorb revenue volatility before financial strength is affected. Institutions with greater operating margins and cash flow flexibility should be in a stronger position to weather uncertainty.

Operating risk could result from prolonged student, faculty or staff access restrictions, namely campus closures, lower dorm occupancy, or closures of branch campuses abroad. Campus closures lasting a few weeks should not affect operating performance but revenue and operating pressures will build the longer campuses are shut down. Fees from auxiliary services have grown in relative importance and a decline in fee revenue from services, such as housing, dining and parking, could affect margins if material or sustained into the fall 2020 academic period. Universities are not typically obligated to refund auxiliary fees, which are paid up front, once the academic period begins. Some universities may chose do to so on a prorated basis if those services are no longer being provided to students. Athletics-related revenue may also be pressured as ticket sales decline or games are cancelled, although most universities do not depend heavily on revenue from sporting events.

Reliance on online classes will increase over the next few months and likely contribute to the increase in online education over the longer term. We expect online and other non-traditional programs to expand and continue to affect competitive positioning on margins. The US Department of Education relaxed some of its regulations to support necessary changes in course delivery. Enrollment may decline at universities where online learning platforms are not robust during campus shutdowns

International students make up about 5.5% of all US enrollment, although they contribute disproportionately more in net tuition revenue as international students pay full tuition rates. Universities that have a material international student population may see reduced enrollment and student revenue pressure in the 2020-2021 academic year. While doctorate-granting and research institutions have more international students, the risk is mitigated somewhat by these universities' diverse revenue bases and typically stronger financial profiles. For domestic students, pressure may exist to choose an institution closer to home. Colleges will be closely monitoring the 'summer melt' this year as an inability to budget for shortfalls could aggravate operating pressures. The most selective institutions will likely fare better overall, as they have capacity to flex into a larger pool of applicants.

Market declines will negatively affect endowments but is unlikely to have a significant impact on ratings. Our ratings generally ignore investment gains/losses and draws are structured to remain smooth against a rolling asset base value. Endowments most susceptible to market swings tend to be the largest and most permanently restricted but these are typically held by highly-rated universities that do not rely on endowment draws.

Public university funding is one of the first things cut when states’ budgets are pressured and current overall funding remains below pre-recession levels. The implications for state budgets relating to the coronavirus are still developing with the potential for revenue losses tied to reduced economic activity and increased spending for prevention and treatment measures. The depth and breadth of these effects, which remain unclear, will determine whether states materially reduce public university funding.

Contacts:
Emily Wadhwani
Director, US Public Finance Higher Education
+1 312 368-3347
Fitch Ratings, Inc.
One North Wacker
Chicago, IL 60606

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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