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Empty Dorms Put Squeeze on Colleges to Bail Out Billions in Debt.

- **Some schools may be on hook to help struggling private dorms**
- **As virus spread continues, campus reopening prospects dim**

Empty dorms are putting pressure on U.S. colleges to help investors in the approximately $14 billion student housing debt market, adding to the strain on schools already reeling from the pandemic.

West Virginia State University, already hit with a 10% enrollment drop, plans to give money to a school foundation so it can meet its bond covenants for residence hall debt. A community college in Ohio is using part of a $1.5 million donation for a financially-strapped student housing project. And officials at New Jersey City University, which serves largely first-generation and lower-income students and has recorded years of deficits, are prepared to shore up a dorm there.

The squeeze on university finances arrives at the worst possible time. Some debt sold for student housing requires the schools to assist. Other colleges are chipping in even without that requirement to ensure dorms are available when campuses fully reopen. On top of that, enrollments are dwindling and cash flow from athletics, dining halls and parking has disappeared.

“The limiting factor is some of these schools themselves are facing uncertainty with many of their revenue streams,” S&P Global Ratings analyst Amber Schafer said in an interview. “It’s a matter of not only willingness, but if they’re able to support the project.”

Shrinking Enrollment

Investors have billions of dollars relying on the outcome. Typically, privatized student housing debt is paid off by the revenue generated by the dorms — meaning there’s little recourse for bondholders if things go south. With fewer students on campus, options are limited. The number of first-year undergraduate students enrolled dropped 16% this semester, the National Student Clearinghouse Research Center said in a report last week.

The constraints facing student housing could worsen as the coronavirus continues to spread across the U.S., making it harder for colleges to reopen. Since March, S&P has downgraded 15 student housing borrowers in a universe of the about 60 borrowers that it rates, while Moody’s Investors Service has slashed the rating on five considered public-private partnerships.

Nine student housing projects have become impaired in 2020, the most since 2009, according to Municipal Market Analytics, which tracks actions by municipal borrowers like defaults, reserve withdrawals, and technical defaults.

Borrowers have begun revealing how empty residence halls are as the pandemic spurs many campuses to keep classes online. West Virginia State University’s dorm is 71% full, putting it about 20 percentage points from where it needs to be to satisfy debt covenants, according to the school foundation that sold the debt. Other privatized student housing projects, like two on Howard

University's campus, are virtually empty due to online-only instruction there.

On the Hook

Privatized dorms are struggling the most given that they weren't structured to withstand 20% to 30% drops in occupancy — or no students at all.

West Virginia State University may have to step in to help student housing bonds at risk of violating a debt service coverage ratio, Moody's warned this month. The historically-black college faces "considerable" challenges in backstopping the bonds, Moody's said.

The nearly 290-bed residence hall with rents of $3,881 per semester was just 71% occupied this fall, while it needed to be about 92% occupied, said Patricia Schumann, president of the university foundation that sold the debt. Schumann said the university is projected to provide a $75,000 payment in January. In the meantime, she said the school was working to bolster its financial position and boost recruitment and donations.

"We're not standing still," she said.

Ohio's Terra State Community College, which has more than 2,100 students, was downgraded deeper into junk over the risk posed by a dorm owned by a nonprofit, given that the school "appears to provide an unconditional guarantee" to meet the debt obligations, Moody's said. The project was financed through a bank note.

The dorm's occupancy fell to 62%, and the college is using a previously-received donation to cover a shortfall in project revenue amounting between $500,000 to $600,000, the ratings company said in a report this month.

At New Jersey City University, a student housing project financed though a separate entity will likely miss a required debt service coverage ratio. The public school having to step in to help the bonds would be a challenge, but a surmountable one, said Jodi Bailey, the university's associate vice president for student affairs. The student housing bonds aren't a debt of the university, so the school would be choosing to provide financial support, according to bond documents.

The school is working to cut expenses related to the dorm. "Is it a harder year? Most definitely," she said.

The student housing bonds, issued by West Campus Housing LLC in 2015, were slashed deeper into junk in September by S&P, which said in a report that residence halls' occupancy there had fallen to 56% so the school could accommodate social-distancing guidelines.

Helping Out

To provide relief, some universities have deferred lease payments that are owed if student housing projects meet certain debt service coverage levels, said Debra Lockwood, senior adviser and former president of Provident Resources Group, a nonprofit that finances, owns and operates student housing projects.

Provident's deals, which are sold by separate entities, are structured as project finance deals that rely on the site's revenue, meaning that typically Provident and the related college aren't legally obligated to step in to support debt repayment, Lockwood said.

Dorms at Howard University in Washington, D.C., financed through a Provident-affiliated entity, were virtually empty at the end of August after the college moved classes online, according to a regulatory filing. It’s likely that the borrower will use surplus funds to make bond payments in 2020, according to S&P, which slashed the debt further into junk in August.

Provident’s Lockwood said there is a great deal of uncertainty around reopening plans in the spring and that her team was working to model different scenarios on its projects. She said colleges could be incentivized to go back given that so-called auxiliary revenue from sources outside tuition — like dorms — is hurting.

“We just don’t know,” she said.

Bloomberg Markets

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October 20, 2020, 6:10 AM PDT