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Fitch: Medians Resilient For U.S. Colleges; Stiff Test Begins in the Fall

Fitch Ratings-Chicago-27 July 2020: Medians held steady for U.S. colleges and universities this past year, though a new Fitch Ratings report says that the ratings gap between larger institutions and smaller, private schools will likely widen heading into the fall 2020 academic season.

‘Prospects for growing student-fee revenue remain thin and demand pressures will persist as universities focus on enhancing affordability and limiting tuition student cost increases,’ said Director Emily Wadhwani. ‘Somewhat constrained operating appropriations and external funding for public institutions will suppress net operating revenues and cash-flow operating margins further.’

Liquidity and leverage metrics were stable in fiscal 2019, while debt issuance increased marginally, countered by solid investment market performance. Median portfolio ratings held steady at ‘AA’ for public institutions and ‘A-’ for private institutions. Across the public and private institution portfolios, median coverage of current debt service and the median current debt burden were flat in fiscal 2019, reflecting moderate new money debt issuance, advantageous refunding issuance and relatively steady cash flow operations.

However, little to no growth in state support in fiscal 2019 and stunted median increases in student-fee revenue (under 3%) will exacerbate operational pressures and remain a key consideration in Fitch’s negative sector outlook. Credit gaps will also continue to widen, particularly for institutions rated ‘BBB(cat)’ and below.

While fiscal 2019 ratios do not show any effect of the coronavirus on university operations, the same will not be said for colleges and universities over the next two fiscal years. Not helping matters is overall funding for higher education, which could decline to levels not seen in nearly a decade.

‘Additional rating and Outlook pressure on both regional public and smaller lower rated private universities due to the novel coronavirus is likely for both fiscal 2020 and 2021,’ said Wadhwani. ‘Colleges will be contending with high or inflexible human resource costs and pressured enrollment, which will have a more acute impact on institutions with weaker demand prospects.’

Fitch’s ‘Fiscal 2019 Median Ratios for U.S. Colleges and Universities’ is available at ‘www.fitchratings.com’. Please join us Aug. 6 at 11 a.m. EST as Emily Wadhwani and Arlene Bohner discuss the 2019 median ratios, sector pressures and expectations for the remainder of 2020. Click [here](#) to register

Contact:

Emily Wadhwani
Director
1-312-368-3347
Fitch Ratings, Inc.
One North Wacker Drive

Chicago, IL 60606

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

Additional information is available on www.fitchratings.com

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