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Fitch: Tuition Growth Not Enough to Preserve Margins for U.S. Private Colleges

Fitch Ratings-New York/Chicago-02 July 2024: The uphill battle continues for U.S. private colleges and universities despite an uptick in net tuition revenue growth with medians likely under intensifying pressure in the coming months, according to Fitch Ratings in its latest annual medians report for the sector.

Private U.S. colleges saw a return to net tuition revenue growth in fiscal 2023. "Looking ahead, additional operating pressure is expected through with many institutions grappling with elevated costs and a fractured enrollment environment," said Senior Director Emily Wadhwani. This will likely result in more pressure on medians with adjusted operating margins falling to their lowest point in over a decade despite relatively steady investment returns and endowment support. "Cash flows and coverage are likely to face continued pressure, particularly emerging from an admission cycle fraught with FAFSA issues this spring casting concerns over fall enrollment expectations," Wadhwani continued.

Working in the sector's favor to help balance out negative stresses are still-strong balance sheets. Colleges are playing defense in controlling expenses where possible, evaluating sales or monetization of non-core assets, weighing partnerships versus ownership, and deferring maintenance. As a result, Fitch-calculated available fund levels held steady in fiscal 2023 against expenses and adjusted debt.

Leverage and liquidity medians returned to slightly better than pre-pandemic levels, a favorable development which will in time be tempered by still-narrow operating margins and hampered operating flexibility. "Limited increases in tuition will be insufficient to mitigate still-elevated operating costs, which over time will further widen the credit gap between larger, more selective institutions versus their smaller, less selective and more tuition-dependent counterparts," affirms Wadhwani.

Fitch's Fiscal 2023 Median Ratios for U.S. Not-for-Profit Private Colleges and Universities report is available at www.fitchratings.com.

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