

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: Inflation, Federal Policy to Weigh on U.S. Colleges

Fitch Ratings-Chicago-18 November 2021: Most U.S. colleges and universities have enough flexibility to absorb inflationary increases for the foreseeable future, though a new Fitch Ratings report says their financial cushion may diminish beyond fiscal 2022.

The higher education sector reduced its labor force sharply at the onset of the pandemic with a decade of job gains evaporated in the space of one year. Median expense growth is expected to inch upward in fiscal 2022 as universities absorb inflationary increases in supplies and labor. 'Most colleges will be able to absorb inflationary increases to some extent, though they will be working with less financial flexibility beyond fiscal 2022,' said Fitch Senior Director Emily Wadhwani.

A few key proposals for higher education are included in the current \$1.75 trillion budget reconciliation bill – among them a \$550 increase in Pell Grant maximum awards. Pell Grants have historically not kept pace with inflation and tuition increases, though the proposed Pell award increase reflects the largest increase in a decade. 'Implications for institutions with large Pell student bases are generally favorable, including increased access and perhaps increased headroom for tuition growth,' said Wadhwani.

Sector pressures will continue to weigh most heavily on Fitch-rated colleges rated 'BBB' and below. 'Institutions with limited financial reserves have borne the bulk of recent negative rating actions and remain the most vulnerable to credit deterioration, consolidation and closure,' said Wadhwani. 'Market performance buoying endowment valuations will only serve to widen that gap further in coming years.'

Undergraduate enrolment is down over 6% since fall 2019 through the pandemic. That said, four-year colleges have fared better and selective institutions have even seen increases. Enrolment will be affected by an increasingly competitive landscape, with longer-term implications from high school demographic trends, an uncertain immigration trajectory, and increasing levels of remote and hybrid education models.

'What Investors Want to Know: What's Next for US Higher Education' is available at www.fitchratings.com.

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

Additional information is available on www.fitchratings.com