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Fitch: Federal Stimulus Won't Offset Higher Ed Budget Pressures.

Fitch Ratings-New York/Chicago-07 January 2021: New federal aid for colleges and universities provided in the Consolidated Appropriations Act (CAA), the federal stimulus package and omnibus bill signed into law on Dec. 27, will provide some support for colleges and universities, but will not be sufficient to fill budget gaps caused by the pandemic, Fitch Ratings says. The law provides \$22.7 billion in aid to colleges and universities, more than the \$14.3 billion already provided under the Coronavirus Aid, Relief and Economic Security (CARES) Act, but is still far short of what industry leaders say is needed.

Federal funds will help provide crucial revenue, but these funds will only address a portion of short-term needs. Higher education institutions are facing challenges that will persist beyond this academic year, including declining incoming and international student enrollment, tuition affordability and discounting pressures, and flat or reduced state funding. Enrollment volatility and declines in key student-driven revenues are expected to worsen in 2021, following significant declines in new student enrollment in fall 2020 across the sector.

Continued expense reductions are expected to be necessary despite this additional federal support. Public universities may face further cuts in state funding, as state budgetary flexibility has been materially reduced since the start of the pandemic, and states did not receive direct aid in the recent stimulus package. Pandemic-related expenses and increased student financial aid needs will also continue to pressure budgets throughout the year and possibly into 2022, and may require further reductions to programs, staff, capital and other discretionary items. These reductions will reflect institutional strategies and priorities, and could have a long-term credit impact.

The new bill provides more flexibility for how funds in the Higher Education Emergency Relief Fund, including unspent CARES Act funds, can be used, such as offsetting lost revenue. Institutions must spend the same amount on emergency aid to students in need as they did with funds under the CARES Act, which, given the larger amount allocated directly to public and private higher education institutions under the CAA, gives them more funds for other purposes.

Unlike the CARES Act funding formula, the bulk of funds for higher education under the new aid package, \$20.2 billion, will be distributed based on both full-time equivalent and headcount enrollment. This formula should help community colleges in particular, which serve a higher proportion of part-time students and received less aid under the CARES Act. Wealthier schools subject to the "endowment tax" will only receive 50% of funds determined under the formula, but these institutions typically have stronger financial profiles and less volatile revenue streams. Historically Black Colleges and Universities (HBCUs) and other minority-serving institutions will receive \$1.7 billion, with Howard University receiving a separate allocation of \$20 million. Federal loans to HBCUs totaling approximately \$1.3 billion were forgiven. These funds could provide a material boost to HBCU budgets, considering their relatively smaller size and weaker financial profiles.

Other provisions included in the omnibus bill will help students apply for and receive financial aid, which is expected to support student access and retention. These reforms include a simplified Free Application for Federal Student Aid form, expanded Pell Grant eligibility for lower-income students and incarcerated students, and reinstated Pell Grant eligibility to students defrauded by educational institutions.

Additional policy has yet to be considered in the long-delayed reauthorization of the federal Higher Education Act, which expired in 2013. With Democratic control of both houses of Congress, visibility should improve on longer-term federal priorities and intended support, as key goals of Biden's administration are considered, including federal stimulus for state and local governments, increased Pell Grant awards and student loan forgiveness.

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