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S&P: U.S. Public College And University Fiscal 2019 Median Ratios Remain Generally Stable Although Operating Stress Looms

The key median indicators for U.S. not-for-profit public colleges and universities were generally stable in fiscal 2019. The trend of mounting pressure on lower-rated entities continued; however, higher-rated institutions mostly maintained their overall enrollment, demand, and financial profiles. The fiscal 2019 metrics were recorded before the unprecedented disruption that the COVID-19 pandemic has caused in the sector. We expect to see the effects of operational and financial challenges related to the pandemic reflected beginning with the fiscal 2020 median credit metrics, with more pronounced changes likely in fiscal 2021. Although U.S. not-for-profit higher education entities faced increasing operational and financial challenges even before the pandemic, we believe fallout related to COVID-19 will both accelerate and amplify these pressures.

Due to the duration of COVID-19 and the gradual, uneven economic recovery, public colleges and universities face increasing challenges in many, if not all of their revenue streams. When colleges and universities sent students home in spring 2020, refunds were for services such as housing, dining, and parking. In addition, some states responded to budget pressures with end-of-year cuts to operating appropriations. This operating pressure was offset by management teams cutting discretionary spending, pausing or reevaluating capital projects, instituting layoffs or furloughs, and the receipt of federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding. While fiscal 2020 budgets were undoubtedly affected, we expect to see an even more pronounced effect on operating margins in fiscal 2021, with many institutions forecasting pressured net tuition revenue (due to lower enrollments, limited tuition increases in fall 2020, more financial aid, and a higher number of in-state students), a lower level of state support (as states grapple to balance budgets as a result of suppressed economic activity due to the pandemic), lower auxiliary revenues (due to de-densified campuses and deferral or cancellation of athletic and campus events), and potential for sluggish fundraising in light of economic uncertainty. In recognition of this pressure, we revised our rating outlooks on a number of higher education institutions (both public and private) to negative in April 2020 (see “Outlooks Revised On Certain U.S. Not-For-Profit Higher Education Institutions Due To COVID-19 Impact,” published April 30, 2020, on RatingsDirect). We also recently published a mid-year update that reflects our view of the pressures the sector faces (“Not-For-Profit Higher Education Mid-Year Sector View: Fall 2020 Enrollments will Drive Credit,” Aug. 18, 2020).

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