Bond Boom Comes to America's Colleges and Universities.

Eyeing low rates and financial pressure tied to Covid-19, higher-education institutions are issuing a record amount of debt this year

Faced with a rapid deterioration in their finances in 2020, America's colleges and universities issued a record amount of bonds this year.

It is a stressful time for higher education. The coronavirus pandemic worsened existing pressures on tuition and auxiliary revenue, with international students opting to study outside the U.S. and money from room and board drying up as schools keep classes online. At the same time, demand for financial aid and costs related to providing protective gear and Covid-19 testing have jumped.

Hoping to address possible shortfalls and take advantage of ultralow rates, universities have flooded the market with debt. With few places to get a return in the bond market, investors have scooped up the issues, which in some cases offer yields of 2% or 3% for debt that matures in 15 to 30 years.

The higher-education sector "becomes attractive because it's under pressure," said Daniel Solender, who oversees tax-free fixed-income investments at asset manager Lord Abbett & Co., referring to rising yields on higher-education bonds as schools' ability to navigate the pandemic came into question. The firm added more than $300 million to its holdings of such bonds this year.

"There are a lot of high-quality institutions with great reputations, great balance sheets, that will find a way to make it through this environment," he said.

For the year through November, colleges and universities issued more than $41.3 billion in taxable and tax-exempt fixed-rate debt, including refinancings, a record since Barclays began tracking the data. The data included issuance from schools with top-notch credit ratings, including Brown University and the University of Michigan, as well as lower-rated schools like Linfield University in McMinnville, Ore., and Alvernia University in Reading, Pa.

Moody's Investors Service MCO 1.15% in March lowered its outlook on the entire sector to negative from stable, citing uncertainties and financial challenges brought on by the pandemic. S&P Global Ratings lowered its outlook on a raft of schools in May and no longer maintains a positive outlook on a single one of the schools it rates. Attempting to help alleviate some of the pressure, more than $20 billion was allotted to public and private higher education in the latest Covid-19 relief bill passed by Congress.

John Augustine, who leads the higher-education and academic medical-center finance group at Barclays, said the bond issuance came from institutions trying to reduce their fixed costs. For some, he said, borrowing money at low rates was more attractive than dipping into their endowments at a possible cost to future generations of students.

The New York Institute of Technology refinanced $17 million in debt this summer as it sought to bolster its cash holdings, extending the repayment timeline to 2030 and lowering its annual debt service to around $3 million from upwards of $7 million.

“Trustees were concerned about the market turmoil they saw going on and how that might affect our liquidity,” said Barbara Holahan, chief financial officer and treasurer of the private university.

She said freeing up cash became a bigger priority as international student enrollment fell and expenses rose.

Part of the sector’s appeal for investors stems from the long-term maturity of college and university bonds, said Jim Costello, who heads higher-education finance at J.P. Morgan. JPM -0.44% Corporate bonds rarely last more than a decade, while higher-education bonds typically have maturity dates 30 years out.

“The AAA- and AA-rated schools are pretty unique assets to own,” Mr. Costello said. “It’s very hard for these bond investors to find very highly rated, very long-duration assets.” He said many schools already had planned before the pandemic to issue bonds this year, but that they had subsequently increased the size of their borrowing.

A further boost for the asset comes from investors’ search for yield.

After the Federal Reserve cut rates to near zero in March to help stabilize the economy, investors have reset the benchmark by which they judge the relative attractiveness of various asset classes and risks. That has contributed to soaring equity markets this year, as well as appetite for municipal bonds.

Wofford College in Spartanburg, S.C., opted for a $17.5 million private placement with Synovus Bank in September. The small liberal-arts college was refinancing existing tax-exempt debt, drawn in part by low rates.

Wofford finance chief Chris Gardner said the school wound up cutting its yield on 15-year bonds to 2.1% from 3.39%, saving about $100,000 a year.

“Everybody’s looking for some kind of yield. As low as 2% is, you can compare that to sovereign debt where you’re getting negative yields on half the countries in the world,” Mr. Gardner said.

For decades, colleges and universities largely sold bonds to finance new construction of academic buildings, dorms and sports complexes, and to tackle deferred maintenance. Like many other municipal bonds, these offerings are typically tax-exempt. Some schools issue taxable bonds because they come with fewer restrictions governing use of the funds.

Tulane University in New Orleans received $1.5 billion in orders for $187 million in debt this summer. Institutions that invested include BlackRock Inc., BLK 0.50% Lord Abbett and Vanguard Group, said Tulane operating chief Patrick Norton.

Tulane had the new bonds in the works even before the pandemic to finance new construction and refinance $25 million in existing debt. The school waited until it firmed up plans to bring students back to campus for the fall, ensuring continued cash flows, Mr. Norton said.

It locked in an all-in 3.12% yield on bonds with an average life of almost 20 years, compared with the 3.31% it got on 2017 bonds with an average life of about 12 years.

The University of Wisconsin-Madison hasn’t been as fortunate.

Unlike most public universities, the flagship can't issue debt of its own because of state statutes. It instead participates in the state's issuance and refinancing of tax-exempt general obligation bonds. Campus administrators have been citing the pandemic in discussions with lawmakers this fall to press for the ability to issue bonds, said Laurent Heller, the school's vice chancellor for finance and administration.

Among other pressures, the University of Wisconsin-Madison has been hit by lost revenue related to room and board and its athletics program, whose 80,000-seat football stadium has been sitting empty since March. It has furloughed staff and made other cost cuts but still expects to have a significant budget shortfall in the fiscal year ending in June, he said.

"It's a part of the tool kit of every major university," Mr. Heller said. Without the ability to issue debt on its own, "we face more pressure to do immediate expense reductions."

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—Heather Gillers contributed to this article.